

# ECONOMIC AND FINANCE COMMITTEE'S REVIEW REPORT ON NATIONAL BUDGET FOR FINANCIAL YEAR 2018-19

## Introduction

At the feet of the Glorious Golden Throne, I, on behalf of the Hon'ble Members of the Economic and Finance Committee would like to sincerely thank Hon'ble Speaker for bestowing me with this opportunity to present the Budget Review Report. During the First Session of the National Assembly of the Third Parliament, the Minister for Finance presented the Budget Appropriation Bill for the Fiscal Year 2018-19 to the House and subsequently the House referred the Bill to the Committee for review in line with Section 240 of the National Assembly (Amendment) Act of the Kingdom of Bhutan 2014. The Committee thoroughly reviewed the Bill and also held stakeholder meeting with the Ministry of Finance.

As the Honourable Members are fully aware, I would like to inform the House that although as per the Rules of Procedures, the Committee is to be provided ten days to review the Budget Reports, it got only four days. As such, due to limited time, the Committee focused largely on reviewing the capital budget allocation of Nu. 11,380.192 million. This was since the current budget and capital budget for spill over and regular critical activities of total Nu. 37.321.937 million was already passed by the 11<sup>th</sup> session of the 2<sup>nd</sup> Parliament.

The following are the Hon'ble Members of the Economic and Finance Committee:

1. Hon'ble Kinley Wangchuk, Athang Thedtsho Constituency, Chairperson
2. Hon'ble Ganesh Gimary, Phuntshopelri Constituency, Dy. Chairperson
3. Hon'ble Dorji Wangdi, Panbang Constituency
4. Hon'ble Jurme Wangchuk, Drujeygang Tseza Constituency
5. Hon'ble Garja Man Rai, Sergithang Tserang Toed Constituency
6. Hon'ble Dil Maya, Tashichholing Constituency
7. Hon'ble Tek Bhadur Rai, Shompangkha Constituency
8. Hon'ble Bimal Thapa, Kilkhorhang Mendrelgang Constituency
9. Hon'ble Passang Dorji, Bartsham Shongphu Constituency
10. Hon'ble Rinzin Jamtsho, Kengkhar Weringla Constituency

11.Hon’ble Gyembo Tshering, Bardo Trong Constituency

12.Hon’ble Karma Thinley, Wamrong Constituency

13.Hon’ble Dupthob, Bumdeling Jamkhar Constituency

Committee Secretary

1. Tshering Yangzom

2. Karma Drupchu

**The Report is presented in the following order:**

1. Terms of Reference of the Committee
2. Consultation with Stakeholder
3. Compliance of the Budget Report with the provisions of relevant laws
4. Observations of the Committee
  - a. Chapter 1: Macro Economic Performance and Outlook
  - b. Chapter 2: Budget Estimates for FY 2018-19
5. Recommendations

**1. Terms of Reference of the Committee**

In Continuation, I would like to briefly present the Terms of Reference of the Committee.

- i. The Committee shall review, deliberate and debate on National Budget, National Financial Statements and any other fiscal matters and submit recommendations and resolutions to the Parliament.
- ii. The Committee may review and reallocate the budget to achieve balanced development as per Article 9 (8) of the Constitution.
- iii. The Committee shall present its reviewed Budget Report within ten working days after the introduction by Finance Minister in the House.

**2. Consultation with Stakeholder**

During the review of Annual Budget Report for fiscal Year 2018-19 and the Budget Appropriation Bill for the Fiscal year 2018-19, the Committee held two internal review meetings and one consultative meeting with the Secretary and officials of the Ministry of Finance wherein the Committee inquired clarifications on around 24 different issues. While the Committee has been mindful of the importance of consultation with the budgetary bodies such as ministries, departments, local governments and other agencies, due to time constraint, the Committee had consultation meeting only with the Ministry of Finance. The

Committee feels it important in future to conduct thorough public hearings with the relevant stakeholders, make site visits and conduct physical review of some critical programmes to be able to provide more objective and accurate budget analysis report.

### **3. Compliance of the Budget Report with the provisions of relevant laws**

The Committee reviewed and ensured that the Budget Bill is in line with the provisions of the Constitution (Articles 14,22, and 9), the Terms of Reference of the Committee, the provisions of Public Finance Act (Sections 4,5,7,8), the policies of the 12<sup>th</sup> Five Year Plan, and the policies of the Gross National Happiness.

### **4. Observations**

The Committee reviewed and ensured that the budget is appropriately allocated. During the consultation meeting with the Officials of the Ministry of Finance, the Committee observed that two flagship programs, namely Water (Ensuring Safe Drinking Water 24X7) and One Gewog One Product (OGOP) have been included in this Budget. The Committee felt that while OGOP is important and could go ahead, Water component could be deferred to the next budget to provide adequate preparatory time for the Government to implement in a more comprehensive way along with other flagship programs.

#### **a. Chapter 1: Macro Economic Performance and Outlook**

##### **Fiscal Deficit**

A fiscal deficit of Nu. 5,234.324 million in the Fiscal Year 2018-2019. The Committee raised concerns on the external interest free borrowings from World Bank and concessional borrowings from other sources to finance the fiscal deficit. Upon the Ministry's clarification, the Committee comprehended that due to the shortfall in the domestic borrowings to finance the fiscal deficit, external borrowing measures will be taken. For FY 2018-19 due to the status of Bhutan being a Least Developed Country, World Bank had agreed to provide interest free program borrowing with service charge of only 0.7%. For FY 2018-19, the fiscal deficit will be financed through interest free program of N. 2,143.865 million (US\$ 30 million) from the World Bank and the balance through concessional borrowings from the ADB and domestic borrowings. *(Please refer to 'Financing' on page 14)*

## **b. Chapter 2: Budget Estimates for FY 2018-19**

### **Tax and Non-Tax revenue**

The Committee observed that the tax and non-tax revenue had declined in the FY 2018-19. The Committee recognized that this decline was due to the poor hydrology which has resulted in low hydropower generation in 2018.

### **Subsidies**

The Committee inquired about the basis on which the budget of Nu 606.560 million (earmarked as subsidies, equities and transfers) will be provided to the State-Owned Enterprises, particularly Nu.376.026 million to Revolving Funds I and II. The Committee felt the need to seriously consider the transfer of this amount including the need to reconsider the continuation of Rural Enterprise Development Corporation (REDCL) itself as an institution.

### **General Reserves:**

The Article 14 Finance, Section 2 of the Constitution of Kingdom of Bhutan states that all public money should be allocated for specific purposes by law. The Committee inquired about the specific works and budget allocated under Monsoon Restoration and Disaster Relief fund among the eight reserves mentioned in Table 2.20: Summary of General reserves.

The Finance Ministry clarified that Monsoon Restoration and Disaster Relief are specific works to which certain portion of the general reserve Budget has been allocated. The Monsoon Restoration Reserve is especially targeted towards road clearing and restoration during and after the monsoon season. The budget is maintained with the Regional offices, the Department of Road and the National level general reserve.

In case of Disaster Relief Reserve the budget is allocated in line with the Disaster Management Act 2013 Chapter 2, Section 11(f) states “recommend allocation of fund for the purpose of recovery and reconstruction” and (h) “allocate resources from the national Disaster Management Budget”. A National Committee for Disaster Management overlooks the allocation of the budget. Currently the reserve is being maintained with the Ministry of Finance. *(Please refer to 2.5.4 General Reserves on page 33)*

## **5. Recommendations:**

1. For minimal wastage of public resources and to minimise the burden of the proposed external borrowing from Asian Development Bank, World Bank, and International Environmental Development Fund to finance the fiscal deficit of Nu. 5 billion in the financial year 2018-19, the first recommendation of the Committee is to divert Nu. 376 million, which is proposed to be transferred as equity to Revolving Funds I &II to Water Supply and Rural Roads.
2. The committee extends its appreciation for the proper planning of 12<sup>th</sup> FYP by the Gross National Happiness Commission in collaboration with the Government and likewise the Finance Ministry for appropriation of equal budgets to the Central and Local Governments and in providing funds to the local governments in the form of block annual grants. The increase in budget appropriation to local government would increase the accountability of the Local Government leaders and will help in fulfilling the developmental activities in the local government. Hence the second recommendation of the Committee is, for the centre to provide capacity development to LG leaders on planning, budgeting, financial management and contract management, empowerment of the public in Monitoring and Evaluation of development programmes and provide adequate human resources.
3. While most countries in the world have a thumb rule of maintaining the General Reserve of around 5% of the annual budget, we do not have a clear rule. Therefore, the Committee recommends Government to propose a thumb rule for appropriation of annual General Reserve, in the Second Session of the Third Parliament.
4. The Committee during its review learned that, currently the disaster management fund is placed under Ministry of Finance with the general reserve fund. The Committee recommends the disaster management funds to be allocated to the Department of Disaster Management and to the respective 20 Dzongkhags for convenience and efficient responses during the times of disasters for the benefit of the general public.
5. The Committee recommends House to endorse the budget for the FY 2018-19 with total amount of Nu. 47,075.129 million including Nu. 29,075.167 million for current budget and Nu. 18,622.962 million for capital budget.