

ROYAL GOVERNMENT OF BHUTAN  
Pay Revision

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### **Chapter 1: Executive Summary**

In the process of the pay revision exercise, due regard was given to the recommendations made by the Pay Commission and the public views in the online discussion after uploading its report in the Ministry of Finance's website. The other factors considered were equity, financial costs and larger economy-wide impact in terms of the principles of sustainability specified in the Constitution and other legal limitations.

Considering all these factors as well as the on-going global financial crisis and other economic indicators, the Royal Government decided not to increase the pay for the Cabinet Ministers and other posts of cabinet rank. Pay for the Members of the Parliament is decided to be raised by 20% and that of the Civil Service at a rate of 35% across-the-board.

Allowances provided for in the Bhutan Civil Service Rules - 2006 (BCSR-2006) such as High Altitude Allowance and Difficult Area Allowance to encourage civil servants to take up rural postings have been significantly rationalized.

As the proliferations of disparate allowance are a major concern, the Government has considered allowances for medical and teaching services only.

Since the Constitutional bodies provide critically important oversight function of check and balance in the system of governance, certain allowances have been decided for these positions.

The Judiciary is crucial for dispensation of justice in a democratic set up and to uphold the provisions of the Constitution. Therefore, allowances have been considered for the Judicial Services.

With decentralization and introduction of democracy, Local Governments have great responsibility. Therefore, the remunerations of the local elected leaders have been substantially raised.

Special consideration has been made in respect of the non-civil servants/non-regular employees of the Government. These fall in the category of Elementary Service

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Personnel (ESP) who do not receive post-service benefits and have no career advancement opportunities and other privileges. On the other hand, the majority of them are the principle bread-earners for their families.. For this category, salaries have been raised by 61 %. Together with this category, the Non-formal Education (NFE) instructors and the artistes of Royal Academy of Performing Arts (RAPA) will also benefit from a meaningful raise.

Post-retirement benefits have also been increased. Pension has been made more secure by enabling civil servants to draw up to 40 % of their final basic salary instead of the current 30% to 40 % of their career average salary, by increasing the contributions both by the Government and the individual civil servant from 8% of basic pay each to 11 % each. This should enable civil servants to lead a more secure life in retirement. The maximum gratuity has also been enhanced by 50 % from Nu. 600,000 to Nu. 900,000.

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### **Chapter 2: Introduction**

The Government is fully committed to enhancing the well-being of the civil service as the key instrument in the development of the country. All efforts have been continually made to raise their morale and to improve their efficiency and professionalism. One of the major efforts made has been to enhance their salaries and benefits from time to time. The current government has taken cognisance of this and soon after taking office, the Pay Commission was constituted to review and recommend the salaries and benefits of the public servants.

The Pay Commission was given the mandate to study and recommend revisions in the structure of the salary, allowances, and other emoluments of the Public Servants. The Commission submitted its report to the Lhengye Zhungtshog on 28<sup>th</sup> August 2008, and a detailed presentation was made on 2<sup>nd</sup> September 2008.

Within the given time frame of four months, the Pay Commission, which had members with a diversity of background and expertise from different sectors, carried out a very comprehensive and detailed exercise. The arguments and the recommendations were well reasoned and researched, and covered a wide range of topics concerning pay and allowances. The criticality of certain skills and professions for future development of the country as well as the need to streamline the deficiency in the current pay structure of the civil servants were important considerations that the Pay Commission had looked into. At the same time, it had also considered the issue of affordability although it was more from the perspective of how the situation was at that point in time. However, by the time the Commission had finalized its recommendations, the global economic scenario was changing for the worse. Therefore, while the Government fully appreciated the excellent report of the Pay Commission, it could not afford to ignore the likely implications of the then emerging global economic crisis.

In light of the uncertain global economic situation and its likely impact on Bhutan's economy and other financial aspects, the Government undertook further analysis and study. Thus, it has arrived at the following decisions.

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### Chapter 3: Pay

#### Pay Scales of different Public Service

##### 1. Civil Service

###### *Pay Scale*

While appreciating the rationale used by the Pay Commission in recommending higher percentage increase on the whole for those at the higher grades, there were other important considerations that the Royal Government could not ignore. One was the fact that the high cost of living had greater impact on the lower category of civil servants. The Government also bore in mind the financial costs and its larger economy-wide impact.

After considering all these factors, the Government decided to increase the pay for the Civil Service by 35% across- the –board.

The total financial implication, including Leave Encashment and Government's contributions to the Provident Fund /Pension Fund worked out to approximately Nu. 1,068.65 million per annum .

##### 2. Non-civil Service

###### i. Prime Minister, Ministers and equivalent Position Holders:

###### a Prime Minister:

In all other countries, there is a higher pay structure for the Prime Minister (PM). Here in Bhutan, even after the advent of parliamentary democracy and in spite of heavy responsibilities, the PM has been drawing pay & allowances equivalent to that of Cabinet Ministers since his appointment in April 2008. In view of the present economic situation, the Government has decided not to formulate a separate and higher pay structure for the post. The post's entitlements have also been decided to be kept at par with that of Cabinet Ministers. The only additional benefit accorded to the PM is the higher amount of discretionary grant which has been revised to Nu. 300,000 per annum. Discretionary grants cannot be spent for personal benefits.

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### **b Ministers and equivalent Position Holders:**

The present pay scale of the Cabinet Ministers is Nu. 78,000-1,560-85,800. The pay and allowances applicable to the Cabinet Ministers also apply to the Chief Justice and Speaker of the National Assembly. The Parliamentary Entitlements Act 2008 provides for extension of the same benefits to the Chairman of National Council and Leader of the Opposition.

In view of the resource constraints, the Royal Government decided not to raise the salaries in their case also. The only revision is in the annual discretionary grant allowance which has been revised to Nu. 200,000 per annum from the existing Nu.100,000/-.

### **ii Constitutional Posts**

The present pay and entitlements of the Constitutional post holders are as per the positions they hold in the civil service. Hence, the increase in their pay has been considered at the same rates as for the civil service. However, other entitlements are decided to be revised as shown in **Table II**.

**Table II: Benefits of holders of the Constitutional Offices**

<b>Description</b>	<b>CEC, Chairmen of ACC and RCSC and AG</b>	<b>RCSC, Election &amp; ACC Commissioners</b>
House rent	Free housing or 20% of pay	Free housing or 20% of pay
Mobile telephone allowance	Nu. 1,500 per month	Nu. 1,000 per month
DSA for official travel within and outside Bhutan	Equivalent to EX level in the civil service	Equivalent to EX level in the civil service

### **iii Members of Parliament**

The pay increase for the MPs is considered at 20%. However, the allowances and other benefits are decided as presented in Table III.

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**Table III: Allowances and other benefits of the Members of Parliament**

Sl. No.	Description	Existing	Revised
1.	Basic pay	Nu. 30,000	20% increase
3.	House rent	30% of basic pay	30% of basic pay
4.	Transportation charges of personal effects on initial appointment and on retirement	-	As applicable to EX level in the civil service
5.	DSA for official travel within Bhutan	Actual lodging in one room plus Nu. 500 or lump sum Nu 1,000/-	As applicable to EX level in the civil service
6.	DSA for official travel in India and abroad	In accordance with applicable rules	As applicable to EX level in the civil service.
7.	Transport (vehicle purchase) allowance	Nu. 700,000 for one term	Nu. 700,000 for one term
8.	Fuel/maintenance allowance	Nu. 6,000 per month	Nu. 7,000 per month
9.	Driver allowance	-	Nu. 6,000 per month
10.	Mobile phone voucher allowance	-	Nu. 2,000 per month
11.	Gratuity	-	1.5 times last monthly salary into no of years
12.	Provident fund	8% each by Govt and member	11% each by Govt and member
13.	Travel expenses on retirement		One month's last pay
14.	Discretionary grant	Nu. 100,000 per annum	Nu. 100,000 per annum

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### **iv Judiciary**

The Chief Justice's pay, allowances and other benefits are equivalent to those of a Cabinet Minister, and those of the High Court Judges are placed at levels ranging from EX1 to EX3 levels with the pay and allowances of that level and a dedicated vehicle.

The pay of the present judiciary incumbents at the Dzongkhag and Dungkag levels are as in the various sub-levels of their prescribed position under the Position Classification System. Accordingly, their pay increase is also at par with that of the civil service. The allowances and other benefits are revised as given in Table IV.

*Table IV: Other benefits are as follows:*

<b>Description</b>	<b>Chief Justice of Bhutan</b>	<b>Drangpons of Supreme Court &amp; Chief Justice of High Court</b>	<b>Drangpons of High Court</b>
House rent (as per the Judicial Service Act)	30% of basic pay or free housing	20% of basic pay or free housing	20% of basic pay or free housing
Discretionary grant	Nu. 200,000 per annum	Nil	Nil
Residential telephone /mobile phone	Max Nu. 5,000 per month	Max Nu. 1,500 per month	Max. Nu. 1,000 per month
DSA for official travel within and outside Bhutan	As per Cabinet Minister	Equivalent to EX level in the civil service	Equivalent to EX level in the civil service

### **v Attorney General**

The Attorney General is not a Constitutional Post holder but given the importance of the position, it is proposed that his allowances be equated to the Dangpoens of the Supreme Court.

### **vi Local Government Functionaries**

The salary of local government functionaries namely Gups, Mangmis, Tshogpas and Gedungs was last revised in January, 2005. They receive a consolidated pay and travel allowance and daily allowance while on official duty.



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Considering their responsibility and accountability after the decentralization of authority, as well as to attract qualified people to take up these posts, the Royal Government decided to revise their salaries by 45 % of the present pay.

### **vii. Elementary Service Personnel (ESP)**

The ESP personnel include gardeners, caretakers, sweepers, night guards etc. The salary of these personnel was revised on 1st June 2001 and the amount is Nu.3,100 per month. Thereafter there was no increase in spite of 52 % to 55 % of salary increase to civil servants in July 2006. These are the categories of Government employees who receive the lowest pay and the rising costs of living have the maximum impact on them. Considering their plight, the Government has felt it necessary to raise their salaries to at least Nu. 5,000/- per month or by 61 %.

### **viii. Non-formal Education (NFE) Instructors**

As part of the highly successful non-formal education programme, the pay of the NFE instructors was raised to Nu. 4,500 (revised from Nu. 3,500 in 2007). In view of the high cost of living, the monthly salary of the NFE instructors is decided to be further revised to Nu. 6,000/- per month. The incentive paid to regular teachers involved in non-formal education is also decided to be revised from Nu. 1,500.00 per month to 2,000.00 per month.

### **ix. Artistes of the Royal Academy of Performing Arts (RAPA)**

The artistes at the Royal Academy of Performing Arts are employed as para-civil servants, and are governed by separate rules. The Academy has been instrumental in keeping the folk and mask dances vibrant and the performing arts of Bhutan are among the most visible forms of Bhutanese cultural expressions. The Academy has been showcasing the Bhutanese Arts and Culture across the globe. Given the importance of preserving and showcasing Bhutan's rich cultural heritage, the Royal Government decided to increase their pay by 45 %.

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### **x. Temporary Recruits**

The Government often has to recruit personnel on temporary basis to carry out time-bound one-time activities or programmes. When Class X-XII passed students and university graduate students are thus recruited, they are paid monthly allowances of Nu 3,000 and Nu 5,000, respectively. In view of the increased cost of living and the difficulty of managing with the present payments, the Royal Government decided to raise the stipend for them to Nu. 4,000/- per month and to Nu. 6,000/- per month respectively.

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### **Chapter 4: Post-service Benefits**

Realizing that the post service benefits are equally important to provide security and motivation, the current post-retirement benefits of the civil servants have been reviewed.

#### **a Pension**

The pension benefit constitutes an important means of income support for most retirees. To enable them to lead a more secure life in retirement, the Royal Government decided to make the benefit receivable at an assured level of 40% of the final basic salary from the current level of 30 % - 40 % of the career average salary. Also in order to make the Pension Fund more sustainable, it was decided to increase the contribution rate from the current 16 % (members 8 % and employers 8 % of the basic pay) to 22 % (Members 11 % and employers 11 % of the basic pay).

#### **b Gratuity**

At present, civil servants resigning after a service of 10 years are paid gratuity which is calculated as the last basic pay times the number of completed years of service, subject to a maximum of Nu. 600,000. In keeping with the salary revision, the Royal Government decided to revise the maximum limit by 50 % higher to Nu. 900,000.

#### **c Early Retirement Scheme**

The Government introduced the Early Retirement Scheme (ERS) in October 2004 for civil servants opting for early voluntary retirement. However, the existing ERS (Oct 2004) has not been found popular amongst the civil servants because it is affected by the frequent increase in the salary of civil servants and prospects of future salary increases.

In view of the above, the Royal Government decided as follows;

**i. ERS benefit amount for the senior civil servants (51 years and above) opting for early voluntary retirement**, to be 3 months salary ( *instead of the present 2 months*) for every remaining year of service subject to a maximum of 15 months' salary.

**ii. For civil servants below 51 years of age who opt for ERS**, the benefit amount is to be equal to one month's basic salary multiplied by the remaining years of service to superannuation subject to a maximum of 12 months.

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iii. Besides the ERS, both the above categories will be eligible for other retirement benefits as per the Civil Service Rules in force.

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### **Chapter 5: Allowances**

The allowances revised below are based on the provisions of the Civil Service Rules-2006 for the civil service and the prevailing practice for other public servants. Therefore, only the details of the revised allowances are highlighted below. In the case of those not mentioned, the prevailing system and rates will continue.

#### **i Patang Allowance**

This allowance was last revised to Nu. 25,000/- in 2000. Given the high cost of Patangs, the Royal Government decided to increase it from Nu. 25,000/- to Nu. 50,000/- when not provided by the Government.

#### **ii High Altitude Allowance**

Civil servants posted at high altitudes stay in isolated areas and some of the areas are totally cut off from the rest of the country for a part of the year. Moreover, they are exposed to the vagaries of nature and harsh living conditions without basic amenities during such postings. Also because of the remoteness of these locations, the civil servant is required to maintain two establishments.

Recognizing the difficulties faced by these employees and as provided for under clause 6.3.5 of the BCSR, the Royal Government decided to revise the High Altitude Allowance in the range of Nu. 1,000/- to Nu. 2,000/- per month. The eligibility of the allowance will be based on places of difficulty that will be identified and notified by the Government.

#### **iii Difficult Area Allowance**

The objective of the Government is to have a balanced development of the country, but often, the implementation of the objective is constrained by the unwillingness of the civil servants to take up postings in rural areas. In order to make difficult area posting attractive and also to compensate the employees for additional expenses incurred in the transportation of essential items, the Royal Government decided to revise the difficult areas allowance as presented in the Table below.

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<b>Distance</b>	<b>Prevailing</b>	<b>Revised</b>
Minimum of one Dolam from the nearest road-head	Nu. 800/- per month	Nu. 2,000/- per month
Beyond one Dolam from the nearest road-head	Nu. 200/- per Dolam, subject to a maximum of Nu. 1,600/- per month	Nu. 500/- per Dolam, subject to a maximum of Nu. 5,000/- per month

The list of difficult areas eligible for the allowance will be circulated by the Government.

**iv Mobile Phone Voucher Allowance**

In view of the numerous responsibilities entrusted upon the Dzongdags, Dzonggrabs and Dungsas, the Royal Government decided to revise the mobile voucher phone entitlements of Dzongdags to Nu. 1,000/- per month from Nu.500/- per month and grant the Dzonggrabs and Dungsas such allowance of Nu. 500/- per month irrespective of their position levels.

**v Housing/House Rent Allowance**

In addition to the pay raise, housing benefits for the following positions are introduced/ revised.

1. In view of their higher responsibility and accountability, the Secretaries to the Government to be provided free accommodation or house rent @ 20% of their basic pay;
2. As has been the practice until the end of the 9<sup>th</sup> Plan, the Dzongdag as the head of the Dzongkhag Administration and given the need to maintain certain status, shall be accommodated in designated official residences, which is to be provided rent-free.
3. The Dungsas shall also be provided with free accommodation.

**vi Teaching and Medical Professional Allowance**

While the proliferation of disparate allowances has been a major concern, the Government felt that certain allowances were necessary to help expand and improve service delivery of certain sectors and also to compensate for work stress. Therefore,

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allowance to the medical and teaching services group has been considered as an interim measure till a permanent system is instituted.

### *i Doctors and Nurses allowance:*

The allowance is provided to the professionals and at rates based on the number of years in service as detailed below:

Professional level		No. of years of service		
		6-10 yrs	11-15 yrs	Over 15 years
(a)	Medical doctors with masters degree and above in their profession	20% of the Basic Pay (BP)	30% of the BP	40% of the BP
(b)	Dentists with masters degree and above	20% of the BP	25% of the BP	30% of the BP
(c)	General doctors with MBBS and above degrees but less than masters degree	20% of the BP	25% of the BP	30% of the BP
(d)	Dentists with first degree and above, but less than masters degree	10% of the BP	15% of the BP	20% of the BP
(e)	Nurses with first degree and above	10% of the BP	15% of the BP	20% of the BP
(f)	Nurses with diploma certificates	10% of the BP	15% of the BP	20% of the BP

*Note: Only medical professionals engaged in clinical practice are to be eligible for such allowance.*

### *ii Teaching Allowance*

The allowance is extended to all teachers engaged in teaching at the rate prescribed depending on the number of years of service as shown below.

- I. 10% of the basic pay as allowance for those teachers serving more than 5 years but less than 10 years;
- II. 15% of the basic pay as allowance for those teachers serving more than 10 years but less than 15 years;
- III. 20% of the basic pay as allowance for those teachers serving more than 15 years.

The allowance is to be paid over and above the salary with the intention to promote higher performance, improved efficiency and meritocracy in the system.

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### Chapter 6: Financial Cost and Implementation

The additional financial cost of the Pay Revision is estimated at Nu. 1,333.682 million per annum. The details are as under;

*Summary of Financial Cost - Pay Revision*

Pay and Allowances	Net Annual Additional Cost (Nu. million)
<b>Pay</b>	
Civil Service	840.536
Ministers, other ranks and MPs	19.893
Local Government functionaries	32.676
NFE teachers	14.688
ESP	39.489
RAPA artistes	1.989
<b>Sub-total Pay</b>	<b>949.271</b>
<b>Allowances</b>	
Health	22.599
Education	121.734
<b>Sub-total Allowances</b>	<b>144.333</b>
<b>Other associated costs</b>	
PF Contributions	
<i>On additional pay</i>	104.420
<i>On existing pay (11-8%)</i>	65.613
Sub total PF	170.033
Leave Encashment	70.04
<b>Sub-total Other Associated Costs</b>	<b>240.37</b>
<b>Grand Total</b>	<b>1,333.682</b>



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### **Implementation of pay revision**

In order to minimize the impact of the pay revision and to make it affordable to the Government and sustainability of the Pension Fund, the full implementation of the pay revision will be put into effect from the Financial Year 2010-11 (i.e. as allowance until 2009-10 and merger to the pay scales thereafter).

### **Pay Fixation**

The Ministry of Finance shall issue guidelines for fixation of pay.

### **Effective Date**

In order to reduce the magnitude of the costs, the Government has decided to implement the pay revision from January 2009. However, the new pension contribution rates, early retirement scheme and the enhanced gratuity will be implemented as a package from July 2009.

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### **Chapter 7: Considerations taken into account in arriving at the above decision**

Some of the important considerations taken into account by the Government while making the above decisions were as follows:

**i Domestic Resources and Recurrent Expenditure Balance**

Domestic resources must be sufficient to meet the recurrent expenditures. Section 6 Article 14 of the Constitution requires the Government to ensure that the cost of recurrent expenditures is met from internal resources of the country. Therefore, the Government cannot resort to, nor can it avail, external grants or borrowings to meet the current expenditures, if the domestic revenue falls short.

**ii. Cost of Pay and Allowances and Recurrent Expenditure Balance**

Prudent financial principles demand that the Government's cost of pay and allowances should not reach high percentages of its current expenditures.

**iii. Foreign Exchange Reserves**

A minimum foreign exchange reserves have to be maintained to avoid a balance of payments crisis. A large expansion of public spending will fuel consumption and imports and put pressure on the foreign exchange reserves. The Constitution also stipulates that a minimum foreign currency reserve that is adequate to meet the cost of not less than one year's essential import must be maintained (Section 7 Article 14).

**iv. Financial System Liquidity and Government Debt**

With a large increase in public spending, the surplus of domestic revenue over current expenditures earmarked for capital spending will be absorbed by the additional recurrent spending of the Government. To that extent more borrowings will have to be resorted to in order to maintain the planned level of capital investments. The extent of domestic borrowing will however be limited by the availability of surplus liquidity (i.e. money available in the financial system for lending) in the economy. Domestic debt will rise and affect with impact on the long-term sustainability. The Constitution also requires the Government to ensure

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that the servicing of public debt will not place an undue burden on future generations. (Section 5 Article 14).

**v. Inflation:**

Additional Government spending will result in immediate increase in aggregate demand. With no equal and immediate matching supply within the domestic economy, pressure on prices will mount. Pressure on prices of tradable items will be less to the extent that their demands can be met from imports. However on non-tradables like housing and land, the demand for which cannot be met quickly or at all, price rises will be immediately felt.

**vi. Interest rates:**

With the Government's domestic borrowings increasing to large magnitudes, there will be pressure on interest rates to rise. This will increase the cost of production and make Bhutanese products less competitive in the international markets thus adversely affecting again the Government's revenues, Balance of Payments (BoP) and foreign exchange reserves. Initiatives for establishing new industries could also be hampered by higher interest rates, thus retarding further growth of GDP and employment.

**vii. Effect on Private and Corporate Sectors' Salary:**

The increase in public servant's salary could also drive up wages and salaries of corporate and private sectors. This will weaken Bhutan's competitiveness, and lead to other macro-economic problems.

**viii. Global economic crisis:**

Since the latter half of 2008, the world economy has been on a downward trend with many of the large economies descending into recession. The economic crisis has taken global dimensions, and many companies going into bankruptcy. Even though Bhutan's integration with the global financial system may be minimal, the Bhutanese economy is not immune from the crisis.

In many countries, the economic crisis has forced them to reduce their GDP growth targets. A reduction in GDP growth will impact on development targets with less revenues. The global crisis is most likely to have a severe impact on Bhutan's tourism industry. Already Bhutanese tour operators have forecast up to a 30 % decrease in tourist arrivals in 2009, as potential tourists have seen their

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incomes fall. Since tourism is the highest earner of convertible currency, and also a major contributor to the revenue, any fall in tourist arrivals will affect revenue growth.

### **ix. Other considerations:**

- Bhutan is still dependent on external assistance, and a large public service pay increase would not be commensurate with its capacity to pay.
- Many of the countries that provide aid to Bhutan have been hit by the global crisis.
- International financial oversight agencies have also cautioned Bhutan over the likely implications of a high pay raise on inflation and balance of payments that may fuel budget deficits and resultant borrowings.

Considering all of the above factors, the Government has decided on a more modest pay increase. Depending upon how the economy grows and the resource position, the Government could consider a further revision during the course of the 10<sup>th</sup> Plan.

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