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**Bhutan**

**Youth and Employment**

**Summary Report on the Technical Assistance for the Royal  
Government of Bhutan**

**(P100652)**

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## **A. Introduction**

On July 18, 2008 Bhutan officially turned from an absolute to a democratic constitutional monarchy after having held its first democratic elections for its bicameral parliament in 2007 and 2008. The economic performance of Bhutan has been strong over the period of the 9<sup>th</sup> Five Year Plan (FYP) that actually lasted from July 2002 to July 2008 and was extended by one year due to the transition to a democratic political system. According to the statistics of the Royal Government of Bhutan (RGOB), the country's GDP per capita has risen to an all time high of US \$ 1,414.01 in 2006 from US\$ 835 in 2002. Even in absolute terms this represents a fairly high level of GDP per capita by both LDC and regional standards. Real GDP grew at an average of 9.6% between 2003 and 2007, taking into consideration an estimated growth of over 21.4% in 2007. This is mainly attributed to the tripling of hydropower capacity of Bhutan. Moreover, construction in public infrastructure and private investment in housing and hotels, as well as the continuing expansion of tourism have contributed to growth. Public investment remains the primary engine of growth in Bhutan, while the development of the private sector is limited, even though the for-profit sector has grown steadily over the last 5 years. Nevertheless, human resources need to be strengthened to become more competitive. The extension of the not-for-profit sector is even more restricted as the small number of NGOs until recently did not have legal status in Bhutan.

The country's Human Development Index (HDI) value has been rising steadily over the 9<sup>th</sup> FYP period with the 2006 HDI value assessed preliminarily at over 0.600 as compared to 0.583 in 2003 and 0.550 in 1998. These HDI gains over the plan period have come not only from growth in real income but have accrued as a result of across the board improvements in social indicators such as poverty reduction, expanded educational enrollments, impressive declines in child and maternal mortality and securing high access levels in the provisioning of water and sanitation facilities. As such, Bhutan continued to retain its place among the medium human development countries throughout the 9<sup>th</sup> FYP period. These accomplishments appear particularly noteworthy given that only a few decades ago, Bhutan was ranked among the poorest countries in the world with extremely low levels of human and social development as the RGOB points out.

The 10<sup>th</sup> FYP for the period from 2008 to 2013 has the primary goal of poverty reduction and constitutes the Poverty Reduction Strategy Paper. The Plan's strategic framework gives the operationalization of 'Gross National Happiness' (GNH) top priority, achieving the MDG targets, and accelerating poverty reduction. The maximization and realization of GNH has served as and continues to remain the principal guiding philosophy for the country's long term development vision and rationale. The GNH index and its set of component indicators are geared to measure the quality of life in a more holistic way than the GDP does. The four pillars of GNH are the promotion of sustainable development, the preservation and promotion of cultural values, the conservation of the natural environment, and the establishment of good governance.

### **Employment and Youth**

In the labor market context, GNH means decent jobs for all. According to the latest Labor Force Survey (LFS) available, the unemployment rate was 2.5 percent in 2004. However, there is evidence that despite low unemployment labor is underutilized in Bhutan. Many workers are employed in low productivity agriculture and there are strong indicators for hidden unemployment as many of those who are formally employed produce little value added.

Moreover, underemployed has been estimated to be of the order of 22 percent in the Renewable Natural Resource sector, one of the most vital sectors of Bhutan (Ministry of Labour and Human Resources, 2007). At the same time, gainful job opportunities are scarce, largely due to the underdeveloped industry and services sectors. The absence of a strong private sector restricts employment possibilities, especially for youth. Bhutan has begun to witness problems among youth, including gang activity, substance abuse and criminal behavior.

While the private sector generates largely jobs requiring manual and technical skills, young workers tend to have general secondary education and are queuing for white collar jobs in the public sector, which offers better working conditions (higher wages and job security). Thus providing the young workers who enter the labor market with jobs that meet their aspirations is a big challenge facing the policymakers in Bhutan.

It is projected that during the 10<sup>th</sup> FYP period, there will be an annual outflow of 12,000 school leavers from classes X and XII who will be looking for jobs, to be joined by around 1,900 students graduating from vocational training institutes and tertiary education institutions, as well as approximately 4,000 (internal) migrants who will move from rural areas in search for urban jobs.

Obviously, a key priority for the RGOB in the forthcoming years is to help create high quality jobs for labor market entrants while simultaneously enhancing the productivity and the working conditions of the workforce. An important contribution to address these problems was the introduction of the ‘Labor and Employment Act’ in 2007 as part of the 9<sup>th</sup> FYP. The act constitutes the first comprehensive piece of labor market legislation and stipulates:

- strong foundations for the enhancement of working conditions and labor relations;
- (improved) quality levels for and increased access to vocational education and training;
- the introduction of a web-based Job Portal and a Labor Net system – coupled with related measures – to strengthen employment placement services;
- the introduction of systematic data collection and enhancements in the access to such information in order to improve the labor market information system.
- These characteristics of the new legislation have – in theory – substantially improved the labor market conditions and prospects of approx. 225,000 Bhutanese workers, of whom 37% work in non-agricultural sectors, and 23% are regularly paid workers (2006). However, partly due to the costly and slow implementation and the limited awareness of the act, key concerns for the policymakers in the area of labor markets remain as follows:
- Pending the implementation of the Labor and Employment Act, employment and working conditions in many private firms are lacking, making private sector jobs unattractive to jobseekers and creating a climate of distrust at the workplace.
- Firms do not invest enough in skills development of their workforces, and their human resource management is poor. (Coupled with the first concern, this contributes to the small and underdeveloped private sector and to its limited labor absorption capacity.)
- Many labor market entrants have poor or the wrong set of skills, and there is a substantial mismatch between the skills supplied by jobseekers and those demanded by the market.

- Bhutanese, particularly better educated, prefer white collar jobs, especially those in civil service, prompting the private employers in certain sectors to rely substantially on foreign workers.

## **B. The Bank’s Technical Assistance (TA- P100652)**

### **Describing the TA**

Addressing these challenges requires persistent and concerted efforts in several interrelated areas. Following a labor market related request from the RGOB, the World Bank has been engaged in a variety of supporting activities for RGOB through the Technical Assistance (TA) P100652 since **2007**. In line with the three main objectives set out in the original Concept Note for the TA, these activities can be subsumed under three areas of activities that are designed to meet the challenges laid out above:

- (i) **institutional setting** - strengthening the institutional framework to ensure productive labor relations and worker protection,
- (ii) **intermediation** - enhancing employment programs and job intermediation systems to help jobseekers improve their employability and find suitable jobs, and
- (iii) **training** - improving skills of the existing workforce to foster their productivity.

The key agency in charge of these activities is the Ministry of Labor and Human Resources (MoLHR), established in 2003, which fulfills its mandate through its four constituent departments: Dept. of Labor, Dept. of Employment, Dept. of Human Resources, and Dept. of Occupational Standards.

### **Area 1: Strengthening the institutional framework for implementing the Labor and Employment Act**

#### **Key issues**

Before the introduction of the Labor and Employment Act in February 2007, there was no labor market legislation in Bhutan, with the exception of some fragmented regulations pertaining to minimum wages and, since 2006, occupational health and safety. The institutional void left workers without protections enjoyed elsewhere, including being excluded from employment-related benefits such as paid vacation, maternity leave, compensation due to work-related injury or illness, and social security benefits, as well as leaving them exposed to undue occupational health and safety hazards. There were also no regulations about permissible forms of child labor. Moreover, it is likely that the absence of regulations – particularly the lack of job security coupled with excessive managerial discretion – has contributed to Bhutanese youth being reluctant to take employment in the private sector. The institutional void also harmed employers, as employer-employee relations suffered from a lack of mutual trust, and employers were often losing valuable workers after they had acquired sufficient experience or undergone training. An introduction of a suitable regulatory framework would, therefore, aim to provide basic protections for both employers and employees and create an environment where both parties feel confident about entering into productive, possibly long-term relationships.

## **Progress to date**

To rectify this situation, RGOB – in collaboration with ADB and, later, the World Bank – worked since the early-2000 on introducing a labor code. The Cabinet reviewed the first draft bill in May 2004 and submitted it to the National Assembly in December 2006 (the approval process was prolonged so as to ensure compatibility with the draft constitution). The Assembly unanimously endorsed the draft in January 2007, and the law came into force in February 2007. The adopted law has been regarded as a very modern piece of legislation, striking an appropriate balance between labor market flexibility and social protection. It encourages job creation and efficient labor allocation while, simultaneously, protecting fundamental rights of workers.

Following the adoption of Labor and Employment Act, twenty two rules and regulations supporting it the have been drafted. Thirteen refer to employment conditions and nine to occupational health and safety.<sup>1</sup> They emphasize both preventive and protective measures to be observed and implemented by workers and employers. The regulation on hours of work was approved by the MoLHR in July 2007.

## **Future reform measures**

The benefits of the Labor and Employment Law can only be reaped once the law and its accompanying rules and regulations are fully enforced. To that end, RGOB will implement the following actions:

- (a) Submit rules and regulations on employment conditions to the Cabinet.
- (b) Strengthen monitoring of the Labor and Employment Act.
- (c) Issue regulations on occupational health and safety under the Labor and Employment Act.
- (d) Decentralize monitoring of Labor and Employment Act.

## **Area 2: Enhancing labor market information and job intermediation systems**

### **Key issues**

- **LMIS:** Reliable and up-to-date information on key labor market outcomes and trends is essential for policymakers as well as for labor market participants. The current LMIS suffers from several weakness: (i) it is fragmented – different sources of information are not integrated, (ii) several useful sources of information – including Job Portal and Labor Net – are not included, and (iii) data are currently stored in an Excel database which does not allow for the effective processing and retrieval of information. The labor market information system needs to be updated, as the last one was produced back in 2003.
- **Job intermediation systems:** To strengthen employment promotion and placement services, MoLHR introduced two modern, web-based systems: Job Portal, to help job matching of national jobseekers, and Labor Net, to help recruit foreign nationals.

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<sup>1</sup> Regulations on employment conditions are as follows: Acceptable Forms of Child Labor, Sexual Harassment Regulation, Leave Regulation, Minimum wages Regulation, Workers' Compensation Regulation, Gratuity Regulation, Provident Fund Regulation, Workers' Association Regulation, Internal Service Rules Regulation, Labor Inspection Regulation, Employment Agents Regulation, Grievance Procedure Regulation, and Penalties Regulation.

However, the scale of posted vacancies and registered jobseekers has so far been rather modest, thus the effectiveness of the Job Portal is limited, indicating a need to rebuild the image and reposition the Job Portal as a major source of information about available vacancies and jobseekers. Possible actions include: (i) improving services of Job Portal by enriching the website through the inclusion of additional resources, such as labor market, occupational, as well as training information and self-learning tools; (ii) improving the quality of Job Portal databases; (iii) improving direct contacts with employers and jobseekers; and (iv) carrying out an effective marketing campaign to help increase the volume of operations and bolster the success of initiatives aimed at improving the quality of job intermediation.

### **Progress to date**

LMIS: Since 1998, six labor force surveys have been conducted as well as two establishment censuses, and corresponding reports have been published. Within MoLHR, the task of collection, analysis and dissemination of labor market information is entrusted to the Labor Market Information Division of the Department of Employment. Currently, the division relies on the annual Labor Force Survey as the most important source of information, as well as collecting administrative statistics from within the Ministry and other key agencies.

Job intermediation systems: A web-based Job Portal was introduced in 2004, enabling employers to post their vacancies online, and workers to respond to announced vacancies online and register as jobseekers. All jobseekers are now required to register via Job Portal rather than manually with the Department of Employment. To promote the Job Portal, since 2004 yearly awareness workshops have been conducted for employers and students of middle and higher secondary schools across the country. As of September 2008, 377 employers had posted vacancies on the Job Portal, and 2,624 job seekers registered, of which 1,401 were online. To promote employment placement, MoLHR has also conducted five annual Job Fairs, with approximately 40 enterprises from both the private and corporate sectors participating. During the 2008 Job Fair, around 400 job seekers were successfully placed in various private and corporate enterprises. To help recruit foreign workers in the occupational fields that are not available locally, a web-based recruitment system called Labour Net was launched in 2006. The system enables private employers to apply for foreign workers online and reduces the time needed to process requests for recruitment of foreign workers by the MoLHR to about one week.<sup>2</sup>

### **Future reform measures**

- (a) Update the 2003 “Strategy Paper for the Development of a Labor Market Information System in Bhutan.”
- (b) Integrate the LMIS with Labor Net and the Job Portal.

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<sup>2</sup> During the 9<sup>th</sup> FYP period, work permits for 9,784 foreign workers have been renewed, and approval has been issued for fresh recruitment of 18,211 foreign workers. As of September 2006, there were a total of 33,753 foreign workers working for government, corporate and private organizations.

- (c) Formulate proposal for improving Job Portal.
- (d) Enhance LMIS with additional sources of information outside the MoLHR.
- (e) Substantially increase in the number of vacancies posted and registered jobseekers in the Job Portal.

### **Area 3: Improving the skills of the workforce and employability of jobseekers**

#### **Key issues**

MoLHR is engaged in strengthening of human resource development at two levels: at the pre-service level, by improving vocational education and training, and at the in-service level, by developing the skills of workers in both private enterprises and corporations. At both levels, significant weaknesses can be observed. At the pre-service level, the quality and relevance of vocational education and training needs to be improved by, among others, improving the quality of instruction, introducing new and modern tools and equipment, and updating curricula and training materials. The accessibility of vocational training programs also needs to be increased to cater to needs of an increased number of school leavers exiting from the general education system, particularly from the middle secondary levels. Programs need to be diversified and capacities of alternative modes of training strengthened, particularly of the Apprenticeship Training Program and SSDP, and the Community Skills Development Programme should be expanded. At the in-service level, an overall HRD policy and strategy needs to be crafted, and resources – both from regular budget and through external financing – ensured so as that past practices which led to a mismatch between the training provided and the training required can be avoided. Finally, an effective monitoring and evaluation system of training programs at all levels needs to be developed and implemented.

#### **Progress to date**

To remedy this situation, RGOB in 2006 approved a vocational education and training policy that sought to improve both the quality and accessibility of VET programs. Moreover, a Human Resource Development Master Plan was prepared at the beginning of the 9<sup>th</sup> FYP period with an aim to enhance the skills of workers in the private and corporate enterprises.

- **Improvement of quality** was sought through improving the relevance VET programs, thus addressing the problem of skills mismatch, and the quality of instruction. A newly created Skills Training Resource Division within the Department of Human Resources started to develop new curricula for training programs, together with instructional materials and materials for the training of trainers. Curricula for the four priority trades – masonry, plumbing, carpentry, and general electricians – have been completed, and 53 participants were trained in the ‘Training of Trainers’ series. Industrial linkages were also strengthened by, among others, the establishment of several Technical Advisory Committees with a mandate to recommend priority occupations, help in the development of occupational profiles, improve the curricula of the training programs, and assist in the development of the National Assessment and Certification System. Private participation

is also sought in the formulation of the VET policy and under the Apprenticeship Training Program.

- **Increasing the accessibility of VET programs** was achieved through the expansion of training programs, the establishment of new training institutes, and increased intake into alternate modes of training. First, a special training program in the trade areas, not offered by the existing vocational institutes, was introduced, and so far 140 school leavers were trained. Second, four new vocational training institutes were established (Khuruthang, Rangjung, Samthang, and Chumey), with a combined intake capacity over 500 trainees. Third, the intake capacity of the Apprenticeship Training Programme (ATP), where trainees are attached to private enterprises where they acquire skills through on-the-job training, increased from 100 at the beginning of the 9<sup>th</sup> FYP period to 300 at the end, with a total of 198 trainees graduated during the 9<sup>th</sup> FYP period. Fourth, unconventional training programs for specific target groups have been introduced, such as Village Skills Development Program, catering to the needs of rural people, and Special Skills Development Programme (SSDP) designed for vulnerable groups, including juvenile delinquents and the disabled who are unable to access the formal VET institutions -- a total of 595 trainees have finished these programs since 2002.
- Under the 9<sup>th</sup> FYP Human Resource Development Master Plan, workers of both private enterprises and corporations availed themselves to in- and ex-country training, with the combined number of participants of around 4,500 (2,777 in-country training participants, 1056 ex-country training participants, and a total of 802 participants under the training supported by Governments of the Netherlands and India). However, only about 40 percent of the planned outlays of Nu. 15,000 million for HRD were actually spent due to lack of funding, and the implementation of long-term training programs did not materialize. Some training programs conducted through donor agencies only partly corresponded to training needs. As a notable step forward, MoLHR started to carry out regular monitoring and evaluation of selected programs to analyze the effects of these programs.

### **Future reform measures**

Improving the skills of the workforce as well as the employability of jobseekers is a high priority under the 10<sup>th</sup> FYP. Specific measures included in MoLHR's approved work program include:

- (a) Drafting a national HRD policy and strategy which would be amply consulted nationally.
- (b) Draft Tertiary Education Policy prepared and undergoing approval process.
- (c) The establishment of a quality assurance process for VET. This would include the systematic analysis of labor market relevant data (see area 2), the consequent development of occupational standards for about 100 trades over a period of five years, and the development of the curricula for training and implementation, including the training of trainers.
- (d) Expansion of the Apprenticeship program. This program has shown good results so far, with placement rates known to be higher than those of Vocational Training Institutes (VTIs). The MoLHR has, therefore, decided to expanding this program to at least 300 apprentices per year with the potential of expanding it further.

- (e) Development of a concept for monitoring and evaluation of training. To date, monitoring has been carried out in a variety of ways for different programs. MoLHR now seeks to collect information on the training programs in a more systematic and regular way, and to carry out evaluations of selected programs. Before intensifying its engagement in the M&E area, however, MoLHR will develop a concept for more strategic and systematic monitoring and evaluation of its policies and programs.
- (f) Approved HRD policy and strategy. After the consultation process of the draft HRD policy and strategy, MoLHR will present the HRD policy to Cabinet to seek its approval. This is planned for mid 2009.
- (g) Tertiary Education Policy approved and its implementation has been completed.
- (h) Produce new occupational standards, including for non-traditional and traditional occupations. The Department for Occupational Standards (DOS) has already developed standards for several occupations. During the coming years, the DOS will develop standards for about 20 occupations on average. This would include traditional as well as non-traditional occupations, including those in the service sector.
- (i) Carry out evaluations of training programs, including formulation of recommendations. The use of evaluations of programs for policy decision taking is something new to the MoLHR (also due to its short existence), but highly sought after by the Ministry. Already, a tracer study for the VET and Apprenticeship programs has been designed, to be carried out in 2008/09. In addition, the Ministry seeks to evaluate other programs to assess their effects and evaluate their functioning.

### **C. The Technical Assistance Team**

The team included Corinne Siaens (Task Leader) for the Labor Force Survey and programs exposure and Jan Rutkowski for the National Employment Policy implementation. Andrea Vermehren (Sr. Social Protection Specialist) took over team leadership for the task in March 2008 and was supported by Milan Vodopivec, Lead Economist of HDNSP. While the initial work concentrated primarily on improving the information on labor market outcomes, the work of the later team focused on advising the Ministry of Labor on intermediary labor market services, the implementation of the labor law, as well as on youth employability and labor migration issues. As a result, the team contributed a “labor market” pillar to the Bhutan Development Policy Grant (DPC) that was approved by the Board in the third quarter of FY 08/09.

### **D. Conclusions and Recommendations for future work**

Youth unemployment is a recurring concern of the RGOB and one that was a central part of the political discourse during the past elections. With a large share of GDP flowing through the government and policy measures seeking to limit the expansion of the civil service, ensuring adequate job creation for growing cohorts of school leavers is a key concern.

The following two inter-related future activities can be singled out:

- (1) **Analytical work on determinants of school-to-work transitions.** This work would provide in depth understanding about both institutional and personal factors determining successful entry to the world of work, and based on such knowledge, identify mechanisms to help the young workers to find productive employment. It would

examine the typical types of transition paths from school to the labor market and identify the characteristics associated with different types of transition paths, such as, who are most at risk of being unemployed, or unemployable. The role of education and training in providing the necessary skills for employment is another important aspect, as are the types of labor market conditions and institutions that promote or hinder the smooth transition of youth from school to work.

In this context, the following questions, among others, would be addressed:

- Who faces the most difficult school-to-work transitions? The more educated or the less educated? The relatively wealthy or the relatively poor? A particular ethnic group? School-leavers from a specific region? School-leavers from a specific class level? School-leavers with a specific family background? Male or female school-leavers? Etc.
- Do different education and training decisions lead to different types of school-to-work transitions? Which education and training seems most relevant for each labor force destination?
- Does the labor market need the education or training provided through the school-leavers? Can a skills (mis-)match be identified and where does it arise (which skill sets; linking to the quality of education or training, beneficial: supplementary information from the Establishment survey, the LFS, the Labour market information bulletin)?
- What are the effects of employment programs and special training programs for the school-leavers in focus?
- How long does the transition to employment take? In particular, when do school-leavers find (relatively) 'stable' employment?
- What are the patterns in finding 'stable' employment? (Young people typically move back and forth between different labor market states before finding a stable source of employment; therefore, the time taken by the youth to make this transition to 'stable' employment is of particular importance; remark: patterns can be defined and analyzed according to different criteria)
- What are the interactions between education, training, the timing of leaving school, states of employment and unemployment in Bhutan? Have they ever been analyzed altogether at once?
- What job search activities (e.g. filing applications, talking with employers, listing in databases, types of jobs sought, which media used, support from a LM institution (PES)) and opportunities (relatives in formal sector, social networks, availability of private firms within locality) are associated with the various labor force outcomes? How do they vary by key characteristics such as education, training, family background, personal characteristics etc.?

To this end, the World Bank – together with its Bhutanese counterparts, Ministry of Education and Ministry of Labour and Human Resources – has already designed a comprehensive, retrospective questionnaire, with the implementation of the survey and the analysis of its results to be carried out in FY10.

- (2) **Designing a project focusing on improving employment opportunities to the Bhutanese youth**, feeding on the results of the above analytical work. Such a project would, through a series of activities, help to increase the opportunities of youth to find both public and private sector jobs and thus counter the emerging youth unemployment that has serious, long-lasting repercussions for young people, including loss of

confidence and falling into poverty, and may lead them to illegal activities, including crime. The World Bank has developed extensive experience in designing such programs that typically include both a cognitive, skills development component as well as non-cognitive, life-skills training component.

## **Annex 1**

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