

A background paper on “Governance in
public autonomous institutions in Bhutan”



Bhutan Transparency Initiative

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ACKNOWLEDGEMENTS

This assessment of governance practices in the public autonomous and corporations in Bhutan has been prepared by Bhutan Transparency Initiative as part of the research initiative towards curbing corruption in the country. This report is the outcome of the literature review, interviews and discussions held with the concerned agencies based on the template/checklist prepared for the purpose of the governance assessment as per the PricewaterhouseCoopers (PwC) and Forum for Corporate Governance in Indonesia (FCGI).

We would like to acknowledge all the individuals and agencies involved in the preparation of this report. Specifically, we are thankful to Head of the organizations and the management of the Royal Monetary Authority, Royal University of Bhutan, Jigme Dorji Wangchuk National Referral Hospital, National Pension and Provident Fund, Bhutan Postal Corporation Limited, Royal Insurance Corporation Limited, Druk Air Corporation Limited, State Trading Corporation Limited, Penden Cement Authority Limited and Bank of Bhutan Limited.

The cooperation and supports provided by all the organizations are highly solicited.

Executive Summary

This study assesses the governance practices in public institutions as per the norms of good governance practices, regulatory enforcement and compliance requirements according to the Companies Act of the Kingdom of Bhutan 2000. It highlights the status of governance practices in terms of 8 broad indicators of governance: 1) Board constitution, 2) Selection of Board, Chairman and the CEO, 3) Administration and Management of the Board, 4) Conduct of Board meetings, 5) Government laws, rules and regulations, 6) Governance and management, 7) Information disclosure and 8) Organizational performance. These indicators were derived based on the OECD principles of governance, checklist for governance assessment as per the PwC and Forum for Corporate Governance in Indonesia including the compliance requirements of the Companies Act of the Kingdom of Bhutan.

So based on the literature review of various governance related documents including audit findings, corruption reports and the assessment carried out using above governance indicators, it has been found that governance score of selected public institutions are on the track. However, there is need of further improvements in governance practices which need to be incorporated in the existing practices governed by most public institutions. Some of the agencies have inadequate governance rules and regulations including human resource service rules, strategic plans, HRD master plans and other regulatory policies since some of these agencies are still following RCSC norms although they are being de-linked from the civil service. Further, agencies are too dependent on RAA especially the autonomous agencies for their annual auditing and at the same time there are no internal auditors in most agencies. It is also a requirement to appoint external auditors from the panel of listed auditors available with RAA during the annual general meetings but such things are not being carried out in almost all the agencies. So there is not much check and balance in the overall performance of the agencies concerned which leads to embezzlement cases as being reported in the media. There is also no proper conduct of board proceedings, board nomination, selection and appointment which leads to reservation of board members from the specific government agencies. It is also found that most organizations are resistant over sharing of agency information on governance practices and in that way required information is not being shared over the media and to the shareholders or general public. Information accessibility is a challenge to most agencies which is one of the key area which leads to transparency issue.

Accordingly, good governance practices need to be adopted in almost all the agencies through institution of proper governance codes and regulations, HR regulations and policies and other systems to improve governance practices. The administration and management of the board functions including the conduct of board meetings needs to be improved. There is also need of proper system for nomination, selection and appointment of chairman, board, head of the organization and the executives in the public institutions. It is also mandatory to have proper check and balance in the organizations by instituting internal auditors and external auditors as required by the Companies Act for public agencies. All such arrangements will bring about performance improvement and growth of the companies or agencies.

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1. Introduction

Bhutan Transparency Initiative (BTI) was founded in April 2013 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. The institution looks forward to a country of GNH with citizens and governments free from the fear of corruption through promotion of transparency, accountability and good governance in the country to contribute towards fighting against corruption and the promotion of integrity.

The Good Governance plus states that it is essential to take cognizance of an enhanced capacity of the private sector and the civil society in determination of policies and programmes and in their execution thereof towards the assessment of governance. We have to exploit information technology to deliver new services and for sectors to re-engineer the processes of traditional service delivery. Overall, the Governance assessment will try to lessen the bureaucracy and reinforce the value of service delivery. The Governance assessment is expected to give a new image and character to the public service representing high degree of professionalism and dedication. Its impact is expected to percolate to all to realize its collective goals of peace, security and prosperity and fulfillment of individual aspirations.

So as a part of its objective, BTI has engaged M/s. Norlha Engineering and Management Consultancy, Thimphu to develop a background paper on Governance in public autonomous institutions in Bhutan. The scope of the work consists of analyzing the existing laws, rules and regulations in place on the part of current appointment and functions of Board of Directors and governance practices.

2. Research Methodology

The research for this study was conducted in three phases as follows:

- a) Initial discussion with BTI on the study purpose, expectations and organizations to be covered for the purpose of this study. Accordingly, 10 organizations were selected based on the certain issues and problems as reported in the media.
- b) The second phase is purely based on the literature review of the documents available online from the selected organizations/agencies and the international best practices on governance assessment. This phase covers the theory and principles of governance and development of research questionnaire/checklist for governance assessment across all agencies selected for the purpose of this study.
- c) The final phase of the research is based on the empirical evidence gathered by means of using the checklist questions from the 10 agencies. The empirical evidence was obtained through one-to-one interviews with the key top level management of the concerned identified agencies or institutes.

The following are the ten autonomous organizations that have been considered for this study:

Autonomous organizations: i) Royal University of Bhutan, ii) Jigme Dorji Wangchuk National Referral Hospital, iii) Royal Monetary Authority and iv) National Pension and Provident Fund

Corporations: i) Bank of Bhutan Limited, ii) Royal Insurance Corporation of Bhutan Limited, iii) Bhutan Postal Corporation Limited, iv) Druk Air Corporation Limited, v) State Trading Corporation Limited and vi) Penden Cement Authority Limited

3. Concept and principals of Public Sector Governance

There is no universally agreed-upon definition of Public Sector Governance. What is understood by the term appears to vary considerably between the different jurisdictions. However, for simplicity of understanding, “Governance comprises the arrangements¹ put in place to ensure that the intended outcomes for stakeholders are defined and achieved”.

Governments and other public sector entities raise resources from taxpayers, donors, lenders, and other suppliers for the provision of services to citizens and other recipients, as well as less visible activities, such as regulation and policy development. These entities are primarily accountable for their management and use of resources to those that provide the resources and those that depend on the resulting services. The resources raised are generally distributed through a network of public sector entities with specific functions that have a range of accountability mechanisms. However, the fundamentals of good governance should remain the same at all levels and stages².

As per the Good Governance in Public Sector International Framework of International Federation of Accountants states that the function of good governance in the public sector is to ensure that entities act in the public interest at all times. That means, acting in the public interest requires; a) Strong commitment to integrity, ethical values, and the rule of law; and b) Openness and comprehensive stakeholder engagement.

In addition to the requirements for acting in the public interest, achieving good governance in the public sector also requires the following:

- a) Defining outcomes in terms of sustainable economic, social, and environmental benefits;
- b) Determining the interventions necessary to optimize the achievement of intended outcomes;
- c) Developing the capacity of the entity, including the capability of its leadership and the individuals within it;
- d) Managing risks and performance through robust internal control and strong public financial management; and
- e) Implementing good practices in transparency and reporting to deliver effective accountability.

The figure 1 below illustrates how the various principles for good governance in the public sector relate to each other.

Further the OECD Principles of Corporate Governance builds on four core values:

- a) **Fairness:** The corporate governance framework should protect shareholder rights and ensure the equitable treatment of all shareholders, including minority and foreign

¹ Includes political, economic, social, environmental, administrative, legal and other arrangements.

² Good Governance in Public Sector-consultation draft for international framework, International Federation of Accountants, June 2013

shareholders. All shareholders should have the opportunity to obtain effective redress for violations of their rights.

- b) **Responsibility:** The corporate governance framework should recognize the rights of stakeholders as established by law, and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of the corporations.
- c) **Transparency:** The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the company, including its financial situation, performance, ownership, and governance structure.
- d) **Accountability:** The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and shareholders.

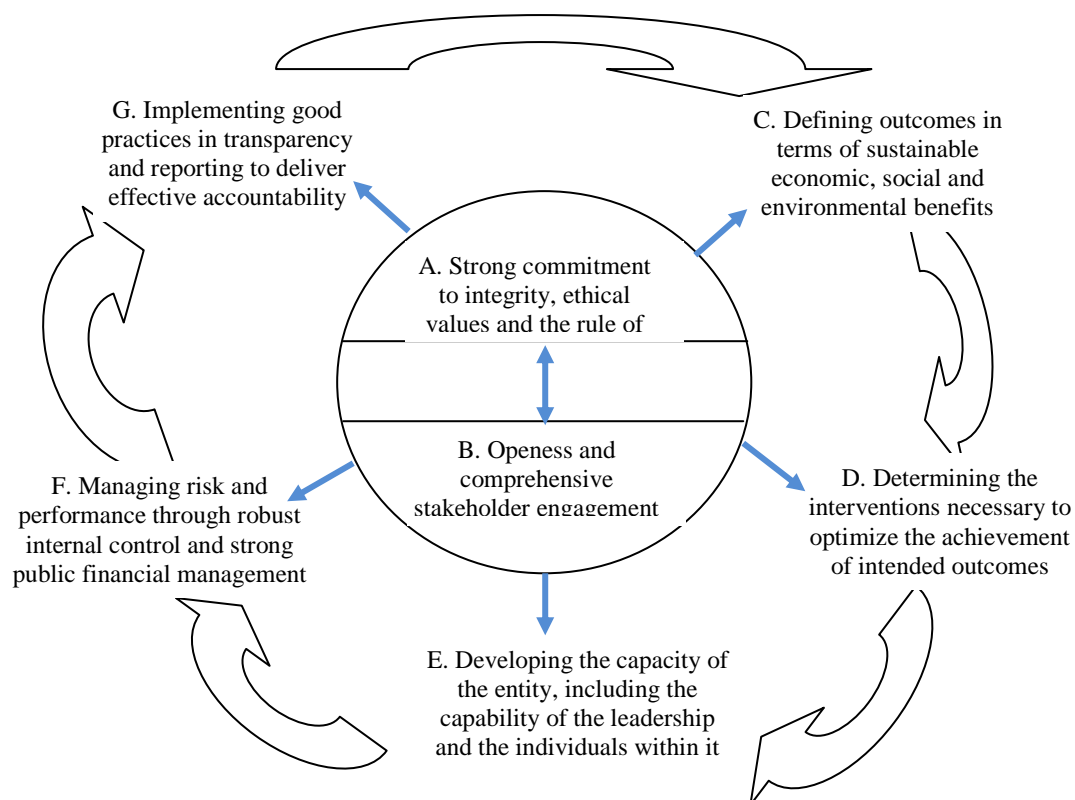


Figure 1: Principles of Good Governance in Public Sector

4. Autonomous and Public Sector Agency Governance Framework

There are 4 classes of public sector institutions operation in Bhutan based on ownership and functions of the agency as follows:

1. Autonomous Institutions
2. State Owned Enterprises (SOEs)
3. DHI owned and linked companies
4. Public shareholding companies

A. Autonomous Institutions

Autonomous institutions were usually Government agencies which are given autonomy in terms of financial management and administrative authority from the civil service. However,

such institutions are still under the preview of the Royal Civil Service Commission but they can recruit employees from certain level by themselves. Such autonomous institutions have separate Board of Directors to govern the institution and Head of the institutions being appointed by the Government. These institutions were given autonomous by the Government mainly to improve the public services and to bring about efficiency in their functions.

B. State owned Enterprises (SOEs)

These are the companies where the Royal Government has 100% ownership but are functioning independently in their own as corporate entity. However, there is no separate legal framework governing the SOEs. All SOEs have been corporatized and are primarily governed by the Companies Act of the Kingdom of Bhutan 2000.

Guidelines for SOEs were issued by the Ministry of Finance in 2004 which define the role of the Council of Ministers, the Ministry of Finance (MoF) and the administrative ministries. They set out procedures and responsibilities for the appointment and removal of board members; discuss their entitlements and their roles, including the role of the Chairman of the board; lay out the procedures for the appointment and removal of the CEO and discuss his/her role; set out the audit requirements for SOEs, and the standards of disclosure and transparency that the latter must follow; and discuss performance evaluation.

Other applicable legislation includes:

- a) The RSEB Listing Rules 23,
- b) The Bankruptcy Act 1999,
- c) The Negotiable Instrument Act 2000,
- d) The Prudential Guidelines of the RAA,
- e) The Moveable and Immoveable Property Act,
- f) The National Assembly Act of the kingdom of Bhutan 2004.
- g) The 1992 Financial Institutions Act (FIA) regulates the provision of financial services, including banking and insurance as well as securities related activities supplemented by the 2002 Prudential Regulations issued by the RMA, which are applicable to bank and non-bank financial institutions.

Several provisions in Good Governance Plus (GG+) regulate the governance of the SOEs and of the corporate sector in general. Specifically, paragraph 72 stipulates that “the government should strictly implement the Guidelines for the Boards of Government Corporations, and that the recruitment for the government corporate boards shall be through open competition, and not seconded from the civil service henceforth.” The GG+ document has recommended the establishment of Board of Corporate Affairs to oversee all the corporate bodies including the SOEs.

C. DHI owned and linked companies

In 2008, Druk Holding and Investment (DHI) was created as Government arm to look after the public funds of the public enterprises. Accordingly, most of the profitable 100% Government owned companies were transferred to DHI as a shareholder. Companies having 100% DHI share are called as DHI owned companies while those with companies with less than 100% DHI shares are called as DHI linked companies.

The DHI has its own Corporate Governance Code (CG Code) applicable to its companies. Accordingly, DHI has complied with all the principles of the Code in conformity with the Companies Act and other statutory requirements from 2014 onwards. Board Nominations were carried out as per the recommendations from the committee for the potential Board of Directors to DHI and its portfolio company boards. In the case of CEO selection, there is Nomination and Governance Committee to carry out selection of CEOs of DHI Owned Companies.

D. Public shareholding companies

These are the companies where the companies has given its shares to the general public which means public shareholders are the owners of the company and has full independent operation. The shareholders are the ultimate decision makers in nomination of the Board of Directors and the CEO through their representative in the board since 1 or 2 board members will be majority shareholder. However, even these types of companies are under the governance of registrar of companies and have to follow compliance to governance code as per the Companies Act of Kingdom of Bhutan 2000 and other regulations.

5. Institutional Framework for Ownership and Control of SOEs

The institutional framework for the ownership and control of SOEs in the Kingdom of Bhutan is presented in the diagram below. Key institutions include the Ministry of Finance (MoF), the Administrative/Line Ministries, the Council of Ministers, and the control bodies. The framework distinguishes between SOEs that are wholly-owned or majority-owned through direct ownership, and SOEs that are minority-owned (only taking direct ownership into consideration). At present, the ownership function of the State is organized under a variation of the dual model, with the MoF and Administrative Ministries playing a central role, and the Council of Ministers at the apex. The dual model is quite common worldwide.

The MoF holds the share certificates of the SOEs on behalf of the State. By virtue of this function, the Finance Ministry is the government body that attends shareholders meetings and votes the Royal Government's shares. A representative of the MoF is always on the board of wholly-owned and majority-owned SOEs. The MoF is also responsible for formulating recommendations to the Council of Ministers on the matters such as foreign borrowings, initial capital structure of the SOE, capital expenditures involving foreign exchange exceeding USD 5 million, foreign collaboration and foreign equity participation, divestment of shares/privatization and pay, allowances and other incentives of the corporation. The MoF is also responsible for reviewing the performance of wholly-owned and majority-owned SOEs, recommending corrective measures to the Royal Government and issuing corporate assessment guidelines in consultation with sector ministries.

The Administrative Ministries are responsible for setting sectoral policies, ensuring that SOEs under their oversight implement such policies, and that the SOEs' activities meet the purpose of their establishment. In the case of wholly-owned and majority-owned SOEs, the ministries are also responsible for monitoring and submitting reports to the MoF and the Council of Ministers on the performance of the SOE(s) under their annual oversight and recommending the appointment of the Chairman of the Board and the other board members.

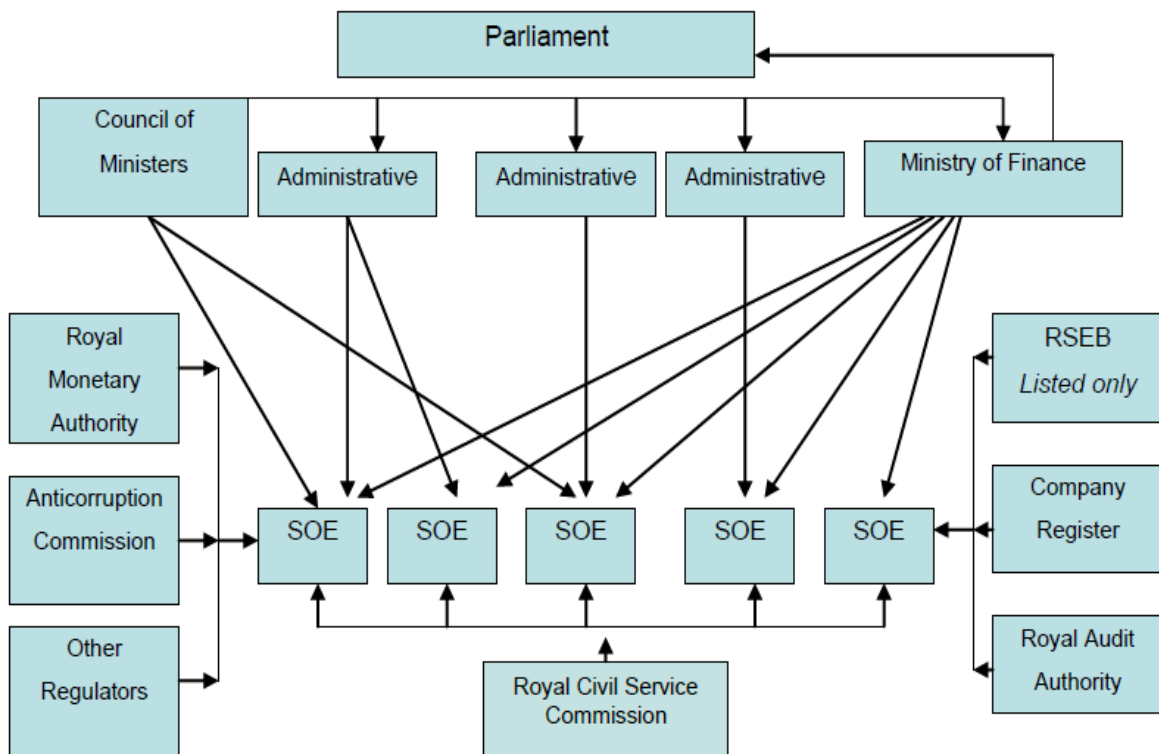


Figure 2: Institutional framework of ownership and control of SOEs in Bhutan

The following matters require approval of the Council of Ministers for wholly-owned and majority-owned SOEs:

- a) appointment of Board Directors including the Chairman;
- b) appointment of the CEO;
- c) capital expenditures involving foreign exchange exceeding USD 5 million;
- d) foreign collaboration agreements and foreign equity participation;
- e) divestment of shares/privatization; and
- f) Articles of association and any change thereto.

For minority-owned SOEs, the appointment of the CEO is vested with the SOE's board of directors.

In terms of regulation of the SOEs, following are some of the institutions:

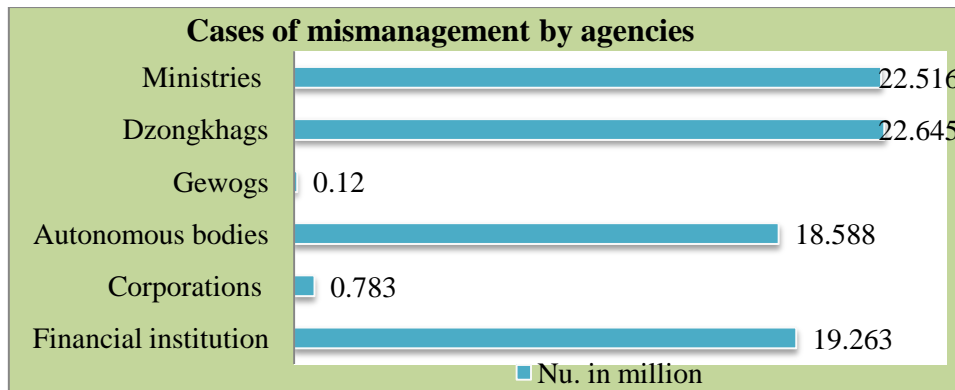
- a) **Parliament:** Each year the Minister of Finance reports to Parliament on the performance of the SOE portfolio as part of the National Budget Report.
- b) **Royal Monetary Authority (RMA):** The RMA regulates the financial services sector, including the functions of banking and securities. The RMA oversees certain governance and disclosure requirements of financial institutions.
- c) **Anticorruption Commission:** This commission was set up by Royal Decree in December 2005 to curb corrupt practices in the public and private sector, in anticipation of the transformation of the Kingdom's constitution into a parliamentary democracy in 2008. Its mission is to "build an in-corruptible society, which upholds the value of Right View, Right Intention, Right Speech, Right Action, Right Livelihood, Right Effort, Right Mindfulness and Right reflection."

- d) **Company Registrar:** The Registrar of Companies (Registrar) is part of the Ministry of Economic Affairs (MoEA). The Registrar collects a variety of documents from the companies and conducts annual inspections of most companies, including SOEs, to ensure they comply with the basic requirements of the Act.
- e) **Royal Audit Authority (RAA):** The RAA conducts audits focused on procurement transactions and employee expenses, but is moving towards broader measures of performance. The RAA also reviews external audits of Bhutanese companies and maintains a list of auditors authorized to conduct them.
- f) **Royal Security Exchange of Bhutan (RSEB):** All trades in shares of listed companies, including SOEs, must go through the RSEB, the Kingdom's sole stock exchange. The RSEB is responsible for trading, clearing and settlement transactions. It oversees the central depository and Listing Rules enforcement including the latter's disclosure requirements. It can amend the Listing Rules with the approval of the RMA.
- g) **Druk Holding and Investment (DHI):** It is the commercial arm of the Royal Government of Bhutan established in 2008 upon issuance of Royal Charter in 2007 "to hold and manage the existing and future investments of the Royal Government for the long term benefit of the people of Bhutan". DHI, the largest and only government-owned holding company in Bhutan, has shares in 20 different companies operating in the manufacturing, energy, natural resources, financial, communication, aviation, trading and real estate sectors. Of the 20 portfolio companies 11 are fully owned (DHI-Owned Companies), 3 are controlled (DHI Controlled Companies - 51% and above) and 6 are linked (DHI-Linked Companies - below 51%). The Ministry of Finance is the sole shareholder of DHI.
- h) **Other Institutions:** These include the National Environment Commission, Bhutan Electricity Authority, Bhutan Information Communications and Media Authority and other regulatory agencies which play an oversight role.

6. Performance of Autonomous Institutions as per RAA and ACC

The Royal Audit Authority is the ultimate autonomous body in Bhutan responsible for auditing of all types of establishments. They conduct audits in terms of financial, performance, thematic and system audits. As per the annual audit report 2015, the highest amount of irregularities is reported in the Government agencies, Dzongkhags topping the list with Nu.136 million followed by the Ministry of Information and Communications with Nu.119.453million and autonomous bodies with Nu.70.983 million.

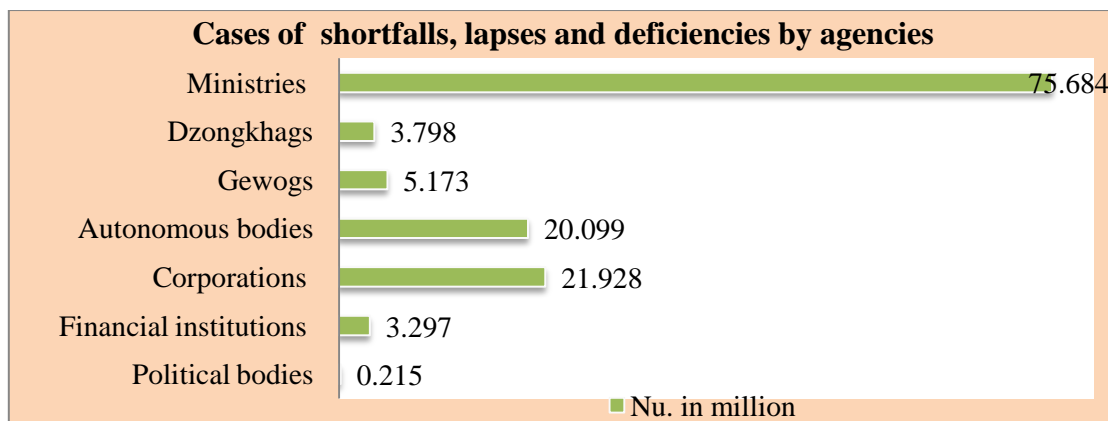
In terms of mismanagement, Dzongkhags and Ministries top the list, Dzongkhags constituting 26.99% of irregularities of Nu.22.645 million followed by Ministries with Nu.22.516 million. This is followed by financial institutions constituting about 22.99% with irregularities of Nu.19.263 million and autonomous bodies constituting about 22.15% with irregularities of Nu.18.588million. The details are shown in the graph 1 below.



Graph 1: Case of mismanagement by agencies (Source: RAA Annual Report 2015)

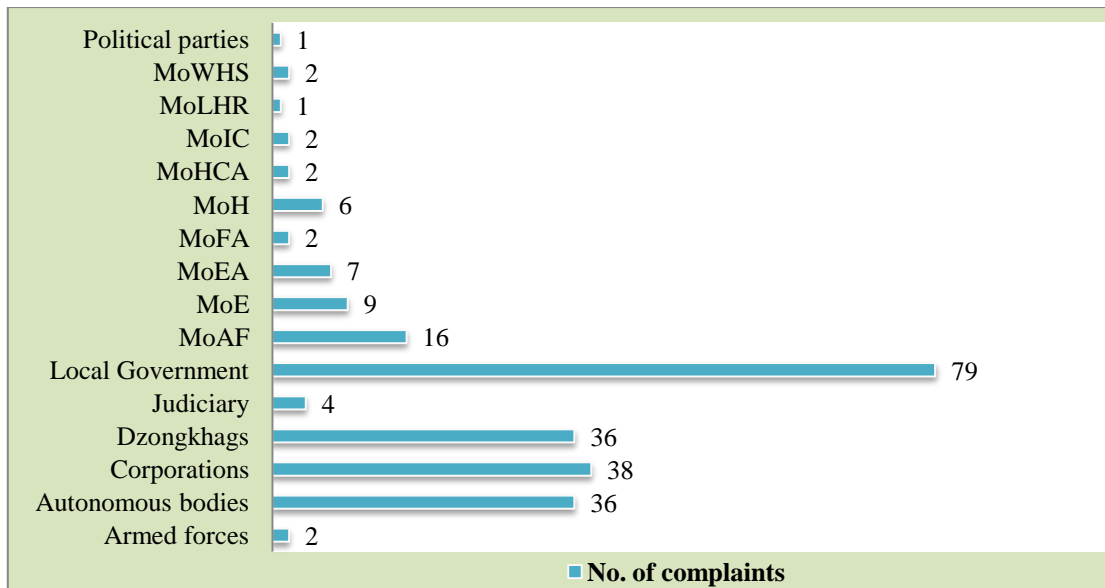
These audit findings are mostly related to fraud, corruption and embezzlement cases. These were mainly occurred due to lack of supervisory control from the top and middle level management, lack of segregation of duties, and in some instances due to collusive practices involving even the supervisors. So in terms of shortfalls, lapses and deficiencies, Ministries are the highest with irregularities of Nu.75.684 million followed by corporations and autonomous bodies with irregularities of Nu.21.928 million and Nu.20.099million respectively. So based on these facts, the assessment of governance in the autonomous and corporate entities have become essential for the purpose of this study.

Even for the Bhutan Postal Corporation Limited, there was a case of misuse of cash amounting to Nu.0.723 million and the Royal Insurance Corporation of Bhutan Limited with irregularities amounting to Nu.19.263 million. Similarly, the Royal University of Bhutan had irregularities amounting to Nu.3.080 million and the Druk Air with about Nu.14.965 million.



Graph 2: Cases of shortfalls, lapses and deficiencies by agencies (Source: RAA Annual Report 2015)

Corruption related complaints lodged against Local Governments continue to be the highest comprising 27.9% of the total 283 complaints. Alleged corrupt practices in Local Governments include: embezzlement, misuse of public funds, abuse of functions for land transactions, encroachment into government land, contract awards and extraction of natural resources. This is followed by corporations and autonomous bodies constituting about 13.4 % and 12.7% of the corruption related complaints respectively.



Graph 3: Complaints received by Anti-corruption Commission (Source: ACC Annual Report 2015)

All these evidences provides rational behind this study to carry out governance assessment of the public institutions to ensure that those agencies are functioning as per the standard practices and provisions of the Companies Act of the Kingdom of Bhutan 2000.

7. Governance Assessment Score Methodology

The OECD Principles of Corporate Governance is the main principle accepted by global policy makers, investors and other stakeholders to benchmark the governance assessment scorecard. Consequently, many of the items in the scorecard may be the best practices that go beyond the requirements of national legislation. The OECD principles cover the following five areas:

- a) rights of shareholders,
- b) equitable treatment of shareholders,
- c) role of stakeholders,
- d) disclosure and transparency and
- e) responsibilities of the board.

However, for the purpose of this assessment, the five governance principles of OECD combined with the corporate governance assessment checklist developed by PricewaterhouseCoopers (PwC) and Forum for Corporate Governance in Indonesia (FCGI) were used in addition to those points mentioned specifically in the terms of reference. Accordingly, following are the main indicators taken into consideration for the governance assessment of the autonomous institutions in Bhutan:

- a) Board constitution- 10%
- b) Selection of Board, Chairman and the CEO-10%
- c) Administration and Management of the Board-10%
- d) Conduct of Board meetings-15%
- e) Government laws, rules and regulations-20%
- f) Governance and management -15%
- g) Information discloser-10%
- h) Organizational performance-10%

Each of the above 8 indicators were further subdivided into various items with each item carrying certain weight in relation to overall weight given to particular indicator. The structure of the governance indicators along with specific items in each indicator are shown in the following table.

Broad Indicators	No. of items	Weight
Board constitution	5	10%
Selection of Board, Chairman and CEO/Head	4	10%
Administration and Management of the Board	4	10%
Conduct of Board meetings	10	15%
Government laws, rules and regulations	4	20%
Governance and Management	5	15%
Information discloser	4	10%
Organizational performance	3	10%
Overall weight		100%

Table 1: Governance indicators and weight

The weighted score of each indicator is obtained by the following formula:

$$\text{Score for each indicator} = \frac{\text{Total score obtained}}{\text{Maximum possible score}} \times \text{weight for each indicator}$$

Once the score is obtained from each of the indicators, the total score is obtained for each of the organization and interpreted the results as mentioned below:

- a) If the score is 0-49%: Organization needs to look at its governance system because the overall score is below standard;
- b) If the score is 50-59%: Organization's overall governance score meets the basic standards but should seriously consider improvement on issues where the score is low;
- c) If the score is 60-80%: Organization's overall governance score is good but could be further improved;
- d) If the score is 81-100%: Organization's governance score is excellent.

8. Governance assessment and analysis

The analysis was carried out separately for autonomous institutions and the corporations with the same questionnaires and then comparison was made between the institutions. The table below shows the governance assessment scores of autonomous institutions and corporations against each of the 8 indicators of the governance assessment questionnaires. While all questions in each indicator have scored equally, the sections themselves have been weighted to reflect the relative importance of each area.

As per the scores obtained by each of the autonomous institutions, almost all the institutions have scored above 60% except JDWNRH which is below 60%. This is because JDWNRH has been recently de-linked from the RCSC as an autonomous institution in the country, so there is need to establish and set up the organization properly as per the norms of institutional governance practices being practiced by other institutions in the country. Although the other autonomous institutions have scored well and meets the basic standard but there is need of

further improvement in their governance practices. Accordingly, in most of the autonomous institutions, there is need of improvement in terms of selection and appointment of Board Members, Chairman and the Head of the organization which at present is nominated and appointed by the government directly. The basis of nomination and appointment of both the board members as well as head of the organization is not known by the concerned agencies and majority of the Board members are from the civil service. There is also need of instituting proper systems in place for efficient administration and management of the autonomous institutions which at present are mostly following RCSC norms, Cabinet directive for autonomy and the charter for institution of autonomous agencies. There is also no proper process in the conduct of board meetings and proceedings.

Score Areas	Weight	Organization score			
		RUB	RMA	JDWNRH	NPPF
1. Board constitution	10%	7.86%	7.86%	5.71%	6.43%
2. Selection of Board, Chair and CEO	10%	7.50%	7.50%	7.50%	10.00%
3. Administration and Management of Board	10%	5.45%	5.45%	5.45%	8.18%
4. Conduct of Board meetings	15%	4.09%	8.18%	4.77%	8.86%
5. Government laws, rules and regulations	20%	14.00%	18.00%	6.00%	16.00%
6. Governance and management	15%	11.09%	12.39%	11.74%	10.43%
7. Information discloser	10%	8.89%	10.00%	7.78%	8.89%
8. Organization performance	10%	8.89%	7.78%	5.56%	10.00%
Total score	100%	67.77%	77.16%	54.51%	78.80%

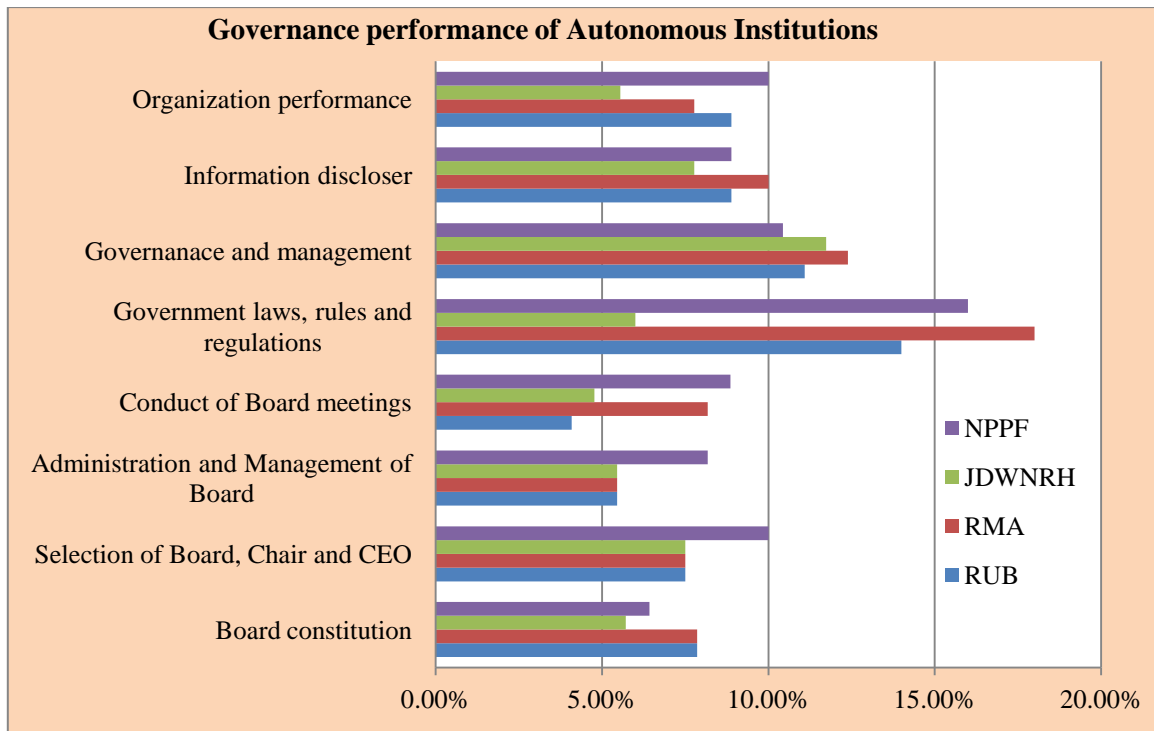
Table 2: Governance Assessment scores for Autonomous Institutions

Score Areas	Weight	Organization score					
		BoB	Post	STCB	RICB	Druk Air	PCAL
1. Board constitution	10%	5.00%	6.43%	7.86%	5.71%	7.86%	5.71%
2. Selection of Board, Chair and CEO	10%	7.50%	6.25%	8.75%	7.50%	7.50%	7.50%
3. Administration and Management of Board	10%	5.45%	4.55%	5.45%	7.27%	6.36%	5.45%
4. Conduct of Board meetings	15%	12.27%	11.59%	11.59%	15.00%	15.00%	14.32%
5. Government laws, rules and regulations	20%	20.00%	16.00%	16.00%	20.00%	18.00%	18.00%
6. Governance and management	15%	14.35%	12.39%	10.43%	13.04%	11.74%	10.43%
7. Information discloser	10%	8.89%	4.44%	8.89%	10.00%	6.67%	8.89%
8. Organization performance	10%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
Total score	100%	83.46%	71.65%	78.98%	88.53%	83.13%	80.31%

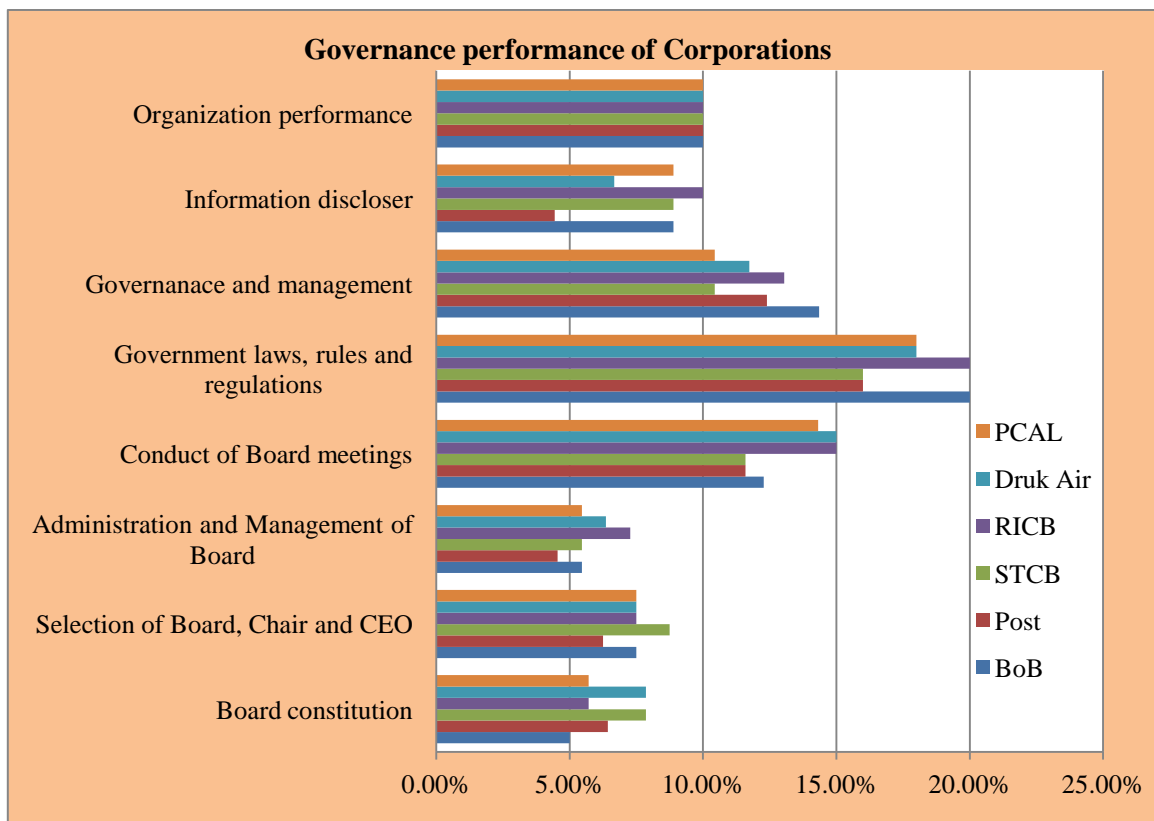
Table 3: Governance Assessment scores for Corporations

In the case of corporations, the overall governance is much better than those of autonomous institutions and some of the organizations have scored above 81% which is excellent. However, it doesn't mean that these corporations need not have to improve their governance systems but they also need to improve further in terms of board constitution, nomination and selection of board members, chairman and the CEO of the companies. It is also observed that

these companies also need to look into proper administration and management of the board members such as company secretary to coordinate between board and the company management, need of proper conduct of board meetings and proceedings and disclosure of information to stakeholders is also limited.

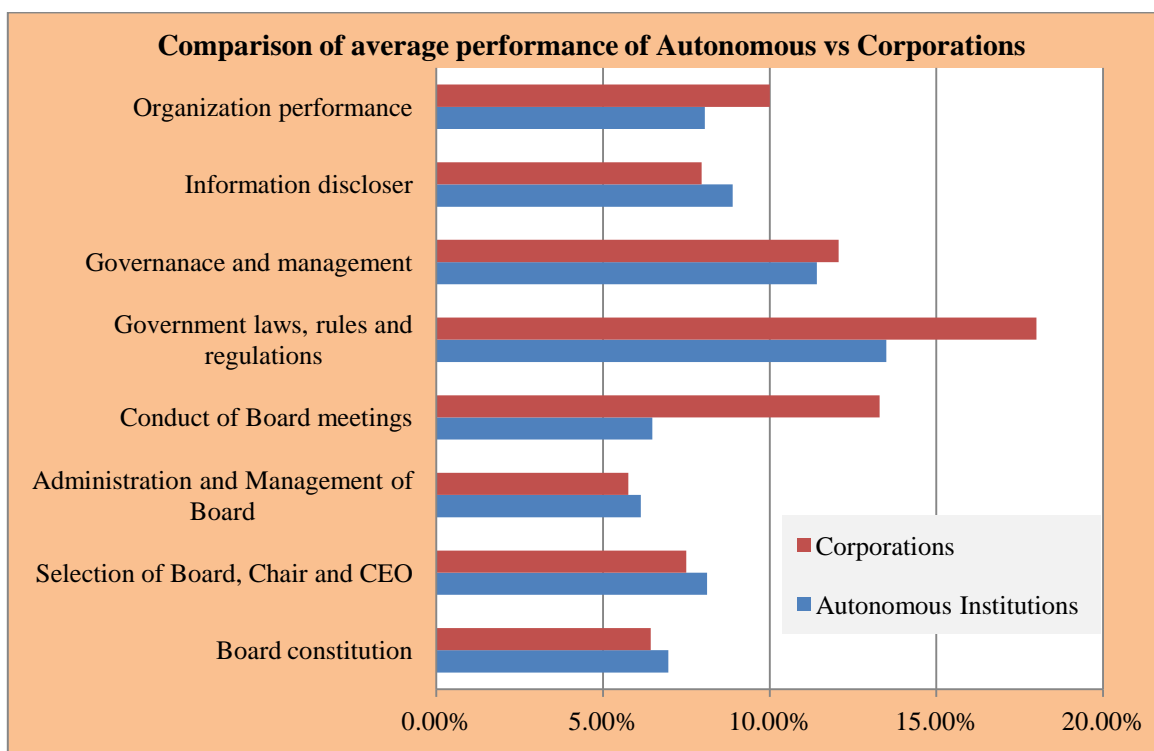


Graph 4: Governance of Autonomous Institutions



Graph 5: Governance of Public Corporations

NPPF and RMA are doing quite well compared to other autonomous institutions as shown in the graph 4 above. This is because these 2 institutions are the oldest among the autonomous institutions among the 4 and they have proper systems in place except in few areas. In the case of corporations, RICB scored the highest followed by BoB and Druk Air as indicated in the graph 5 above. This is because RICB has maximum public share and the shareholders has a stake in appointment and nomination of its board members including the chairman. The company also discloses required information to the public and it is easy to avail any information required by the public. It is followed by BoB and Druk Air since these companies are wholly owned by DHI and follows corporate governance rules and regulations as prescribed by DHI. The weakest among the corporations are Bhutan Post and STCB. This is because Bhutan Post is a SOE which has not much strong regulation from the MoF on governance and management while STCB has been recently segregated into public share holding from earlier DHI owned company which is on transition.



Graph 6: Governance of Autonomous Institutions & Corporations Comparison

When the governance of autonomous institutions and corporations are compared, there are strengths and weakness for both types of public institutions as follows:

- a) Corporations are better in terms of overall organizational performance, governance and management, governance rules and regulations and conduct of board meetings. This is because corporations are profit oriented and performance based and they have independent system, procedures and processes in place compared to autonomous institutions.
- b) Autonomous institutions are slightly better in terms of board constitution, selection and nomination of boards along with Head of the organization and information disclosure. This is because Government appointed and also depends on the nature of operation of these autonomous institutions.

Table 4: Governance Assessment of Autonomous Institutions

1.0	Board constitution	RUB	RMA	JDWNRH	NPPF
1.1	How many Executive Board members are there? (Above 6-3, 4-6-2, less than 4-1)	2	1	1	1
1.2	How many Non-executive Board members are there? (Above 2-2, 2 or less-1, None-0)	2	2	2	2
1.3	How many Board members are from the civil service? (All-2, 3 to 4-3, Less than 3-1)	2	3	2	2
1.4	How many Board members are from other sectors? (All-1, 2 to 3-3, Less than 3-2)	3	3	2	2
1.5	Are the Board member's qualifications relevant to the organization? (100%-3, 50-75%-2, less than 50%-1)	2	2	1	2
	Sub total	11	11	8	9
	Weighted score (total score divided by maximum possible score (14) then multiplied by weighting of 10%)	7.86%	7.86%	5.71%	6.43%
2.0	Board, Chair and Head of Institution selection procedure				
2.1	Who nominates the Board member? (Government-2, DHI-2, Others-1)	1	2	2	2
2.2	How are the Board members being selected? (Open competition-2, Competency based-2, Others-1)	1	1	1	2
2.3	How is the Chair being selected among the members? (Government/DHI-2, Majority vote-1, Others-0)	2	2	2	2
2.4	How is the Head of institute being selected? (Open competition-2, Internal arrangement-1, others-0)	2	1	1	2
	Sub total	6	6	6	8
	Weighted score (total score divided by maximum possible score (8) then multiplied by weighting of 10%)	7.50%	7.50%	7.50%	10.00%
3.0	Administration and management of Board				
3.1	What is the tenure of the Board? (3 to 4 years-3, 2-3 years-2, Less than 2-1)	2	2	2	2
3.2	What is the basis of extension of the Board member? (unavailability of competent member-3, Other reasons-2, own request-1)	2	2	2	2
3.3	What committees are being established within the Board? (above 3 committees-3, 2-3 committees-2, less than 2 committees-1)	2	2	2	3
3.4	Is there a Company Secretary to oversee the Board functions? (Yes-2, No-0)	0	0	0	2

	<i>Sub total</i>	6	6	6	9
	<i>Weighted score (total score divided by maximum possible score (11) then multiplied by weighting of 10%)</i>	5.45%	5.45%	5.45%	8.18%
4.0	Conduct of Board Meetings				
4.1	What is the average no. of Board meetings conducted in a year? (More than 4-3, 3 to 4-2, Less than 3-1)	2	3	2	3
4.2	What is the usual quorum of the Board meetings? (100%-3, Less than 75%-2, Less than 50%-1)	2	3	3	2
4.3	Do you conduct Annual General Meetings? (yes-2, No-0)	0	2	0	0
4.4	If so, when is it conducted and what are the usual agenda for such meetings? (Within May-2, May to June-1, After June-0)	0	0	0	0
4.5	During the Annual General Meeting, do you appoint auditors or joint auditors, out of the panel of auditors maintained by the Royal Audit Authority? (yes-2, No-0)	0	0	0	0
4.6	Is the annual balance sheet, profit & loss account and cash flow statements are duly audited annually? (Yes-2, No-0)	0	0	0	2
4.7	If so, are they laid along with the Director's report before the Annual General Meeting and a copy sent to the Registrar. (yes-2, No-0)	0	0	0	2
4.8	During the Annual General Meeting, if no auditors are appointed or re-appointed, then does the company give notice to the Ministry within seven days of the meeting, whereupon the Ministry in consultation with the Royal Audit Authority shall appoint the auditors and fix their remuneration. (yes-2, No-0)	0	0	0	0
4.9	Does the annual accounts being approved by the Board of Directors and being authenticated by not less than one director and the CEO/Head of the organization. (Yes-2, No-0)	0	2	0	2
4.10	Are the proceedings of every board meeting being maintained by making available within thirty days of the conclusion of such meetings with every page being initialled and signed at the last page? (Yes-2, No-0)	2	2	2	2
	<i>Sub total</i>	6	12	7	13
	<i>Weighted score (total score divided by maximum possible score (22) then multiplied by weighting of 15%)</i>	4.09%	8.18%	4.77%	8.86%
5.0	Governance Laws, Rules and Regulations				

5.1	Does your organization have a written code of corporate governance with the following: (yes-2, No-0)				
	a) Roles and responsibilities of Board members	2	2	2	2
	b) Roles and responsibilities of Board Committees	2	2	2	2
	c) Sitting fees and other applicable benefits to the board members	2	2	0	2
	d) Principles in dealing with conflict of interest	2	2	2	2
	e) Role, responsibilities, appointment and remuneration of external auditors	0	2	0	2
	f) Roles and responsibilities of internal auditors	0	2	0	2
	g) Provisions of information during annual general meetings	0	2	0	2
5.2	Does your organization have written code of conduct/ethics? (yes-2, No-0)	2	0	0	0
5.3	Can any of the employees report alleged irregularities or any other misconduct to the CEO/Head of organization and to the Chairman of the Board or to the regulatory without jeopardising their legal position? (yes-2, No-0)	2	2	0	2
5.4	Is there separate by-law regulating the procedures of the Board meeting and its decision making? (Yes-2, No-0)	2	2	0	0
	Sub total	14	18	6	16
	Weighted score (total score divided by maximum possible score (20) then multiplied by weighting of 20%)	14.00%	18.00%	6.00%	16.00%
6.0	Governance and Management				
6.1	Is there a clear written vision, mission and strategic plan of the organization to guide the board and the management? (Yes-2, No-0)	2	2	2	2
6.2	Is there performance appraisal of Board Members as well as the management team? (Yes-2, No-0)	0	2	2	2
6.3	What is the level of intervention from the regulatory bodies and others on the day-to-day activities of the organization? (Almost everytime-0, once in a while-2, Not at all-3)	3	3	2	2
6.4	What are the systems in place to address human resource and administration aspects of the organization? (yes-2, No-0)				
	a) Performance management system	2	2	2	2
	b) Service rules and regulations	2	2	2	2

	c) HRD master plan	2	2	2	0
	d) Succession planning	0	0	0	0
	e) Budget manual	2	0	2	0
	f) Financial rules and regulations	2	2	2	2
	g) Delegation of power	2	2	2	2
6.5	Is there a separate internal audit unit within the organization? (Yes-2, No-0)	0	2	0	2
	Sub total	17	19	18	16
	Weighted score (total score divided by maximum possible score (23) then multiplied by weighting of 15%)	11.09%	12.39%	11.74%	10.43%
7.0	Information discloser				
7.1	Does your organization share information on recruitment process over the web? (Yes-2, No-0)	2	2	2	2
7.2	Does your organization share information on tendering aspects over the web? (Yes-2, No-0)	2	2	2	2
7.3	Does your organization share annual reports over the web? (Yes-2, No-0)	2	2	0	2
7.4	Easiness of accessibility of organization information. (Not possible-0, somewhat possible-2, easily possible-3)	2	3	3	2
	Sub total	8	9	7	8
	Weighted score (total score divided by maximum possible score (9) then multiplied by weighting of 10%)	8.89%	10.00%	7.78%	8.89%
8.0	Organization Performance				
8.1	Can you please tell us the growth of the organization within the last 5 years in terms of size as well as in revenue including operational expenses? (Positive trend-3, constant-2, negative -1)	3	3	2	3
8.2	Can you tell us the growth of asset base of the organization within the last 5 years? (Positive trend-3, constant-2, negative -1)	3	2	2	3
8.3	What is the average rate of return on investment within the last 5 years? (Positive trend-3, constant-2, negative -1)	2	2	1	3
	Sub total	8	7	5	9
	Weighted score (total score divided by maximum possible score (9) then multiplied by weighting of 10%)	8.89%	7.78%	5.56%	10.00%
	Overall Score	67.77%	77.16%	54.51%	78.80%

Table 5: Corporate Governance Assessment of Corporations

1.0	Board constitution	BoB	Post	STCB	RICB	Druk Air	PCAL
1.1	How many Executive Board members are there? (Above 6-3, 4 to 6-2, less than 4-1)	1	1	1	1	1	1
1.2	How many Non-executive Board members are there? (Above 2-2, 2 or less-1, None-0)	2	2	2	2	2	2
1.3	How many Board members are from the civil service? (All-2, 3 to 4-3, Less than 3-1)	1	3	3	1	3	1
1.4	How many Board members are from other sectors? (All-1, 2 to 3-3, Less than 3-2)	1	2	3	3	3	3
1.5	Are the Board member's qualifications relevant to the organization? (100%-3, 50-75%-2, less than 50%-1)	2	1	2	1	2	1
	Sub total	7	9	11	8	11	8
	<i>Weighted score (total score divided by maximum possible score (14) then multiplied by weighting of 10%)</i>	5.00%	6.43%	7.86%	5.71%	7.86%	5.71%
2.0	Board, Chair and CEO selection procedure						
2.1	Who nominates the Board member? (Government-2, Shareholder-2, Others-1)	2	2	2	2	2	2
2.2	How are the Board members being selected? (Open competition-2, Competency based-2, Others-1)	1	1	1	1	1	1
2.3	How is the Chair being selected among the members? (Government/Shareholder-1, Majority vote-2, Others-0)	1	1	2	2	1	1
2.4	How is the CEO being selected? (Open competition-2, Internal arrangement-1, others-0)	2	1	2	1	2	2
	Sub total	6	5	7	6	6	6
	<i>Weighted score (total score divided by maximum possible score (8) then multiplied by weighting of 10%)</i>	7.50%	6.25%	8.75%	7.50%	7.50%	7.50%
3.0	Administration and management of Board						

3.1	What is the tenure of the Board? (3 to 4 years-3, 2-3 years-2, Less than 2-1)	2	2	2	3	2	2
3.2	What is the basis of extension of the Board member? (unavailability of competent member-3, Other reasons-2, own request-1)	2	2	2	2	2	2
3.3	What committees are being established within the Board? (above 3 committees-3, 2-3 committees-2, less than 2 committees-1)	2	1	2	3	3	2
3.4	Is there a Company Secretary to oversee the Board functions? (Yes-2, No-0)	0	0	0	0	0	0
	Sub total	6	5	6	8	7	6
	Weighted score (total score divided by maximum possible score (11) then multiplied by weighting of 10%)	5.45%	4.55%	5.45%	7.27%	6.36%	5.45%
4.0	Conduct of Board Meetings						
4.1	What is the average no. of Board meetings conducted in a year? (More than 4-3, 3 to 4-2, Less than 3-1)	2	3	3	3	3	2
4.2	What is the usual quorum of the Board meetings? (100%-3, Less than 75%-2, Less than 50%-1)	2	3	2	3	3	3
4.3	Do you conduct Annual General Meetings? (yes-2, No-0)	2	2	2	2	2	2
4.4	If so, when is it conducted and what are the usual agenda for such meetings? (Within May-2, May to June-1, After June-0)	2	1	2	2	2	2
4.5	During the Annual General Meeting, do you appoint auditors or joint auditors, out of the panel of auditors maintained by the Royal Audit Authority? (yes-2, No-0)	0	0	0	2	2	2
4.6	Is the annual balance sheet, profit & loss account and cash flow statements are duly audited annually? (Yes-2, No-0)	2	2	2	2	2	2

4.7	If so, are they laid along with the Director's report before the Annual General Meeting and a copy sent to the Registrar. (yes-2, No-0)	2	2	2	2	2	2
4.8	During the Annual General Meeting, if no auditors are appointed or re-appointed, then does the company give notice to the Ministry within seven days of the meeting, whereupon the Ministry in consultation with the Royal Audit Authority shall appoint the auditors and fix their remuneration. (yes-2, No-0)	2	0	0	2	2	2
4.9	Does the annual accounts being approved by the Board of Directors and being authenticated by not less than one director and the CEO/Head of the organization. (Yes-2, No-0)	2	2	2	2	2	2
4.10	Are the proceedings of every board meeting being maintained by making available within thirty days of the conclusion of such meetings with every page being initialled and signed at the last page? (Yes-2, No-0)	2	2	2	2	2	2
Sub total		18	17	17	22	22	21
Weighted score (total score divided by maximum possible score (22) then multiplied by weighting of 15%)		12.27%	11.59%	11.59%	15.00%	15.00%	14.32%
5.0 Governance Laws, Rules and Regulations							
5.1	Does your organization have a written code of corporate governance with the following: (yes-2, No-0)						
	a) Roles and responsibilities of Board members	2	2	2	2	2	2
	b) Roles and responsibilities of Board Committees	2	0	2	2	2	2
	c) Sitting fees and other applicable benefits to the board members	2	2	2	2	2	2
	d) Principles in dealing with conflict of interest	2	0	2	2	2	2

	e) Role, responsibilities, appointment and remuneration of external auditors	2	2	2	2	2	2
	f) Roles and responsibilities of internal auditors	2	2	0	2	0	0
	g) Provisions of information during annual general meetings	2	2	2	2	2	2
5.2	Does your organization have written code of conduct/ethics? (yes-2, No-0)	2	2	2	2	2	2
5.3	Can any of the employees report alleged irregularities or any other misconduct to the CEO/Head of organization and to the Chairman of the Board or to the regulatory without jeopardising their legal position? (yes-2, No-0)	2	2	2	2	2	2
5.4	Is there separate by-law regulating the procedures of the Board meeting and its decision making? (Yes-2, No-0)	2	2	0	2	2	2
Sub total		20	16	16	20	18	18
Weighted score (total score divided by maximum possible score (20) then multiplied by weighting of 20%)		20.00%	16.00%	16.00%	20.00%	18.00%	18.00%
6.0 Governance and Management							
6.1	Is there a clear written vision, mission and strategic plan of the organization to guide the board and the management? (Yes-2, No-0)	2	2	2	2	2	2
6.2	Is there performance appraisal of Board Members as well as the management team? (Yes-2, No-0)	2	2	2	2	2	2
6.3	What is the level of intervention from the regulatory bodies and others on the day-to-day activities of the organization? (Almost everytime-0, once in a while-2, Not at all-3)	2	3	2	0	2	2
6.4	What are the systems in place to address human resource and administration aspects of the organization? (yes-2, No-0)						

	a) Performance management system	2	2	2	2	2	0
	b) Service rules and regulations	2	2	2	2	2	2
	c) HRD master plan	2	0	0	2	0	0
	d) Succession planning	2	0	0	2	2	2
	e) Budget manual	2	2	2	2	2	2
	f) Financial rules and regulations	2	2	2	2	2	2
	g) Delegation of power	2	2	2	2	2	2
6.5	Is there a separate internal audit unit within the organization? (Yes-2, No-0)	2	2	0	2	0	0
	Sub total	22	19	16	20	18	16
	<i>Weighted score (total score divided by maximum possible score (23) then multiplied by weighting of 15%)</i>	14.35%	12.39%	10.43%	13.04%	11.74%	10.43%
7.0	Information discloser						
7.1	Does your organization share information on recruitment process over the web? (Yes-2, No-0)	2	2	2	2	2	2
7.2	Does your organization share information on tendering aspects over the web? (Yes-2, No-0)	2	0	2	2	2	2
7.3	Does your organization share annual reports over the web? (Yes-2, No-0)	2	0	2	2	0	2
7.4	Easiness of accessibility of organization information. (Not possible-0, somewhat possible-2, easily possible-3)	2	2	2	3	2	2
	Sub total	8	4	8	9	6	8
	<i>Weighted score (total score divided by maximum possible score (9) then multiplied by weighting of 10%)</i>	8.89%	4.44%	8.89%	10.00%	6.67%	8.89%
8.0	Organization Performance						
8.1	Can you please tell us the growth of the organization within the last 5 years in terms of size as well as in revenue including operational expenses? (Positive trend-3, constant-2, negative -1)	3	3	3	3	3	3

8.2	Can you tell us the growth of asset base of the organization within the last 5 years? (Positive trend-3, constant-2, negative -1)	3	3	3	3	3	3
8.3	What is the average rate of return on investment within the last 5 years? (Positive trend-3, constant-2, negative -1)	3	3	3	3	3	3
Sub total		9	9	9	9	9	9
Weighted score (total score divided by maximum possible score (9) then multiplied by weighting of 10%)		10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
Overall Score		78.01%	67.11%	73.52%	81.26%	76.76%	74.86%

9. Findings

The following are the findings of the study based on the above governance assessment carried out in 10 agencies and also from the literature review.

- a) The constitution of board member is quite similar for both autonomous and corporate institutions. Majority of the members are from the civil service with only the head of the institution as the executive member except in few cases such as RMA and RUB which has about 2-3 members from the executive level. The constitution of board members in the case of autonomous agencies is based on the executive order issued by the cabinet during the initial de-linking of agency from the RCSC.
- b) The board members are selected randomly and the shareholding agency such as MoF and DHI always has a seat on the board of directors of the companies for both SOE and DHI companies. It is also found that even though the communication falls under the general powers of the board, but in practice it is being delegated to the management.
- c) Other board members are usually senior civil servants, including ministers and CEOs of different companies. As per the Guidelines and Corporate Governance Codes, directors should be highly skilled, experienced and knowledgeable people with a balance of skills in areas such as commerce, finance, accounting, marketing, management and other relevant technical fields. In actual sense, board members are selected and nominated without looking into the relevancy of the candidate and there is always a spot for somebody from the specific agencies.
- d) The appointment and selection of board members, chairman and the head of the organizations are normally carried out by the government in the case of autonomous agencies and SOEs while it is the DHI in the case of DHI companies. Although CEOs in the corporations are being announced in the media but the rationality of selection and appointment are not known. Further there are no proper procedures and regulations in place for selection and appointment of board members, chairman and the head of the organizations in all the public institutions.
- e) There is no uniformity in the tenure of the board members among the public institutions and in most cases, the board members get re-appointed for the second or third term

without much reasonability of their extension. As per the best practice governance, board members and the head of the organizations should be either selected or appointed based on performance or open competition.

- f) According to the Companies Act, every company should have appointed company secretary to deal with the day-to-day functions of the organization with the board members and to the regulator. However, most companies including the DHI owned companies doesn't have company secretary which leads to in-organized conduct of board meetings and its proceedings.
- g) Although most of the corporations do declare the annual accounts dully verified by external auditors during the annual general meetings but in the case of autonomous agencies such accounts are not declared annually even though they do conduct annual meetings. While in some autonomous agencies, the annual meetings were not held and without the annual meetings, it would be impossible to see the progress of the past year and to plan for the New Year.
- h) During the Annual General Meeting, only few companies do appoint auditors or joint auditors, out of the panel of auditors maintained by the Royal Audit Authority. Similarly, if no auditors are appointed or re-appointed, then only few companies do give notice to the Ministry within seven days of the meeting, whereupon the Ministry in consultation with the Royal Audit Authority shall appoint the auditors and fix their remuneration. This is one of the requirements of the Companies Act.
- i) Almost all of the autonomous institutions and SOEs don't have governance guidelines or codes for proper functioning of the board and the executive management of the companies. Many observers have expressed their opinion that some of the board members of the companies do not understand many aspects of their role and the agendas being discussed during the board meetings.
- j) Most of the SOEs and autonomous institutions do not have human resource management practice policies, rules and regulations in place. They are still following the civil service HR policies, rules and regulations which are supposed to be replaced by their own policies as per the mandate and operation of the organizations.
- k) Succession planning is one of the main components of HRD plan which needs to be adopted by any organization because without the succession planning, there will be gaps existing in the critical positions for the governance and management of the organizations. However almost all the organizations both autonomous and corporations do lack succession planning in their every daily operations of the company.
- l) Almost all the organizations are facing intermittent interventions from the regulatory bodies on their day-to-day functioning of the organization. This is there because of the nature of the functions of the organizations as well as organizations being owned by either the Government through MoF for the autonomous and SOEs or the DHI in the case of DHI companies.
- m) Only few companies have established internal auditors in the organization while most are dependent on the auditing conducted by either RAA or the external auditors. These auditors (RAA or external auditors) conduct auditing of the company once in a year and that too are being performed on the basis of financial performance and not on the system or process due to duration constraint of auditing.
- n) Some of the DHI companies as well as the SOEs board are weak in terms of carrying out the board responsibilities and to take independent decisions. In the present scenario,

Board members make only minor decisions and most of the agendas are forwarded to either the parent regulatory authority or the DHI. Such type of board decision makes employees wander about the appropriate actions to be taken for urgent matters and has adverse implication to the company.

- o) As per the accountability and performance of the decision making body of the corporations and autonomous institutions, there should be proper system of performance evaluation of the executive management and the Board. However, such systems are not being practiced in some of the organizations and it is not known how the Board members are being re-appointed and management executives are promoted to higher positions.
- p) On the aspects of capacity building and training, some of the organizations are providing adequate training facilities to the employees either through own funding arrangements or from external assistance. However, in most cases, the trainings are obtained by some employees including top executives most frequently without looking into the relevancy of the trainings.
- q) As per the Companies Act, the board has been given broad powers to do all such acts and things, as the company is authorized to exercise and do. The act specifies that this includes major financial decisions and investment. However the act also gives the board broad powers of delegation but in actual practice, the CEO develops the company's strategy, which then is discussed and approved by the board.
- r) Stakeholders or any public have limited access to company or institute information but the information can be requested directly from the company, but may not receive what is requested in complete. Therefore researchers and journalist land up with limited information to inform the general public and also to carry out market studies or system improvement studies.

10. Recommendations

The assessment of governance practices in public institutions carried out above and based on the findings, following are some of the recommendations provided to improve the overall governance system in the organizations.

- a) In most of the companies and autonomous institutions, the chairman and majority of the board members are from the civil service. So there is no room for the private sector or the companies to participate in the board level decision making body. In fact, the composition of the board should be from diverse fields of professionals as per the functions and operation of the companies. So consideration should be given to broadening the composition of boards to include individuals from the private sector with specific industry expertise relevant to the company and who would be able to provide valuable input in the formulation of the company's strategy. In accordance with the recommendations of the GG +, it is also imperative that ministers no longer serve as board members to avoid conflict of interest. As a general principle, boards should be composed of the best people available to carry out the job, regardless of whether they come from the private or public sector, and if they are affiliated with a particular Ministry.
- b) The constitution of autonomous agency board members are based on the executive order issued by the cabinet/government during the initial de-link from the RCSC. However it doesn't mean that the agency has to follow the same executive order throughout the operation but need to come up its own regulation or guideline based on the executive order. So all the autonomous agencies including some of the corporations need to develop

their own governance regulation and get approved from the regulatory authority before implementation.

- c) Almost all the companies and agencies board members are appointed either by the government or the regulatory authority such as MoF and DHI. The procedures that are being followed for the selection of board members, chairman and the CEO of the company are always unknown. So there should be proper systems in place to systemically carry out nomination, selection and appointment of board members, chairman and the CEO/head of the agency.
- d) Autonomous institutions and corporations have different pattern of board composition including their tenure. The number of board members varies from 5 to 10 members in corporations to 20 members in autonomous institutions. This indicates that there is no uniformity in the constitution and composition of board members for both corporations and autonomous agencies. So it would be appropriate if there is uniformity in the composition and constitution of board members such as equal representation and number of board members for both the autonomous agencies and corporations. There should be also a system in place on what should be the criteria for re-appointment or extension of terms of board members, chairman and the CEO/head of the organization.
- e) In order to streamline the board meetings and other activities of board as well as the executive management of the agencies, there is need of a company secretary in all the corporations as highlighted in the Companies Act and may be executive secretary in the case of autonomous agencies who will be responsible for all matters related to board and the executive management. Such an arrangement will smoothen the agency level meetings and also in keeping the proper records of minutes of the meetings and to follow up on the action taken reports.
- f) Almost all the corporations declare their annual accounts to the public but few of them including autonomous agencies do keep it as confidential and are not available for public view. This shows that these agencies are not transparent as other organizations but it is difficult to ascertain the conclusion on transparency because even those agencies which do declare their annual accounts may be also weak in transparency. So all the public agencies must have to make a point to declare their annual accounts as well as other information to the general public. It is also observed that some agencies does not conduct annual meetings, so it should be made compulsory to conduct annual meetings whether profit or non-profit agencies so as to discuss on their past year experience, achievements and to make plans for the New Year.
- g) As per the requirement of the Companies Act, companies need to appoint auditors or joint auditors out of the panel of auditors maintained by the Royal Audit Authority to conduct audit of their annual accounts during the Annual General Meeting. However, such practices are missing for almost all the agencies although the annual accounts are being conducted by external auditors. So it is not known how such auditors are being appointed including their fixation of the remuneration. This will lead to appointment of same external auditors repeatedly. So it is necessary for all the agencies to appoint external auditors through proper selection process and also to make sure such auditors conducts their functions as required in the governance process.
- h) All the corporations and autonomous agencies need to institute proper governance system in place to guide the board members, chairman and the executive management of the agencies. The governance guideline or regulation should clearly spell out roles and responsibilities of the board, chairman and the executive members along with clear

nomination, selection and appointment process. Further board members should be fully aware of their roles and responsibilities, functions of the organization and their representation in all the meetings and to the external agencies.

- i) It is also observed that most of the SOEs and autonomous institutions including few corporations do not have policies, rules and regulations in place. They are still following the civil service policies, rules and regulations which are supposed to be replaced by their own policies as per the mandate and operation of the organization. So all the agencies need to develop proper HR master plan, HR rules and regulations, budget manual, financial rules and regulations, inventory management manual, procurement manual and other systemic processes needs to be instituted.
- j) Most of the organizations are facing intermittent interventions from the regulatory bodies on their day-to-day functions. This type of intervention will have adverse impact on the concerned organizations as well as its employees and will ultimately affect progress and performance of the organizations. So as a regulatory body or the shareholder, they should be more concerned on the overall functions and progress of the organizations rather than nitty-gritty of the organizations and focus should be on improving the service delivery.
- k) Most of the agencies are dependent on RAA auditing instead of having their own internal audits to carry out their own check and balance before the things turn into embezzlement cases as seen in few corporations. It is also found that external auditors/RAA's focus is on financial aspects that too into certain areas only since their task are time bound. So it is important that all the public institutions need to set up internal audits and also introduce system or process auditing. Such types of auditing will ensure that the agencies are in line with the regulatory compliance requirements and are following the rules and regulations.
- l) The roles and responsibilities of the board, executive management, chairman, head of the organization and the committees should be clearly spelt out in all the agencies so that the decisions made are in accordance to the mandates of the agencies and to bring about strategic directions to the agencies concerned. Further there should be performance management system for all levels of decision makers from chairman to the executive management of the agencies, so that there is no room for manipulation but everything is based on performance.
- m) Human resource management in SOEs or DHI Companies should be based on the merit principle of appointing the best person for any given job. This should be conducted through transparent, publicly understood, and merit-based recruitment and promotion policies which will have positive influence on the performance and motivation of its employees.
- n) Providing high levels of transparency to the public constitutes a basic principle of good corporate governance practice. In this aspect, RAA is the only apex body to audit the systems and processes of the SOEs and autonomous institutions in the country. Compared to autonomous institutions, SOEs have better internal control and measures in place. In these line, steps should be taken to improve disclosure of information at the enterprise level, including establishment of an internal audit function in all SOEs and autonomous agencies so that there is proper check and balance from within the institution as well as from outside by RAA/external auditors.
- o) Every company and autonomous institutions should publish annual reports and should be shared over the media especially on the agency website for public view. The annual reports should provide information on the state ownership policy, the role and organization of the ownership function within the state administration, an overview of the

evolution of the state-owned sector and the actions taken by the state during the period, aggregate financial information, as well as individual reporting on the most significant aspects and reporting on changes in agency's boards.

11. Conclusion

The public institution governance assessment was carried out for 6 corporations and 4 autonomous institutions to understand the overall governance practices in these organizations on the basis of international norms on governance practices. The assessment was carried out as per the OECD principles of Governance and the governance assessment checklist developed by PricewaterhouseCoopers (PwC) and Forum for Corporate Governance in Indonesia (FCGI) combined with other literatures available related to governance practices in Bhutan.

As per the assessment, it is found that governance practices in corporations are better than those of autonomous agencies which are still linked with RCSC and also agencies which are well established are better than those at the infant stage. Although as compared to the studies conducted in the past by World Bank, the governance practices have generally improved but still there is room for further development. The concept of good governance is still nascent to some companies and much assistance would be needed to inculcate a culture of good governance practices. The low scores in some of the specific items of governance assessment were attributed due to a lack of understanding of how to apply and report good governance practices. At the same time, many companies have good corporate governance practices but still few improvements are required in the specific areas especially on the part of selection, nomination and appointment of top executives and the board. There is also need to institute proper systems and policies in place to streamline the governance practices such as governance rules and regulations, strategic planning, human resource rules and regulations, succession planning and HR master plans among others.

It should be emphasized that corporate governance improvements will not be achieved without a strong tone from the board of directors. Companies vary in the extent of corporate governance culture and practices, and will require a specific agenda to ensure a sustainable corporate governance improvement plan. Improving corporate governance then should be supported by the regulators and other stakeholders, especially institutional investors, intermediaries and the media. The Government and the public institutions should support universities and other researchers to take the lead in development and creating importance of good governance practices.

12. Acronyms

ACC	Anti-Corruption Commission
ADB	Asian Development Bank
BoB	Bank of Bhutan Limited
BTI	Bhutan Transparency Initiative
CEO	Chief Executive Officer
CG	Corporate Governance
DHI	Druk Holding and Investment
FCGI	Forum for Corporate Governance in Indonesia
GG	Good Governance
HR	Human Resource
HRD	Human Resource Development
JDWNRH	Jigme Dorji Wangchuk National Referral Hospital
MoEA	Ministry of Economic Affairs
MoF	Ministry of Finance
NPPF	National Pension and Provident Fund
OECD	
PCAL	Penden Cement Authority Limited
PwC	PricewaterhouseCoopers
RAA	Royal Audit Authority
RCSC	Royal Civil Service Commission
RGoB	Royal Government of Bhutan
RICB	Royal Insurance Corporation of Bhutan Limited
RMA	Royal Monetary Authority
RSEB	Royal Securities Exchange of Bhutan
RUB	Royal University of Bhutan
SOE	State Owned Enterprises
STCB	State Trading Corporation of Bhutan Limited

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14. Annexure

Annexure 1: List of Officials interviewed and consulted for the study

List of Officials interviewed and consulted for the study			
Sl.No.	Name	Designation	Agency
1	Mr. Karma Wangdi	CEO	Bhutan Post
2	Mrs. Sonam Wangmo	MD's Office	Bhutan Post
3	Mr. Tashi Phuntsho	Head, HRD	Bhutan Post
4	Mrs. Tshering Choki	Company Secretary	Bhutan Post
5	Mr. Tandi Wangchuk	CEO	Druk Air
6	Mr. Tenzin Dorji	MD's Office	Druk Air
7	Mr. Namgyel Wangchuk	Company Secretary	Druk Air
8	Mr. Nidup Dorji	Vice Chancellor	Royal University of Bhutan
9	Mrs. Wangchuk Dema	Vice Chancellor Office	Royal University of Bhutan
10	Mr. Gajel Lhundup	Registrar	Royal University of Bhutan
11	Mr. Dungtu Dorji	CEO	National Pension and Provident Fund
12	Mr. Karma Wangchuk	Company Secretary	National Pension and Provident Fund
13	Dasho Penjore	Governor	Royal Monetary Authority
14	Mr. Karma	PA to Governor	Royal Monetary Authority
15	Mrs. Kezang Lhaden	Deputy Governor Office	Royal Monetary Authority
16	Mr. Lhap Dorji	President	Jigme Dorji Wangchuk National Referral Hospital
17	Mrs. Choki Dema	President's Office	Jigme Dorji Wangchuk National Referral Hospital
18	Mr. Pema Dorji	Administration	Jigme Dorji Wangchuk National Referral Hospital
19	Mr. Sonam Dorji	Executive Director	Royal Insurance Corporation of Bhutan
20	Mr. Tshewang Jigme	Administration	Royal Insurance Corporation of Bhutan
21	Mr. Pema N Nadik	CEO	Bhutan of Bhutan
22	Mr. Dorji Kadin	Corporate Strategy	Bhutan of Bhutan
23	Ms. Yeshey Seldon	CEO	State Trading Corporation of Bhutan
24	Mr. Lobzang Tenzin	Dy. General Manager	State Trading Corporation of Bhutan
25	Mr. Kayzang Tshering	CEO	Penden Cement Authority
26	Mr. Jigme Dorji	Dy. General Manager	Penden Cement Authority

Annexure 2: Composition of Board of Directors

Composition of Board of Directors			
A. CORPORATIONS			
1. Bhutan of Bhutan Limited (DHI Company)			
SI	Board Members	Agency & Designation	Membership
1	Dasho Sangay Khandu	Chairman, DHI	Chairman
2	Mr. Sangay Wangdi	Managing Director, BBPL	Member
3	Mrs. Tashi Pem	Director, RCSC	Member
4	Mr. Passang Dorji	Director, Dept. of Investment, DHI	Member
5	Mr. Swaminattan Janakiraman	General Manager, SBI, India	Member
6	Mr. Tara Nidni Chimorya	Chief Budget Officer, Dept of National Budget, Ministry of Finance	Member
7	Mr. Pema N. Nadik	CEO, BoB	Member Secretary
2. Bhutan of Postal Corporation Limited (SOE)			
SI	Board Members	Agency & Designation	Membership
1	Dasho Karma Wangchuk Penjor	Secretary, MoIC	Chairman
2	Mr. Passang Dorji	Executive Secretary, Thimphu Thromde	Member
3	Mr. Chime Dorji	Chief Trade Officer, MoEA	Member
4	Mr. Norbu Dendup	Chief Program Officer, MoF	Member
5	Mr. Karma Wangdi	CEO, Bhutan Postal Corporation	Member Secretary
3. Druk Air Corporation Limited (DHI Company)			
SI	Board Members	Agency & Designation	Membership
1	Dasho Sangay Khandu	Chairman, DHI	Chairman
2	Mr. Choiten Wangchuk	DG, Dept. of Public Accounts, MoF	Member
3	Mr. Dorji Tshering	Director, Dept. of Labour, MoLHR	Member
4	Mr. Karma Tshering		Member
5	Mr. Pema Chewang	CEO, Bhutan Postal Corporation	Member Secretary
6	Mr. Passang Dorji	Director, Dept. of Investment, DHI	
7	Mr. Tandi Wangchuk	CEO, Druk Air	Member Secretary
4. State Trading Corporation of Bhutan Limited (DHI Company)			
SI	Board Members	Agency & Designation	Membership
1	Dr. Ugyen Dopu	Secretary, Ministry of Health	Chairman
2	Dasho Rinchen Dorji	Managing Director, RSA Pvt. Ltd	Member
3	Mr. Sonam Dorji	Executive Director, RICBL	Member

4	Ms. Tandin Pem	Tax Collector, Dept. of Revenue and Customs	Member
5	Mr. Tandin Tshering	Director, Dept. of Trade	Member
6	Ms. Leki Wangmo	Senior Analyst, DHI	Member
7	Ms. Yeshey Seldon	CEO, STCBL	Member Secretary
5. Penden Cement Authority Limited (DHI Linked)			
Sl	Board Members	Agency & Designation	Membership
1	Mr. Sonam Wangchuk	Secretary, MoLHR	Chairman
2	Mr. Thinlay Tobgay	Brigadier, RBG	Member
3	Mr. Karma Weezir	DG, Dept. of Culture, MoHCA	Member
4	Mr. Pema Gyeltshen	Tensum Lopen, Central Monastic Body	Member
5	Mr. Phub Dorji		Member
6	Mr. Thinley Wangchuk Dorji	CEO, BTCL	Member
7	Mr. Yonten Tharchen	Secretary General, Taekondo Federation	Member
8	Mrs. Leki Wangmo	Director, Investment, NPPF	Member
9	Mr. Dorji Nima	Senior Analyst, Corporate Performance Department, DHI	Member
10	Mr. Kayzang Tshering	CEO, PCAL	Member Secretary
6. Royal Insurance Corporation of Bhutan Limited (DHI Linked)			
Sl	Board Members	Agency & Designation	Membership
1	Dasho Tobgyel Dorji	Managing Director, Bhutan Ferro Alloys Limited	Chairman
2	Dasho Thinley Dorji	Royal Privy Council	Member
3	Mr. Tshenchok Thinley	Managing Director, Tashi Tours & Treks	Member
4	Mr. Sangay Tenzin		Member
5	Mr. Phub Dorji	Proprietor, Utpal Academy	Member
6	Mrs. Tshering Lham	Asst. Manager, Investment, NPPF	Member
7	Mr. Namgyal Lhendup	CEO, RICB	Member Secretary
B. AUTONOMOUS AGENCIES			
1. Royal Monetary Authority (RMA)			
Sl	Board Members	Agency & Designation	Membership
1	Dasho Penjore Dorji	Governor, Royal Monetary Authority	Chairman
2	Mr. Lam Dorji	Secretary, Ministry of Finance	Dy. Chairman
3	Mr. Sonam Wangchuk	Secretary, GNHC	Member
4	Mr. Phub Dorji	Head, Research, HM Secretariat	Member

5	Mr. Sonam Tenzin	Director, Consumer Protection, MoEA	Member
6	Mr. Phajo Dorji	Dy.Governor, RMA	Member
7	Mrs. Eden Dema	Dy.Governor, RMA	Member Secretary
2. National Pension and Provident Fund			
Sl	Board Members	Agency & Designation	Membership
1	Aum Sangay Zam	Secretary, Ministry of Education	Chairman
2	Dasho Karma Tshiteem	Chairman, RCSC	Member
3	Mr. Pema Wangda	Secretary, MoLHR	Member
4	Mr. Kinzang Wangdi	Lt. Colonel, RBA	Member
5	Mr. Pema R. Rinchen	HM Secretariat	Member
6	Mr. Phuntsho Wangdi	Secretary, MoWHS	Member
7	Mr. Choiten Wangchuk	DG, Dept of Public Accounts, MoF	Member
8	Mr. Lobzang Dorji	Director, Cabinet Secretariat	Member
9	Mr. Dungtu Drukpa	CEO, NPPF	Member Secretary
3. Jigme Dorji Wangchuk National Referral Hospital			
Sl	Board Members	Agency & Designation	Membership
1	Hon'ble Tandin Wangchuk	Minister, Ministry of Health	Chairman
2	Dr. Dorji Wangchuk	Secretary, Ministry of Health	Member
3	Mr. Kinlay Dorji	Thrompon, Thimphu Thromde	Member
4	Dr. K.P.Tshering	President, KGUMSB	Member
5	Dr. Ugyen Dophu	DG, Dept. of Medical Services, MoH	Member
6	Mr. Thinley Namgyel	Director, GNHC	Member
7	Dr. Dendup Tshering	DG, Dept. of Public Health, MoH	Member
8	Aum Phub Zam	President, BCCI	Member
9	Mr. Nim Dorji	Joint Secretary, MoF	Member
10	Mr. Lhap Dorji	President, JDWNRH	Member Secretary
4. Royal University of Bhutan			
Sl	Board Members	Agency & Designation	Membership
1	Hon'ble Damchoe Dorji	Minister, Ministry of Foreign Affairs	Chairman
2	Dr. Dorji Wangchuk	Secretary, Ministry of Education	Member
3	Mr. Kinlay Dorji	Secretary, Ministry of Labour & Human Resources	Member
4	Dr. Phuntsho Namgyel	Independent	Member
5		Chief Research Officer, National Library	Member
6	Mr. Namgyel Lhendup	CEO RICBL	Member
7	Mr. Phub Tshering	General Secretary, BCCI	Member
8	Mrs. Chimi P. Wangdi	General Secretary, Tarayana	Member

9	Mrs. Damcho Dem	President, BAoWE	Member
10	Mr. Phuntshok C. Tshering	Honorary Consul, Netherlands	Member
11	Mr. Pema Gyeltshen	Secretary General, Zhung Dratshang	Member
12	Mr. Nidup Dorji	Vice Chancellor, RUB	Member
13		Pro Vice Chancellor, RUB	Member
14		Pro Vice Chancellor, RUB	Member
15		Student Representative	Member
16	Mr. Bak Bir Rai	Principal, Shari HSS	Member
17	Dr. Karma Phuntsho	President, Loden Foundation	Member
18		DG, Dept of Traditional Medicine	Member
19	Mr. Lhato Jamba	DG, Gedu Collage of Business Studies	Member
20	Mr. Gajel Lhendup	Registrar, RUB	Member Secretary