

# ANTI-CORRUPTION HELPDESK

PROVIDING ON-DEMAND RESEARCH TO HELP FIGHT CORRUPTION

## BHUTAN: OVERVIEW OF CORRUPTION AND ANTI-CORRUPTION

### QUERY

Please provide an overview of corruption and anti-corruption initiatives in Bhutan, with a specific focus on: i) renewable natural resources and climate change; ii) local governance and fiscal decentralisation; iii) trade; and iv) civil society.

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### SUMMARY

The Kingdom of Bhutan is a landlocked country, nestled in the Eastern Himalayas and surrounded by its powerful neighbours, India and China. The country is widely known for its unorthodox and unique development philosophy of gross national happiness (GNH), which is focused on the objectives of broad-based sustainable growth, quality of life, conservation of the natural environment, preservation of culture and strengthening good governance.

Although there are cases of corruption, including conversion of government land into private property and unlawful distribution of land by ministers, the government has made substantial efforts to control it, and the country fares significantly better than the regional average.

Hydropower is the leading renewable natural resource, and its export, mainly to India, makes up one-fifth of the Bhutanese GDP. Bhutan still relies on India for defence and many foreign policy matters. Despite being a carbon negative country, it is affected by climate change.

Local governance and fiscal decentralisation have encountered some initial challenges since the democratic transition in 2008.

## 1. OVERVIEW OF CORRUPTION IN BHUTAN

### Background

Since the country's first elections in 2008, the Kingdom of Bhutan has undergone a major and generally peaceful transformation from direct hereditary monarchy to a constitutional monarchy with parliamentary democracy (Bertelsmann Stiftung 2018; Tourism Council of Bhutan 2018). Although King Jigme Khesar Namgyel Wangchuck gave up his absolute powers in the 2008 constitution, he continues to enjoy considerable influence as head of state (CIA 2018). The country's current prime minister, Tshering Tobgay, has been in office since July 2013, and serves as president of the People's Democratic Party (BBC News 2018).

In April this year, the third elections to the upper house of parliament (National Council)<sup>1</sup> resulted in a majority of "new faces" being elected, including two women members, which reportedly reflects a desire for change on the part of voters (The Wire 2018). Elections to the lower house, the National Assembly, ought to be completed by 30 November 2018, as it was dissolved on 01 August 2018 in preparation for the 90-day election period (Lamsang 2017; National Assembly of Bhutan 2018).

Bhutan has long been an eccentric holdout from modernity (Rosenberg 2008), which feared that outside influences would undermine its monarchy and society; the internet and television were permitted only in 1999 (BBC News 2018). Despite its spectacular scenery and fascinating culture, it remains relatively untouched by mass tourism, as the government restricts numbers and charges visitors from outside South Asia about US\$250 a day (BBC News 2016).

Bhutan is perhaps most famous for its use of the unorthodox metric of gross national happiness (GNH) instead of gross domestic product. GNH is an all-encompassing political philosophy that seeks to balance material progress with spiritual wellbeing (BBC News 2016). GNH focuses on four areas:

- sustainable and equitable socio-economic development
- environmental conservation
- the preservation and promotion of culture
- good governance

The GNH Index includes 31 indicators split across nine domains (Ura et al. 2012; OPHI 2018):

- psychological wellbeing
- health
- education
- time use
- cultural diversity and resilience
- good governance
- community vitality
- ecological diversity and resilience
- living standards

However, even the prime minister has suggested the concept is overused and masks problems with corruption and low standards of living (BBC News 2016). Indeed, measured in terms of GDP, Bhutan is one of the poorest countries in the world (BBC News 2016).

Nevertheless, economic and social change have been proceeding rapidly in Bhutan. This has been particularly evident in the capital Thimphu, which has grown from 30,000 inhabitants in 1993 to approximately 115,000 in 2016. Despite the pace of urbanisation, 61 per cent of the population continue to live in rural areas and are predominantly engaged in agriculture (Bertelsmann Stiftung 2016).

Bhutan is one of the smallest but fastest-growing economies in the world. Annual average growth between 2006 and 2015 reached 7.5 per cent, far exceeding the average global growth rate of 4.4 per cent (World Bank 2017). The country has also been relatively successful in reducing poverty. Extreme poverty has been almost eradicated, with the rate falling to 2 per cent in 2012 when measured according to the international poverty line of US\$1.90 per person a day (World Bank 2017).

<sup>1</sup> The upper house is a significant part of Bhutan's legislative body, with powers to review performance and issues, as well as consider, pass, amend or reject "any legislation" passed by the lower house. The key difference in legislative powers is that the upper house

cannot "initiate or prepare" money and financial bills. Also, the Bhutanese parliament's National Council is an apolitical body, which means candidates contest as individuals and not as a representative of a political party (The Wire 2018).

The state has the monopoly on the use of force throughout the country, though political unrest occasionally spills over from the Indian state of Assam when insurgents flee over the border into Bhutan to escape the Indian military. Responsibility for patrolling the border areas and forests rests with the Royal Bhutan Army. Relations with neighbouring India are close and cooperative, and the Indian military has a presence in Bhutan. Bhutan has no formal diplomatic ties with its northern neighbour, China, and there is still an unresolved border dispute between the two countries, though negotiations on the issue have been conducted amicably since 1984 (Bertelsmann Stiftung 2018).

It ought to be noted that Bhutan is the world's biggest creator of refugees by per capita. In the 1990s, the country expelled the Lhotshampa, an ethnic group with its origins in Nepal which made up one-sixth of Bhutan's population, to preserve its unique national identity. More than 20 years later, thousands still remain in camps in Nepal. This is at stark contrast with the idyllic and homely image Bhutan has carefully curated for itself (Mørch 2016).

Bhutan still relies on India for defence and many foreign policy matters, which are consequently somewhat excluded from domestic political debate (Freedom House 2016).

## Extent of corruption

Although corruption exists in Bhutan, the country has in recent years made significant strides to address the issue, consequently, there is a relatively low incidence of corruption in the country, especially when compared to other countries in the region (Tshering 2015; Freedom House 2016). However, there remains considerable official and public concern about the potential adverse effects of corruption (Tshering 2015; Bertelsmann Stiftung 2018). The chairperson of the Bhutanese Anti-Corruption Commission (ACC) has proclaimed, for instance, that "gross national happiness and corruption are incompatible", (Tshering 2015).

Bhutan ranks 26 out of 180 countries in Transparency International's 2017 Corruption Perceptions Index (CPI) (Transparency International 2018). The Worldwide Governance Indicators (WGI) by the World Bank accord the following scores in percentile rank<sup>2</sup> to Bhutan:

Indicator	2015 Percentile Rank	2016 Percentile Rank
Control of corruption	82.2	83.2
Government effectiveness	67.8	70.2
Political stability and absence of violence/terrorism	81.9	82.9
Regulatory quality	26.9	26.9
Rule of law	70.2	68.3
Voice and accountability	46.3	44.8

The 2017, [TRACE Bribery Risk Matrix](#) places Bhutan in the "moderate" risk category, ranking it 70 out of 200 surveyed countries. Similarly, Bhutan's [Doing Business](#) rank for 2018 is 75/190 with a Distance to Frontier (DTF)<sup>3</sup> score of 66.27 (The World Bank 2018b).

Bhutan's economic freedom score is 61.8, making its economy the 87th freest out of the 170 surveyed in the 2018 [Index of Economic Freedom](#) by the Heritage Foundation. Its overall score has increased by 3.4 points, and Bhutan is ranked 20 among 43 countries in the Asia-Pacific region, which takes its overall score to above the regional and world averages (the Heritage Foundation 2018).

<sup>2</sup> Percentile rank indicates the country's rank among all countries covered by the aggregate indicator, with 0 corresponding to the lowest rank, and 100 to the highest rank (World Bank 2018a).

<sup>3</sup> The distance to frontier (DTF) measure shows the distance of each economy to the "frontier", which represents the best performance

observed on each of the indicators across all economies in the Doing Business sample since 2005. An economy's distance to frontier is reflected on a scale from 0 to 100, where 0 represents the lowest performance and 100 represents the frontier. The ease of doing business ranking ranges from 1 to 190 (World Bank 2018b).

Bertelsmann Stiftung's Transformation Index (BTI) 2018 ranks the country 45 out of 129 countries. Freedom House in its 2018 Freedom in the World report, but, on the other hand, only accords the status of "partly free" to Bhutan with a score of 3.5/7.

A National Corruption Barometer Survey (NCBS) conducted by the Bhutan Transparency Initiative (BTI) in 2016 found that more than a quarter (25.32 per cent) of respondents thought that corruption was normal and that everyone indulged in it. The report states that these findings indicate the existence of pervasive corruption in the country and a high level of acceptance of corruption as a social norm (Zangmo 2016).

The same survey also found that another 13.43 per cent were afraid that countering corruption would be an uphill task as doing so would require taking on a powerful nexus of judges, bureaucrats, politicians and businesses. The report states that, in a close-knit society, where interdependence is the norm, there would not be many who would risk being excluded from this network (Zangmo 2016).

The report also states that the general perception among the people is that the level of corruption has been steadily increasing since the introduction of democracy in the country. Around a third (31.5 per cent) stated that the level of corruption has "increased somewhat" after the introduction of democracy (Zangmo 2016).

Finally, it ought to be noted that despite the country's relatively strong performance on international indices, corruption in the form of illicit trafficking of stolen artefacts and narcotics, as well as bribery represent Bhutan's top criminal proceeds (KnowYourCountry 2017).

## Forms of corruption

### *Political corruption*

Some of the most powerful political figures in the country have been tried for corruption by the courts in recent years. In July 2015, Prime Minister Tobgay removed Foreign Minister Rinzin Dorje from office following corruption allegations against him. He was charged with embezzlement of public property and misuse of functions, which eventually led to Dorje's

conviction and sentencing to one year in prison, though he was acquitted by the supreme court (Dema 2015; Wangchuk 2015; Freedom House 2016).

There are reports of power struggles between the new democratic political leadership and the bureaucracy. Allegedly, the bureaucracy had been sharing kickbacks with pre-democratic government officials on major economic projects, especially the hydropower projects with India (Adhikari 2014).

The National Corruption Barometer Survey 2016 conducted by the Bhutan Transparency Initiative listed favouritism and nepotism in recruitment, promotion and transfer as the most prevalent forms of corruption (US Department of State 2017).

### *Corruption in business*

Corruption is not a major obstacle for businesses investing in Bhutan. However, the public procurement sector carries risks as favouritism can influence the outcome.

Although the public administration functions well, the burden of government regulations is considered a competitive disadvantage for the country (GAN Integrity 2018). This is underlined by the fact that Bhutan has, until 2018, approved only 64 foreign direct investment (FDI) projects worth Nu34 billion (US\$488 million) since the country allowed foreign investment in 2002. According to the FDI annual report of 2017, the country approved five projects in 2016. This means that, since then, in a span of about a year and a half, 10 FDI projects were approved. Despite the efforts and the often-touted unique selling points that the country uses to attract FDI, the size of foreign investment flowing into the country is lowest in the region (Dorji 2018).

### *Petty corruption*

Bhutan's public administration system has been traditionally bureaucratic, focusing on hierarchy, seniority and process. The traditional model has worked reasonably well to produce the outcomes desired by the government. However, the government has engaged in a process of public management reform to improve the performance of its bureaucracy, although the outcomes of this process are difficult to discern. The civil service focuses on upwards



accountability, which has contributed to low levels of corruption (Bertelsmann Stiftung 2018).

Petty corruption exists, although the reported rate is low; according to the World Bank, the percentage of public service transactions<sup>4</sup> where gifts or informal payments were solicited was 0.3 per cent in 2015, down from around 4 per cent in 2008 (Trading Economics 2018).

Likewise, a 2012 BTI report stated that, in 2009, a survey of companies operating in Bhutan reported a number of demands for the payment of bribes, especially in interactions with local authorities and officials (Bertelsmann Stiftung 2012). However, a follow-up BTI report in 2018 found that, out of all the cases reported to the Bhutanese ACC, only 2.5 per cent were related to bribery, suggesting that the practice on the whole has reduced (Bertelsmann Stiftung 2018).

Nevertheless, cases of bribery do exist. For example, police officers have been charged with petty corruption offences, though such cases are reported to have been prosecuted promptly (Dema 2014).

## Main sectors affected by corruption

### *Land administration*

The Anti-Corruption Commission has received several corruption allegations against public officials in relation to land matters, highlighting the extent of property scams (GAN Integrity 2018).

In 2013, the high court upheld the conviction of Minister Minjur Dorji and National Assembly speaker Jigme Tshultim, who had been convicted by a district court for corruption and the unlawful distribution of land (GAN Integrity 2018). Earlier, the Mongar District Court had found the former National Assembly speaker guilty of illegally allotting plots to 23 individuals during his term as the Mongar Dzongda and chairman of the Plot Allotment Committee of Gyelpozhing in 2001 and 2002.

The former home minister, Minjur Dorji, was found guilty of allotting plots to Kharchu Dratsang, Dremitse

Dratsang and to Kuenzang Dema, the wife of a Kurichhu project engineer during his tenure as the Mongar Dzongda in 2005 and 2006, and also as the chairman of the Plot Allotment Committee. The court ordered that these plots be returned to the government. Fourteen Plot Allotment Committee members were given a one year sentence for not carrying out their duties with diligence (Lamsang 2014).

In another case from 2012, the Anti-Corruption Commission investigated conversion of government land into private property, irregular land compensation and inconsistencies in land holdings in Rinchenhang, where more than 400 acres were identified to establish a town (Bhutanomics 2012). In 2016, an inspection by the Pemagatshel dzongkhag land record office found that 80 houses in Nganglam dungkhag were illegally constructed on government land (Rinzin 2016).

There are numerous other allegations of manipulation of land records, bribery, illegal transfer of land ownership and reduction in the size of land owned by the poorer sections of society (Bhutanomics 2016).

### *Customs and trade*

The customs authorities in Bhutan carry a moderate corruption risk according to World Economic Forum's Global Enabling Trade Report 2014 (WEF 2014; GAN Integrity 2018). Transparency at the border administration is low, and bribes and irregular payments associated with trading across borders are widespread. Even though corruption levels are reportedly higher when dealing with importing than when exporting, no surveyed companies report being expected to give gifts to obtain an import licence, and importing and exporting are considerably less time-consuming and less costly when compared to regional averages (GAN Integrity; World Bank 2018b). However, as mentioned earlier, illicit trafficking of stolen artefacts and other stolen goods; fraud; smuggling, and illicit trafficking in narcotics and pharmaceutical substances are part of the country's top criminal proceeds (KnowYourCountry 2017).

Apart from corrupt and illicit trade, Bhutan's porous border areas allow external threats from Indian

<sup>4</sup> Such as for permits, licenses and tax-related transactions.

insurgent groups located in the north-eastern region of India and Bhutanese radical groups, which are the remnants of anti-national groups formed in Bhutan in the 1990s and are now located outside the country (KnowYourCountry 2017).

Also, India's demonetisation in 2016 caused a surge in Indian rupees (INR) being illegally sold across the border. Both Bhutanese and Indian nationals in need of INR ended up paying between Nu108-120 (US \$1.5 – US \$1.6) for INR100<sup>5</sup> (US \$1.4) (Rai 2016). This difference of even 8 to 20 Ngultrums makes a difference in the life of an average Bhutanese citizen.

### Judiciary

The National Corruption Barometer Survey 2016 conducted by the Bhutan Transparency Initiative found that 63 per cent of respondents perceived judges to be involved in corruption (US Department of State 2017).

Prior to democratisation, the judiciary was frequently viewed as an extension of the government machinery and/or a tool for supporting the interests of the powerful. Since 2008, the effectiveness and efficiency of the formal judicial system is partially restricted by insufficient functional operability. Moreover, informal systems of conflict arbitration remain dominant in many parts of the country (Bertelsmann Stiftung 2018).

In 2016, a judicial integrity scan report noted that there was an uneven delivery of justice, that the judiciary was still widely viewed as a closed system and that decisions were sometimes popularly viewed as being corrupt. It was also observed, however, that citizens' definitions of corruption often differed from those normally used in academic and legal circles (Bertelsmann Stiftung 2018).

A 2016 case displays the weaknesses in judicial oversight and procedural fairness. A journalist posted an online petition in support of a young doctor involved in a property dispute involving the father-in-law of the chief justice. The journalist was sued for defamation, but she called for an investigation into the involvement of the chief justice in the case, alleging she was the

victim of a witch hunt by the official and that his actions undermined democratic freedoms. The defamation case was dropped in January 2017, but there were no comments from the judiciary (Bertelsmann Stiftung 2018).

## 2. LEGAL AND INSTITUTIONAL FRAMEWORK

### International conventions

Bhutan signed the United Nation Convention Against Corruption in 2005 and ratified it in 2016 (UNODC 2018). The country also signed the United Nations Framework Convention on Climate Change (UNFCCC or FCCC) in 1992 and ratified it in 1995 (UNFCCC 2018).

In 2011, the UN unanimously adopted a General Assembly resolution, introduced by Bhutan with support from 68 member states, calling for a "holistic approach to development" aimed at promoting sustainable happiness and wellbeing. This was followed in April 2012 by a UN High-Level Meeting on "Happiness and Wellbeing: Defining a New Economic Paradigm" designed to bring world leaders, experts, civil society and spiritual leaders together to develop a new economic paradigm based on sustainability and wellbeing (Ura et al. 2012; OPHI 2018)

### Domestic legal framework

The Anti-Corruption Act of 2011 (repealing the erstwhile 2006 act) criminalises several forms of corruption, such as abuse of office and passive and active bribery in both the public and the private sectors (GAN Integrity 2018).

The principal objective of this act was to establish the Anti-Corruption Commission as an independent authority with the following mandate (Parliament of Bhutan 2011):

- prevent corruption involving or affecting authorities and officials, whether public or private
- educate authorities and officials, whether public or private and members of the public about corruption and its effects on administration

<sup>5</sup> Bhutanese Ngultrum is pegged to the Indian Rupee and they both have the same value.

- investigate corruption involving or affecting authorities and officials, whether public or private.

Moreover, Article 8(9) of the Constitution of the Kingdom of Bhutan stipulates that it shall be the duty of every person to uphold justice and to act against corruption. The government has also adopted a zero tolerance to corruption policy (GPP Bhutan 2015).

The anti-corruption law provides protections to any witness or informant reporting corruption offences, including protection of identity and barring of retaliatory action. The government is seen to implement the law effectively in practice (US Department of State 2013). The law also requires public servants and persons working for NGOs using public resources, their spouses and dependents to declare their income, assets and liabilities (US Department of State 2017).

The government passed a freedom of information law in 2014, but government entities are reluctant to share information (GAN Integrity 2018). Access to basic information on legal persons is available on a timely basis; however, access to beneficial ownership information on companies is constrained by a lack of collection of such information (APG 2016).

### *Money laundering*

Bhutan is not on the Financial Action Task Force (FATF) list of countries that have been identified as having strategic anti-money laundering (AML) deficiencies (KnowYourCountry 2017). The first Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Bhutan was undertaken by the FATF in 2016 (KnowYourCountry 2017).

The [Mutual Evaluation Report of 2016](#) (APG 2016) found that there is no comprehensive, national strategy, informed by risks, to counter money laundering and terrorist financing in the country, and there exists a lack of expertise and resources for financial intelligence analysis, financial crime investigation and prosecution. The proceeds of crime are not effectively confiscated. Confiscation is essentially limited to direct proceeds of corruption. However, Bhutan has established a sound basis for implementing preventive measures with the promulgation of the revised AML/countering financing of terrorism (CFT) regulations in November 2015.

Nevertheless, implementation by supervisors and reporting entities is at a rudimentary level.

## **Institutional framework**

### *Anti-corruption commission*

The Bhutan Anti-Corruption Commission is an independent constitutional body and has worked well since commencing operations in 2006. As set out in the 2011 Anti-Corruption Act, its mandate is to both prevent and investigate corruption, as well as to educate the public about it. It can receive complaints from citizens and public officials directly and cases of alleged corruption from the Royal Audit Authority (with whom it closely collaborates) (León 2015). In addition, the commission also administers the online compulsory asset declaration system covering all public officials (Bertelsmann Stiftung 2018). Around 60 per cent of the commission's funding comes from development partners.

In its first 10 years of operation, the commission dealt with 4,333 complaints, undertook 148 investigations and had a conviction rate of 90 per cent. Between 2011 and 2015, 45.6 per cent of complaints involved abuse of functions by public servants, 20.8 per cent concerned embezzlement and only 2.5 per cent related to bribery. The ACC described half of the complaints as administrative lapses, rather than corruption. There is a considerable backlog of cases (Bertelsmann Stiftung 2018).

The ACC has prosecuted senior officials too. For example, in March 2013, it secured a guilty verdict against the speaker of the National Assembly and home minister in connection with an administrative offence concerning land allocations committed before their election to office (Bertelsmann Stiftung 2018).

In 2012, the ACC investigated several senior ministers and bureaucrats, including the former home minister, speaker of the National Assembly and prime minister, on charges of illegal sale and registration of government land in Gyelpozhing Township and published an investigative report on its website. The Office of the Attorney General (OAG) reviewed the investigation for legal validity and determined the case was not admissible. In response, the ACC publicly criticised the OAG's decision, and for the first time invoked its authority to prosecute a case independently (Bertelsmann Stiftung 2018).

In 2016, the ACC was involved in a case against the foreign minister for misuse of public property, in which a guilty verdict in a district court was overturned in the supreme court. The ACC was reportedly concerned about the message this judgment transmitted to public officials (Bertelsmann Stiftung 2018).

Although an assessment by Transparency International in 2015 stated that the ACC had performed well, it was found to still require more support in prosecuting cases of corruption, including greater resources and better coordination with law enforcement (León 2015).

### *The Royal Audit Authority*

The Royal Audit Authority<sup>6</sup> (RAA) is the supreme audit institution (SAI) of Bhutan responsible for auditing and reporting on the efficiency and effectiveness in the use of public resources as per Article 25.1 of the Bhutanese constitution (RAA 2016). At times, it has been highly critical of policy implementation. The RAA reports to the Public Accounts Committee of the National Assembly (Bertelsmann Stiftung 2018).

A self-evaluation report from 2015 found that, on the whole, the RAA has a strong performance when this is seen in relation to the significant external constraints the RAA faces, most significantly the shortcomings in regards to financial resources and the educational backgrounds of its employees, resulting from the limitations in the country's educational system (RAA 2015). To combat its challenges, the RAA has initiated several reforms and programmes funded by external partners. These include the development of an audit management system, production of auditing manuals and guidelines and pilot auditing supervised by external experts in financial and compliance auditing (RAA 2015).

## **Other stakeholders**

### *Media*

The 2008 constitution guarantees the right to free speech, opinion and expression. However, the 1992 National Security Act prohibits criticism of the king,

and proscribes prison sentences for people who spread “hatred and disaffection among the people” or “misunderstanding or hostility between the government and people”, among other offences (Freedom House 2016).

Criticism of the royal family and of Buddhist clergy is not published, and the mainstream media avoid topics that are considered sensitive, such as national security or the expulsion of Nepali-speaking residents in the 1990s (Freedom House 2015).

Defamation can be tried as either a civil or a criminal offence. In September 2014, the opposition party Druk Phunsung Tshogpa (DPT) brought a defamation suit against Dasho Paljor J Dorji, popularly known as Dasho Benji, a special advisor to the National Environment Commission. The case concerned a Facebook comment in which Dasho claimed that the party, in power until 2013, had “robbed the country blind” (Freedom House 2015).

Another recent case is that in which a prominent journalist faced a defamation suit for sharing a Facebook post documenting a property dispute involving a local businessman. The post included allegations that the accused had garnered favours from the country's judiciary, as his son-in-law is chief justice. This is said to expose fault lines in the country's record of protecting its constitutional freedoms of speech and of the press (Schultz 2016).

The media law does not provide specific protections for journalists or guarantee freedom of information. The media law also prohibits media outlets from supporting political parties. Media sources suggested that, while there was a commitment to media freedom at the highest levels, some media professionals continued to find bureaucrats unwilling to share information, especially on issues of corruption and violations of the law. Independent media outlets relied heavily on government advertisements for revenue, and most news outlets struggled to generate sufficient revenue to operate (US Department of State 2017).

The Journalists' Association of Bhutan (JAB) is tasked with upholding the interests of journalists across the country and protecting free expression in the media.

<sup>6</sup> The Accounting and Auditing Standards Board (AASB) has a different mandate from the RAA. It promotes high-quality financial reporting standards in line with international best practices that

apply to the private sector, whereas the RAA is the SAI with the authority to set out the highest audit standards for the entire country (RAA 2016).



However, the organisation is not fully independent in practice, notably because it relies on the government-run Bhutan Media Foundation for the majority of its funding (Freedom House 2015). A 2014 report from the Journalist Association of Bhutan found that a majority of the 119 respondents felt “unsafe” covering certain types of events. Many of the respondents also said it was difficult to gain access to information in the country, citing few resources and little institutional support (Schultz 2016).

The [2017 Freedom of the Press](#) report by Freedom House deems the Bhutanese press as “partly free” with a score of 58/100, where 0 represents “most free”.

Bhutan ranks 94 (a drop of 10 places in its ranking from 2017) in the [2018 World Press Freedom Index](#) by Reporters Without Borders, citing high levels of self-censorship by the media due to the presence of draconian media laws.

### 3. FOCUS AREAS

#### Renewable natural resources and climate change

##### *Hydropower*

With a challenging mountainous terrain and limited access to global markets, Bhutan has identified its hydropower potential as a clean renewable natural resource to sustain growth. The sale of hydropower makes up about one-fifth of Bhutan’s gross domestic product. Bhutan is the only country in South Asia with surplus energy available for export. Its potential hydropower output is estimated at 30,000 megawatts, and only about 5 per cent of that has been harnessed so far (ADB 2018).

Indian demand for clean and affordable electricity is the major driver for hydropower development across South Asia, including in Bhutan. A visit from the Indian Prime Minister Narendra Modi in 2014 affirmed Indian-Bhutanese bilateral energy agreements, with heavy Indian investment in Bhutan’s hydroelectric programme (IHA 2016).

Bhutan’s largest export – hydropower to India – is seen as having the potential to be sustainable if Bhutan manages to resolve chronic delays in construction (Bertelsmann Stiftung 2018). Bhutan’s

hydropower exports comprise 40 per cent of total exports and 25 per cent of the government’s total revenue. Bhutan currently taps only 6.5 per cent of its 30,000-megawatt hydropower potential and is behind schedule in building 12 new hydropower dams with a combined capacity of 10,000 megawatts by 2020 in accordance with a deal signed in 2008 with India (CIA 2018).

The Bhutanese government envisions 10,000 MW of installed hydropower capacity in the country by 2020, which it will develop in close collaboration with the Indian government and private sector. There are five major hydropower projects currently operational in Bhutan, all of which are run-of-river schemes: Tala (1,020 MW), Chhukha (336 MW), Dagachhu (126 MW), Basochhu (64 MW) and Kurichu (60 MW).

The Dagachhu run-of-river scheme, which began commercial operation in 2015, is a milestone project in many ways. The project is the first in Bhutan to export power exclusively to India; Tata Power has signed a power purchase agreement for 25 years, and will export all electricity generated at the site to India. Dagachhu was also the first cross-border project registered under the UN Clean Development Mechanism (CDM). Dagachhu also marks the first public–private partnership in infrastructure investment in Bhutan. Druk Green Power Corporation, the state-owned utility, owns 59 per cent equity in the project, Tata Power Company of India owns 26 per cent, and the remaining 15 per cent is held by the Pension and Provident Fund of Bhutan. The Asian Development Bank supported the project with a US\$80 million loan; the total project cost was around US\$200 million (IHA 2016).

Case studies of six hydropower projects note that there are major environmental impact assessments (EIAs) including, “loss of forest lands; disturbance to wildlife habitat; heavy dust pollution from construction work and use of heavy vehicles to transport construction material and equipment noise pollution due to blasting and tunnelling activities; damage to open water bodies such as streams and ponds; and severe stress on water resources in the region”. Moreover, EIA are carried out at a much later stage in the project cycle, which has “reduced regulatory processes, impact analysis, and consents and clearances from ministries to become inconsequential proceedings”. Finally, the National Environment

Commission (NEC) is said to lack the institutional capacity to discharge its responsibilities effectively given the scale of proposed hydropower development in Bhutan (Walker 2016).

### Forestry

Bhutanese law requires that at least 60 per cent of the country must be forested (BBC News 2016). Under the UN Framework Convention for Climate Change (UNFCCC), REDD+<sup>7</sup> anti-corruption measures are a core element of UNDP's five-year programme strategy being applied to Bhutan. According to the 2015 REDD+ Corruption Risk Assessment for Bhutan, which was conducted by the Ministry of Agriculture and Forests, the country is recognised as having extensive forest cover and low (if not positive) rates of forest loss. The assessment also notes the low level of government corruption (MOAF 2015).

However, the researchers found three major areas of concern (MOAF 2015). First, access to timber and forests is not always equitably distributed. Second, while most illegal logging is small-scale and opportunistic, there are isolated situations such as in Paro and Sarpang where there is well-organised illegal logging, and cross-border smuggling into India. Third, there are some governance challenges in relation to decentralisation, including some limited incidents of corruption and abuse of resources during the allocation of forest resources and revenue. The report notes these governance weaknesses could become more problematic if left unchecked, leading to elite capture and open conflicts of interest.

### Climate change and environmental challenges

Land degradation, industrial pollution, biodiversity and habitat loss, high fuel-wood consumption, and human-wildlife conflicts are some of Bhutan's environmental challenges (UKEssays 2015; Bhutan Foundation 2018).

Bhutan is carbon negative and has committed to remaining carbon neutral, yet it has not been spared the impacts of climate change (Bhutan Foundation 2018). Over the years, Bhutan has witnessed several glacial lake outburst floods (GLOF), flash floods and landslides that have washed away homes, paddy

fields, damaged vital infrastructures and have resulted in deaths, and all these events are deemed to be related to climate change (UKEssays 2015; Bhutan Foundation 2018).

Experts have found Bhutan ill-prepared to deal with the higher frequency of disasters. In its 2015 country ranking, the Global Adaptation Institute (GAIN) index placed Bhutan at 113 out of 181 countries (with a score of 47.8) (Acharya 2017).

A project to help monitor and mitigate climate change in Bhutan is the Himalayan Environmental Rhythms Observation and Evaluation System (HEROES) project, implemented by the Ugyen Wangchuck Institute of Conservation and Environment (UWICE) in partnerships with schools and nature clubs across Bhutan. It employs a combination of weather data collection (through a network of weather stations) and citizen science to help understand climate change. While the high-tech weather stations provide an uninterrupted flow of weather and climatic data (temperature, humidity and wind speed) across Bhutan's varied ecological and elevation gradient, the citizen science component of the project encourages hundreds of students to actively engage in observing their immediate environment to detect changes in how plants and wildlife respond to climate change (Bhutan Foundation 2018).

Bhutan controls tourism by requiring minimum tourism spending (US\$250 per day), and to ensure its compliance, it mandates that visitors must sign up with a registered Bhutanese tour agency before arriving. This is intended to control the impact of tourism in the country (Mullen 2018).

### Local governance and fiscal decentralisation

Good governance is one of the four pillars in Bhutan's development philosophy of gross national happiness. The process of decentralisation and strengthening democratic local governance is seen as a crucial means of achieving this vision (National Council of Bhutan 2016). UNDP Bhutan likewise argues that fiscal decentralisation is key to achieving the Sustainable Development Goals (UNDP Bhutan 2017).

<sup>7</sup> REDD+: Reducing emissions from deforestation and forest degradation in developing countries, and the role of conservation,

sustainable management of forest and enhancement of forest carbon stocks.

In 2009, the parliament enacted the Local Government Act, thereby ratifying 1999 Bhutan Municipal, 2002 District, 2004 Sub-district and 2007 Local Government Acts. The 2009 Act also lays out the specific powers and functions of three entities of the local government: Dzongkhag Tshogdu, Gewog Tshogde and Thromde Tshogde. To further strengthen the legitimacy of the local government's role in the overall structure of governance, its mandate was established in Article 22 of the constitution.

A Department of Local Governance has been established to coordinate and oversee decentralisation and capacity building programmes for local functionaries (National Council of Bhutan 2016). Besides administrative decentralisation, Bhutan has introduced rationalised discretionary annual grants to all local governments based on population, geographic area and poverty (OECD Korea 2011).<sup>8</sup>

The allocation of resources to local governments has been increasing over recent years. The current budget (in the framework of the 11th Five-Year Plan) allocates 29 per cent of total outlay to local government. This represents a 25 per cent increase from the previous five-year plan. The five main financing sources for local governments are:

- Annual Capital Grant (ACG)
- Gewog Development Grant (GDG)
- Own Source Revenue (OSR)
- Current Grant
- earmarked grants and deposit works from sector agencies

Nevertheless, there still exist some nascent challenges to decentralisation and local governance pertaining to the use of budgets, citizen engagement, as well as administrative mechanisms and processes (National Council of Bhutan 2016).

Only 48.4 per cent of the respondents in an online survey of self appraisal of the local governments believe that the total ACG and GDG received, together with OSRs, are sufficient for local governments to fully perform their functions and achieve their targets (National Council of Bhutan 2016). Some local authorities have tried to broaden their revenue base by introducing new levies, fees and licences as well as increasing the rates. However, their limited fiscal autonomy and the restrictions of the 1992 tax polity are seen as inhibiting factors (National Council of Bhutan 2016).

An assessment of local governance in Bhutan was conducted by the Good Governance Committee (GGC) of the National Council and funded by the Swiss Agency for Development and Cooperation (SDC). The assessment found that the provision of public services is hindered by administrative and financial challenges, such as a lack of coordination between central and local government, rigid planning structures and low levels of revenue generation. In addition, social accountability and complaints mechanisms were found to be weak, which prevents effective dialogue between citizens and the state (National Council of Bhutan 2016).

Some argue that Bhutan's right to information law should be used to further support fiscal decentralisation (FreedomInfo 2014; Dorji 2017). Indeed, the potential for fiscal decentralisation to curb corruption is dependent on the presence of institutions that give citizens information on government behaviour and the capacity to act upon the given information (Karlström 2015; Dorji 2017).

## Trade

Trade is significant for Bhutan's economy: the combined value of exports and imports equals 82 per cent of GDP. The average applied tariff rate is 2.8 per cent. Non-tariff barriers significantly impede trade, most notably sectoral restrictions that limit foreign

<sup>8</sup> A formula-based annual grant system to local government was introduced in Bhutan during the 9th five-year plan. It was established not only to finance the operations of local government but also to provide some funding predictability, given that this grant mechanism constitutes the main portion of local government income. At the same time, the ACG system is meant to provide transparency in terms of providing a clear budget frame for what is allocated from central to local government, and how much ACG funding respective Dzongkhags and Gewogs get. Current grants are also provided as part of the annual grant system. These resources

are earmarked for covering the cost of personnel emoluments, special allowances, travel, utilities, rental of property, supplies and materials, maintenance of property, medical benefits, hospitality, entertainment, operating expenses, retirement benefits and so on. The GDG is an additional funding source meant to strengthen the decentralisation process and good governance at the grassroots level. Each Gewog annually receives Nu2,000 million, and has full discretion and flexibility in allocating budgets across identified sector activities and/or bridging resource gaps from the ACG (National Council of Bhutan 2016).

investment. The government-controlled financial sector still does not fully meet private-sector credit needs. The banking sector remains burdened with non-performing loans (the Heritage Foundation 2018).

Bhutan's economy is closely aligned with India's through strong trade and monetary links and the former is dependent on the latter for financial assistance and migrant labourers for development projects, especially for road construction. Bhutan also signed a pact in December 2014 to expand duty-free trade with Bangladesh (CIA 2018).

Statistics over a period of six years (2011-2016) show that Bhutanese imports substantially increased by almost 38 per cent, while the increase in exports only grew at 11 per cent in this period. In 2017, the overall trade imbalance (excluding electricity) was Nu34 billion (US\$488 million), with more than 85 per cent of trade being conducted with India (Ministry of Finance, Royal Government of Bhutan 2017; Kuensel 2017).

The high volume of imported materials to build hydropower plants has expanded Bhutan's trade and current account deficits. Bhutan also signed a memorandum of understanding with Bangladesh and India in July 2017 to jointly construct a new hydropower plant to export electricity to Bangladesh (CIA 2018).

The top exports of Bhutan, apart from hydropower are ferroalloys (US\$81.2m), carbides (US\$19.8m), raw plastic sheeting (US\$6.05m), hydrogen (US\$4.21m) and copper wire (US\$3.02m), using the 1992 revision of the Harmonized System of classification. Its top imports are refined petroleum (US\$66.9m), cars (\$52.5m), forging machines (US\$37.4m), metalworking machine parts (US\$22.4m) and interchangeable tool parts (\$20.4M) (OEC 2018).

The top export destinations of Bhutan are India (US\$122m), the United States (US\$4.01m), Germany (US\$1.6m), France (US\$1.28m) and Japan (US\$1.03m). The top import origins are India (US\$371m), Thailand (US\$24m), Singapore (US\$13.8m), Japan (US\$11.1m) and Germany (US\$5.08m) (OEC 2018).

## Civil society

Freedoms of speech and press are provided by law, and the government generally respects these rights. Freedoms of assembly and association are protected under the law but are restricted in practice (Freedom House 2016; GAN Integrity 2018)

There are few interest groups in Bhutan and they are of marginal importance in a country where the state has such a commanding presence. There is some influence from business organisations, such as the Bhutan Chamber of Commerce and Industry and especially from the Association of Bhutanese Tour Operators. However, the state still dominates policymaking and implementation (Bertelsmann Stiftung 2018).

Non-governmental organisations (NGOs) and professional associations are new in Bhutan in comparison to the more community-based traditions of civil society. NGOs' cooperation with the government is limited, mainly due to their sponsorship, which often relies on royal patronage (GAN Integrity 2018). There are no trade unions while the only political mobilisation of ethnic interests occurs outside the national boundaries in refugee camps in Nepal (Bertelsmann Stiftung 2018). A few important civil society organisations (CSOs) include:

### *Bhutan Transparency Initiative*

Bhutan Transparency Initiative (BTI) was founded in April 2013 by a group of volunteers who came together to establish a reference institution to put corruption under the spotlight by increasing transparency, integrity and accountability in Bhutan through the provision of policy-oriented research, development of training tools and facilitation of policy dialogue. In 2016, it came up with the National Corruption Barometer Survey interviewing 1,200 people across Bhutan (BTI 2018). It also runs several advocacy, awareness and sensitisation programmes against corruption (BTI 2018).

### *Bhutan Centre for Media and Democracy*

The Bhutan Centre for Media and Democracy (BCMD) was established in 2008 to nurture and improve the standard of the existing media in the country, which would eventually foster the culture of democracy. It is one of the first registered CSOs in Bhutan, and it works with a cross-section of actors on issues that concern



youth, environment, society, governance and education, using media as a modus operandi (BCMD 2018).

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