

**ECONOMIC DEVELOPMENT POLICY  
OF  
THE KINGDOM OF BHUTAN, 2010**



**ROYAL GOVERNMENT OF BHUTAN**

## Table of Contents

<b>1. Introduction</b>	<b>1</b>
<b>2. Overview of the Economy</b>	<b>3</b>
2.1 Growth Performance	3
2.2 Changing Structure of the Economy	3
2.3 Public Finance	4
2.4 Economic Reforms	4
2.5 Positive Attitude	4
<b>3. Vision</b>	<b>5</b>
<b>4. Purpose</b>	<b>5</b>
<b>5. a. Objectives</b>	<b>5</b>
<b>5. b. Strategies</b>	<b>5</b>
<b>6. Economic Opportunities</b>	<b>6</b>
6.1 Brand Bhutan	6
6.2 Areas of Economic Opportunities	7
6.2.1 High Quality Green Services	7
6.2.2 Agro and Forest based production	7
6.2.3 Energy	7
6.2.4 Information and Cultural Industry	7
6.2.5 Natural Resources	7
6.2.6 Transportation and Related Services	8
6.2.7 Construction	8
6.2.8 Other Manufacturing	8
<b>7. Policy Reforms</b>	<b>9</b>
7.1 General:	9
7.2 Energy	10
7.3 Industry	12
7.4 Trade	13
7.4.b Exports	15
7.4.c Re-exports:	15
7.4.d Imports:	15
7.4.e Rules of Origin:	16
7.5 Tourism	16
7.6 Mining and Quarrying	18
7.7 Construction	19

<b>7.8 Education</b>	<b>21</b>
<b>7.9 Health</b>	<b>22</b>
<b>7.10 ICT</b>	<b>23</b>
<b>7.11 Agriculture and Biodiversity</b>	<b>24</b>
<b>7.12 Financial services:</b>	<b>25</b>
<b>7.13 Transport services</b>	<b>27</b>
<b>7.14 Water based industries</b>	<b>28</b>
<b>8. Review of the Regulatory Framework</b>	<b>29</b>
<b>8.1 Cross Sectoral Licensing</b>	<b>29</b>
<b>9. Incentives</b>	<b>30</b>
<b>9.1 General Incentives:</b>	<b>30</b>
9.2.1 Cottage and Small Industries (CSI)	31
9.3.1 Energy	32
9.3.2 Agriculture:	32
9.3.3 ICT:	33
9.3.4 Tourism	33
9.3.5 Mining and Quarrying	35
9.3.6 Film and Media:	35
9.3.7 Trade	35
9.3.8 Construction	35
9.3.9 Employment	35
9.3.10 Education Service	36
9.3.11 Health Service	36
9.3.12 Foreign Exchange	36
9.3.13 Waste Management Services	37
9.3.14 Transport Services	38
<b>10. The Way Ahead</b>	<b>39</b>

## Abbreviations

BAFRA: Bhutan Agriculture & Food Regulatory Authority  
BICMA: Bhutan Information and Communications Monitoring Authority  
BIT: Business Income Tax  
BLSS: Bhutan Living Standard Survey  
BOLT: Build Operate Lease and Transfer  
BOOT: Build Own Operate and Transfer  
BOT: Build Operate and Transfer  
CBD: Convention on Bio-Diversity  
CDB: Construction Development Board  
CDC: Construction Development Corp.  
CDM: Clean Development Mechanism  
CIT: Corporate Income tax  
CSI: Cottage & Small Industries  
DoR: Department of Roads  
DYTs: Dzongkhag Yargye Tshokchung  
FDI: Foreign Direct Investment  
GDGF: Gross Domestic Capital Formation  
GDP: Gross Domestic Product  
GDPfc: GDP at factor cost  
GDS: Gross Domestic Savings  
GYTs: Gewog Yargye Tshokchung  
HCR: Head Count Ratio  
HDI: Human Development Index  
HRD: Human Resource Development  
HV: High Voltage  
ICOR: Incremental Capital Output Ratio  
ICT: Information and Communication Technology  
IPR: Intellectual Property Rights  
ISP: Internet Service Provider

GDR: Global Depository Receipts  
FCB: Foreign Currency Bonds  
IT: Information Technology  
LC: Letter of Credit  
LDCs: Least Developed Countries  
LV: Low Voltage  
MDG: Millennium Development Goals  
MNC: Multi National Corporation  
MoEA: Ministry of Economic Affairs  
MoWHS: Ministry of Works & Human Settlements  
MSMEs: Micro, Small and Medium Enterprises  
MV: Medium Voltage  
NEC: National Environment Commission  
NRDCL: Natural Resources Development Corporation Limited.  
PIT: Personal Income Tax  
PPP: Public Private Partnership  
R&D: Research and Development  
RGOB: Royal Government of Bhutan  
RE: Rural Electrification  
RMA: Royal Monetary Authority of Bhutan  
SAFTA: South Asian Free trade Association  
SEZs: Special Economic Zones  
SMEs: Small and Medium Enterprises  
TAR: Trans Asian Railways  
TCB: Tourism Council of Bhutan  
TRIPS: Trade Related Intellectual Property Rights  
USP: Unique Selling Proposition  
KPO: Knowledge Processing Outsource  
BPO: Business Processing Outsource  
SQCA: Standard Quality and Control Authority

## 1. Introduction

In the last 50 years of planned socio-economic development, the country has progressed from the traditional stage to the precondition for economic take off. Various macroeconomic and human development indicators have improved significantly since 1980. In the first six years of the present century, the country has experienced a sharp acceleration in average annual growth rate of real GDP to 7.9% from 5.9% in the 1990s. In 2008, the country's per capita income was US\$ 2152<sup>1</sup>.

Planned development has brought about significant structural changes in the economy moving away from the primary sector towards secondary and tertiary sectors. The rapid growth and consequent structural changes have been driven by the public sector through hydropower projects and financial support from donors flowing through the government. The occupational structure of the economy has not shifted in a manner consistent with the changes in the sectoral composition of GDP and is a disturbing trend reflecting jobless growth.

Bhutan's economic development policy continues to be guided by the overarching philosophy of Gross National Happiness based on the four pillars of sustainable economic development; preservation and promotion of culture and tradition; conservation of environment; and good governance.

However, sustainable economic growth continues to remain a major challenge. The economic growth is largely financed by external aid. The fiscal deficit is high, balance of payment situation is weak, public debt is mounting, and foreign exchange reserves are difficult to sustain as it is not built through exports. In addition, the other constraints are:

- 1) Small domestic market.
- 2) Inadequate infrastructure.
- 3) High transportation cost.
- 4) Difficult access to finance.
- 5) Inconsistent policies.
- 6) Lack of management skills.
- 7) Shortage of professionals.
- 8) Low productivity of labour.
- 9) Absence of R&D capability.
- 10) Access to land

The Policy recognizes that unless these constraints are systematically removed, the capacity of the private sector as the engine of growth cannot be enhanced. In this context, the Policy aims at creating an enabling environment for investment.

Despite the challenges, the country does have some very clear competitive advantages, which needs to be harnessed. These are:

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<sup>1</sup> National Accounts Statistics 2009, National Statistical Bureau, Bhutan.

- 1) Political stability.
- 2) Peace and security.
- 3) A vibrant and living culture.
- 4) Natural and pristine environment.
- 5) Geo-economic location and open access to the emerging Indian market.
- 6) Reliable and competitively priced energy.
- 7) Nation of GNH.
- 8) Wide use of English language.

These advantages can be classified as the country's USP, one that builds on and will become Brand Bhutan. Once developed, Brand Bhutan will be promoted as a standard for goods and services that ensure "GNH" elements are maintained such as being clean, culturally sensitive and supportive, organic, community based etc.

Bhutan's geographical location provides another source of competitive advantage, landlocked as it is between the two fastest growing economies of the world, in particular the proximity and open access to the large Indian market.

The Economic Development Policy sets the agenda and the general direction for the development of sectors that have the highest potential. This Policy departs from the usual sector/agency based approach. It is a document prepared in consultation with a wide range of stakeholders from private to government and its success depends on an integrated and wholesome involvement of all the stakeholders. To accelerate economic growth, a clear, stable and transparent policy framework is necessary. The document also includes a comprehensive set of incentive packages to boost growth.

The Royal Government shall work towards achieving a minimum economic growth rate of 9% annually and strive to be a middle-income nation by 2020.

## 2. Overview of the Economy

### 2.1 Growth Performance

The economy has taken off to a higher growth trajectory since 1980 and has registered a long-term average annual real growth rate of 7.6% in the 26 years after 1980. The average annual growth rate in the 1980s was 7.4%, which de-accelerated to 5.9% in the 1990s, but accelerated again to 7.9% in the first six years of the present decade.

The biggest impetus to the economic growth is still provided by foreign aid and large-scale hydropower projects. Real GDP growth increased to 21.4% in 2007 as compared to 8.5% in 2006 mainly on account of the commissioning of the Tala Hydroelectric Project. The small base of the national economy also makes it possible for a single large industrial activity to boost growth substantially. Out of the 21.4% growth, the electricity sub-sector alone accounted for 17.2% points.

### 2.2 Changing Structure of the Economy

Table 1 examines the structural changes in terms of sector-wise contribution to GDP. The changes reflect that the economy has modernized as the share of the secondary and tertiary sectors in the GDP has increased.

<b>Year</b>	<b>Primary Sector</b>	<b>Secondary Sector</b>	<b>Tertiary Sector</b>
1980	55.9	12.2	31.9
1990	44.6	23.3	32.1
2000	33.5	33.3	33.2
2007	20.6	43.3	37.1
2008	21.2	39.1	39.7

Annual Report 2007/08, RMA for 1980, 1990, 2000 figures.

National Accounts Statistics 2000-2008 for 2007 and 2008 figures.

Table 2 provides an insight into the changes in the composition of different sub-sectors of GDP. In 2008, the 1) Electricity, Gas and Water 2) Construction 3) Transport, Storage and Communications 4) Finance, Insurance and Real Estate and 5) agriculture were the top five contributors to GDP aside from Community and Social Services.

<b>Table 2: Share of Sub-Sectors in Real GDP (%)</b>						
<b>Year</b>	<b>1980</b>	<b>1990</b>	<b>2000</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Agriculture proper	27.8	15.4	12.7	9.9	8.9	9.1
Livestock	12.5	10.6	7.4	6.5	5.2	5.5
Forestry & Logging	15.5	9.62	6.6	5.9	4.7	4.4
Wholesale and Retail Trade	10.9	4.66	4.5	5.9	5.1	5.0
Transport, Storage & Communications	4.3	6.62	9.1	10.3	9.1	9.9
Community, Social Services	10.8	16.8	14.3	12.4	10.8	11.0
Finance, Insurance & Real Estate	6.3	8.73	7.1	8.6	8.1	9.3
Mining & Quarrying	0.6	0.86	1.6	2.2	1.8	2.3
Manufacturing	3.2	7.71	8.2	7.8	8.2	8.5
Electricity, Water & Gas	0.2	8.66	11.4	10.7	20.4	19.1
Construction	7.9	8.42	14.0	15.2	13.7	11.5
Hotels & Restaurants*		0.18	0.45	0.8	0.7	5.0

National Accounts Statistics 1990-2004, 2000- 2008, NSB,  
 Royal Monetary Authority Annual Report 2007/08  
 \*Included in wholesale & retail trade for 1980.

## 2.3 Public Finance

The state of public finance<sup>2</sup> is a matter of serious concern as public expenditure has been rising faster than revenue and external resources are bridging the gap. Public expenditure constituted about 39% of GDP in 2008-09. Social services received about 24% of total public expenditure. The major portion (53.9%) of the revenue was generated as non-tax revenue. The tax base is limited by the low taxable capacity of the majority of population as reflected by the very low share (2.8%) of personal income tax in the total tax revenue. Corporate income tax contributed 16.7% of tax revenue. Public debt is rising and in 2008-09, total debt was about 60% of GDP.

## 2.4 Economic Reforms

The Economic Development Policy encompasses major economic reforms including the restructuring of the macroeconomic base which will include hydropower, service industry, organic farming and IT enabled knowledge society. The specific areas include finance, FDI, trade, industry, agriculture, transport, education, health, tourism, public sector and other legislative initiatives.

## 2.5 Positive Attitude

Economic reforms lead not only to tangible benefits but also in changing the attitudes and work ethics of a society. Therefore, the Policy will seek to bring about a change in the attitude of the people. The promotion of a rational and scientific temperament, dignity of

<sup>2</sup> Ministry of Finance.

labour, spirit of adventure, entrepreneurship, creativity and innovation with ethics and hard work are attitudes that are essential for the success of a market based economy. Policy makers and implementing agencies must lead by example and be oriented towards problem solving and service delivery.

Social transformation must accompany any industrial advancement that seeks to be just, merit based, progressive and inclusive.

### **3. Vision**

To promote a green and self reliant economy sustained by an IT enabled knowledge society guided by the philosophy of GNH.

### **4. Purpose**

The Economic Development Policy shall be the apex policy for economic development of the country and shall be the guiding document for all ministries and agencies to stimulate the economy growth and more importantly, to ensure that growth takes place in consonance with the principles of GNH. This Policy provides the basis for government intervention to enhance productivity of the economy as a whole. Wherever necessary, policies, laws, rules and regulations shall be harmonised or amended in line with the provisions of the Economic Development Policy.

The time line to achieve the goals of this Policy shall be 2020 and will be subject to periodic review.

### **5. a. Objectives**

5.1 Achieve economic self-reliance by the year 2020.

5.2 Full employment (97.5%).

### **5. b. Strategies:**

1. Diversify the economic base with minimal ecological footprint.
2. Harness and add value to natural resources in a sustainable manner.
3. Increase and diversify exports.
4. Promote Bhutan as an organic brand.
5. Promote industries that build the Brand Bhutan image.
6. Reduce dependency on fossil fuel especially in respect to transportation.

The economic development process shall take into account environment mainstreaming in a phased manner that allows for industries to grow as well as engage in cleaner production. The Royal Government shall also provide incentives for the promotion of green technology, micro-hydro projects, solar, wind, biomass and energy efficiency and conservation programmes. The success of the country's environment conservation efforts shall be one of the main drivers for developing the "Brand Bhutan" theme. Protection of biodiversity, genetic

resources and promotion of indigenous knowledge shall be pursued.

## **6. Economic Opportunities**

A broad range of economic opportunities have been identified and these will be based on developing the “Brand Bhutan” in natural resources, tourism, culture, handicrafts, textiles and agro produce. The other opportunities lie in building on the existing comparative advantages of location, natural resource endowment and availability of clean energy. The promotion of “Brand Bhutan” will be based on its USP.

### **6.1 Brand Bhutan**

Bhutan is known as a nation that accords the highest priority to environmental conservation, a nation whose constitution requires that at least 60% of the land area is maintained under forest cover for all times to come, a nation that has brought about a paradigm shift in development theory by introducing the unique concept of GNH, a nation where tradition and culture still play an important role in the daily lives of the people. These will form the basis for Brand Bhutan and every effort will be made to maintain this uniqueness.

Brand Bhutan will not only be confined to the quality of the product but also reflect the values of Bhutanese society, history and GNH philosophy. Brand Bhutan will promote and support initiatives that lead to the betterment of society. To succeed, Brand Bhutan will communicate the unique values of Bhutan and how the development philosophy of GNH affects the way these products are produced and delivered. Besides offering philosophical justifications, the products will adhere to the highest quality standards as well as have functional value for buyers.

Brand Bhutan will be sold through the story of Bhutan. This brand will be an umbrella brand under which there will be sector brands to assist exporters in achieving the targets and getting due recognition. The sector brands will be supported to consistently meet standards, marketing and sales promotion and all these will be linked to enhancement of the quality of human resources in the country.

Industrial products will have to comply with the highest manufacturing standards, services with the best standards that exist for hospitality, textile and handicrafts will be promoted through the Bhutan SEAL and agro based products through fair trade and organic certification.

Promotion of Brand Bhutan shall address both the supply side and demand side and to do so will mean drawing on the resources that the country has to offer while incorporating the preferences and taste of the consumers overseas. This for instance would mean that the brightness of our textiles get sublimed in the sober colours that the affluent Western markets prefer or our paintings maintain the same details of the past but are subtle in colour.

The world knows about Bhutan but this does not mean it will buy Bhutan; Brand Bhutan must create the demand for brands that consumers recognise and want to buy.

## **6.2 Areas of Economic Opportunities**

Based on Bhutan's USP the following shall be treated as priority growth areas: -

### **6.2.1 High Quality Green Services**

- a. High end education
- b. High-end health services and traditional medicines.
- c. ICT (BPOs, KPOs, Data centres, etc)
- d. Tourism and hospitality with emphasis on high value low impact
- e. Financial services
- f. R&D and consultancy services

### **6.2.2 Agro and Forest based production**

- a. Organic farming
- b. Agro-processing
- c. Biotechnology including pharmaceutical, nutraceuticals, traditional and herbal medicines
- d. Forest based products
- e. Poultry
- f. Fisheries
- g. Floriculture
- h. Health food
- i. Animal feed
- j. Apiculture
- k. Horticulture
- l. Dairy

### **6.2.3 Energy**

- a. Hydro electricity
- b. Solar and wind energy
- c. Other sources of renewable energy

### **6.2.4 Information and Cultural Industry**

- a. Film and media including animation
- b. Handicrafts
- c. Textiles
- d. Fine art including the performing arts
- e. Publishing
- f. Festivals, spiritual centres, etc

### **6.2.5 Natural Resources**

- a. Select mineral-based products
- b. Water-based products

### **6.2.6 Transportation and Related Services**

- a. Green and non fossil fuel based modes of transportation
- b. Mass transportation
- c. Railways, ropeways and cable cars

### **6.2.7 Construction**

- a. Mechanization
- b. Green technology

### **6.2.8 Other Manufacturing**

- a. Electronics
- b. Electricals
- c. Computer hardware
- d. Building materials
- e. Power intensive industries

### **6.2.9 Waste Management Services**

The areas identified above are those that have the highest potential to generate wealth, employment and sustainable growth within the framework of GNH. Therefore, these will be the areas that will receive encouragement and support from the Royal Government. However, it does not mean that these will be the only areas that the country can develop. Both the Royal Government and the private sector shall continue to identify other opportunities.

The southern region shall be promoted as the main economic hub for trade, transport, storage and manufacturing through creation of industrial estates, dry ports and SEZs. In the interior, focus will be on the promotion of services, cultural and high value products.

## 7. Policy Reforms

### 7.1 General:

Creating an enabling environment for businesses is a cross cutting issue and the Royal Government shall ensure that:

- 7.1.1 A comprehensive land use policy with clear zoning for industrial, tourism, environment conservation, prime agriculture land for agricultural and horticultural use shall be developed by 2011.
- 7.1.2 Businesses classified under cottage and small (services only) categories shall not be required to obtain a licence to start operations as long as the activity is not classified as prohibited. The business must register itself with the Regional Trade and Industry Office within 30 days from start of business activity.
- 7.1.3 For all other industries, approval or denial of the project shall be communicated within a maximum of 45 days from the date of submission of required documents. The different government agencies responsible for providing sector clearances shall agree on a maximum time limit for providing the clearances. Thereafter, if the licensing authority does not receive consent/denial within the stipulated time from concerned agencies, the principle of 'silence is consent' shall be applied for final approval by the licensing authority. One stop shop shall be introduced through the use of IT among government agencies responsible for providing clearances. The Ministry/Agency that is responsible for issuing the final approval/licence shall be the only point of contact for the applicant.
- 7.1.4 The burden of compliance shall be reduced by eliminating unnecessary and overlapping approvals and submission of documents by end 2010.
- 7.1.5 A clear and comprehensive framework for approval of industrial projects is developed by 2010 and the same shall be binding on all approving authorities.
- 7.1.6 The frequency of inspection of business establishments shall be based on violations; business entities that violate rules shall be inspected with higher frequency; those that comply, inspection shall be reduced to once or twice a year and those in violation but have reformed shall be inspected with less frequency to reward good behaviour and compliance.
- 7.1.7 The Royal Government shall initiate, promote and support research and development.
- 7.1.8 While FDI is encouraged to augment productive capacity, the Royal Government shall, through policy options, impose performance requirements on investors to upgrade domestic skills, value addition and technology.
- 7.1.9 The Royal Government shall pursue corporatization of its entities where feasible

and also outsource/privatise such functions which can be delivered more efficiently and economically by private entrepreneurs. Where necessary statutory bodies shall be established for effective regulation so as to facilitate efficient and timely delivery of services.

- 7.1.10 Embassies and missions abroad shall be strengthened to play a more active role in economic diplomacy, multilateral and bilateral trading arrangements.
- 7.1.11 The Royal Government shall develop an appropriate policy framework to allow public private partnership in infrastructure projects such as airports, roads, bridges, housing, power projects, telecommunications, industrial estates etc. The framework shall provide adequate security for private sector investment and at the same time ensure that adequate checks and balances are maintained through transparency, competition and regulation. The PPP may be in the form of BOOT, BOLT, BOT or any other relevant method. The concerned sectors shall develop the framework including the concession period.
- 7.1.12 A coherent and comprehensive policy shall be formulated for the recognition and protection of intellectual property rights by 2011. The policy shall take into account all economic and social sectors. The focus of such a policy shall be to support and protect innovation and creativity in the country. Laws, institutions and mechanisms for the implementation of the intellectual property policy shall be adopted and strengthened.
- 7.1.13 The Royal Government shall actively promote Foreign Direct Investment. In that respect, the FDI Policy shall be revised by the first quarter of 2010.
- 7.1.14 FDI Policy shall make provisions to allow investments in existing companies.
- 7.1.15 In view of the need to encourage economic growth, fiscal incentives shall be provided to promote priority growth areas. Such incentives shall be well targeted to ensure the objectives of increasing employment and revenue growth are achieved.
- 7.1.16 In order to promote confidence to investors, the Royal Government may consider acceding to relevant international/UN conventions on dispute settlement.
- 7.1.17 As provided in the Land Act 2007, businesses shall be allowed to register land in the name of the company. In case of FDI, this will enable the local investors/promoters to put land as equity component.

## **7.2 Energy**

Energy is the greatest opportunity for the country and the main driver of the economy. The availability of fast flowing rivers and the abundance of sunshine, biomass, wind etc. offer tremendous opportunities for hydropower and renewable energy development, particularly in light of concerns on global climate change. Most importantly, investing more in harnessing renewable and sustainable energy, especially hydropower energy would not only

boost sustainable and equitable socio-economic development, it would also help in our efforts to conserve environment. The energy policy shall be aimed at accelerating the growth in the sector.

- 7.2.1 The Royal Government shall strive to provide electricity to all households by the year 2013.
- 7.2.2 Essential public institutions and services shall receive highest priority for supply of electricity.
- 7.2.3 The development of hydropower shall be accelerated by promoting construction of projects and inter-linking of transmission grids to ensure energy security and reliability. The Royal Government shall strive to achieve a minimum power generation of 10,000 MW by 2020.
- 7.2.4 Hydropower projects shall be developed in line with the Bhutan Sustainable Hydro Power Policy 2008.
- 7.2.5 The Royal Government shall continue to meet the growing domestic energy requirements while taking advantage of export opportunities. It will ensure national energy security through capacity allocation, development of storage hydroelectric projects, and through development of solar, wind and other renewable energy sources. The Royal Government shall also encourage R&D in respect of energy storage technology.
- 7.2.6 Industries shall be permitted to develop hydropower plants as captive power sources for their industrial consumption under a separate Captive Power Generation Policy.
- 7.2.7 A System Operator shall be designated and established during the 10<sup>th</sup> Plan to coordinate and regulate power system operation and outages and manage/monitor export/import of power in an optimal manner for overall reliability and security of electricity supply system of the nation.
- 7.2.8 The tariff policy shall gradually remove subsidies from high voltage (HV) by 2011. Since the intention of the RGOB is to promote micro, small and medium industries, subsidies for medium voltage (MV) industrial consumers shall continue till 2020.
- 7.2.9 Recognising hydropower as a national resource, it shall be provided at affordable rates to reduce non-renewable energy use. The generating companies shall provide 15% of the total power generation as free “royalty energy” from medium, large and mega power generating companies to the Royal Government. This allocation of free power shall be treated as subsidy for use by low voltage domestic consumers and other consumers as deemed fit by the Royal Government from time to time. In the event the royalty energy is priced for domestic consumption, such revenue shall be deposited to the Royal Government. Further, revenue from any excess power from the royalty energy which is exported shall be deposited to the Royal Government as revenue after deducting any costs such as wheeling charges and transmission costs.

Part of the royalty shall also be used as plough back through the budget mechanism to conserve the catchment area, support renewable energy initiatives and also to meet any other charges that may be imposed on hydropower plants as payment for environmental services.

- 7.2.10 While hydropower development shall be one of the main thrust of the government; an integrated approach shall be pursued to meet different energy needs in the most efficient manner. A National Renewable Energy Policy shall be adopted within the 10<sup>th</sup> Five Year Plan.
- 7.2.11 In fulfilling its pledge to remain carbon neutral at all times, the Royal Government shall encourage development of hydropower and other renewable energy projects through the CDM and other future international mechanisms/frameworks on climate change to the extent possible. The country shall co-operate with interested parties in the reduction of greenhouse gases to mitigate climate change by actively participating in the development of environmentally benign renewable energy initiatives.
- 7.2.12 Energy efficiency and conservation measures shall be promoted for sustainable supply and end use. The Royal Government shall encourage general improvements in the energy performance standards of buildings for lighting, heating, ventilation and insulation levels through the introduction of building codes.

### **7.3 Industry**

A strategic plan for industrial development will allow the nation to clearly set the path for the desired industrial outcome. The availability of competitively priced energy will be the initial drivers for industry. Industries shall be encouraged to move up the industrial value chain over the long-term.

- 7.3.1 The Royal Government shall enact an Industries and Investments Act and a Foreign Investment Promotion Act within the 10<sup>th</sup> Plan.
- 7.3.2 The Royal Government shall promote CSI to generate employment, support equitable distribution of income and bring about balanced regional development. The CSI Policy shall be developed within two years of the establishment of the Department of CSI. Special focus on women's enterprises shall be given within the CSI industries development framework.
- 7.3.3 A region specific resource inventory shall be created so as to identify the areas of opportunities for CSIs in different parts of the country. Inventory of natural resources in the country shall be undertaken.
- 7.3.4 Growing opportunities for CSI mainly arise from ancillarisation and subcontracting/outsourcing. Such linkages are also vital for technological and managerial up-gradation of CSI. The Royal Government shall take the initiative to bring CSIs and large players together for creation of such linkages.

- 7.3.5 Investment in R & D shall be encouraged and incentivized. The institution of IPR registration system shall be strengthened to allow the inventors to commercially benefit from creating new knowledge.
- 7.3.6 The Royal Government shall establish public sector projects in those areas where the private sector is unable to invest, manage or implement. The Royal Government shall divest non-strategic projects over a period of time.
- 7.3.7 Designated areas shall be identified and developed for establishment of industries. Location of industries in all areas outside the designated industrial areas shall be allowed based on the land use plan and/or environmental clearance.
- 7.3.8 Industries shall be developed with a cluster approach in order to benefit from the close geographical proximity among industries that are linked by commonalities and complementarities and also with a view to target the tourism sector.
- 7.3.9 Special Economic Zones shall be created to encourage manufacturing and exports. The Royal Government shall frame the policy and rules and regulations on SEZs by 2010/11.
- 7.3.10 To ensure industrial product quality, the Royal Government shall undertake intermittent testing of industrial products.
- 7.3.11 The Royal Government shall assist industries to obtain their product certification from a recognised accredited body (in the region or other countries) through the SQCA or any other certification bodies in the country.
- 7.3.12 Energy intensive industries shall be promoted to build the foundation for industry. Such industries that add value to domestic mineral resources shall be given priority.
- 7.3.13 All industries must strictly abide by environmental laws and those industries that maintain higher environment standards than legislated, shall be provided additional incentives.
- 7.3.14 Industrial estates will be declassified from the restricted areas list.
- 7.3.15 Industrial estates may be built through PPP model.
- 7.3.16 All industries must strictly comply with the Waste Prevention and Management Act 2009.

## **7.4 Trade**

Trade is an essential part of the economy and has great potential to create employment. The policy on trade shall focus on creating an enabling environment for more robust trade. This will encompass simplifying administrative procedures and deregulating activities wherever

feasible. The Royal Government shall facilitate trade between Bhutan and all countries.

- 7.4.1.1 The successful implementation of the Economic Development Policy would lead to growth in the trade sector both at the import and export fronts. This will invariably require improvement in domestic laws, rules and regulations that would boost investor confidence.
- 7.4.2 The Royal Government shall ensure the establishment of a sound distribution system in the country through a network of dealers/wholesalers and retailers with priority accorded towards ensuring the flow and availability of essential commodities and goods in all parts of the country.
- 7.4.3 The Royal Government shall enact a Consumer Protection Act by 2010 and the Competition Act within the 10<sup>th</sup> Plan.
- 7.4.4 The Royal Government shall develop the required policy framework that will encompass anti-dumping measures, anti-subsidies and safeguards legislations.
- 7.4.5 The Royal Government shall negotiate mutual recognition agreements and conformity assessment procedures with trading partners.
- 7.4.6 The Royal Government shall secure transit rights for traffic in transit to facilitate international trade. Transport agreements with neighbouring countries to avoid transshipment at the border shall be negotiated.
- 7.4.7 The Royal Government shall establish dry ports and warehousing facilities at all export points in Bhutan. To this end, the Royal Government shall connect the export points with railways.
- 7.4.8 Efforts shall be made to harmonize customs documentation, procedures and formalities through bilateral and regional initiatives.
- 7.4.9 The Royal Government shall create an enabling environment benchmarked to international best practices. A Trade Development Act shall be enacted within the 10<sup>th</sup> Plan to promote trade. Reforms in administrative and licensing procedures shall also be pursued.
- 7.4.10 The development of integrated cross border trade facilities such as dry ports, pre-shipment custom clearance facility, computerized security checks and quarantine facilities shall be pursued.
- 7.4.11 Wholesale centres importing goods directly from manufacturers shall be established at all border towns.

#### **7.4.a: Market Access Strategy and Economic Relations**

The Royal Government shall secure and maintain market access for exports through trading

arrangements at bilateral, regional and multilateral levels. While free trade arrangements are preferred, varying degrees of preferences shall be negotiated with different countries.

#### **7.4.b Exports**

The Royal Government shall use all tools of export and market promotion, including diplomacy, market studies, market information, branding, advertisements, product launches, trade fairs, expositions and trade missions to assist the private sector to establish markets for their products.

Nation branding by leveraging the positive attributes of the country shall be a key instrument harnessed for creating Brand Bhutan in export markets.

- a) Any individual or firm with a valid business license shall be allowed to undertake exports; no separate export license shall be required for goods allowed for exports.
- b) Establish a seal to promote Brand Bhutan products manufactured in the country to enable tourists to identify genuine Bhutanese handicraft of quality from those being imported.
- c) An export promotion strategy shall be developed.

#### **7.4.c Re-exports:**

- a) To promote the country as a trading nation, re-exports shall be allowed within existing agreements. When re-exported without any value addition, the Royal Government shall retain a percentage of the foreign currency earned.
- b) Trading of goods for international markets without physically entering the country shall be allowed with appropriate documentation and provided they are routed through banking channels

#### **7.4.d Imports:**

- a) Imports shall be regulated by the Rules and Procedures for Imports in place or as amended from time to time.
- b) The Royal Government shall continue the liberalization of the import regime through rationalization/reduction of tariffs, elimination of non-tariff barriers and non-tariff measures where necessary.
- c) Trading and distribution of Liquefied Petroleum Gas (LPG), kerosene and other petroleum products shall be regulated as long as the products remain controlled items in India.
- d) While restrictions on plant and equipment including vehicles that do not meet the environmental standards will continue to apply, additional restrictions and

regulations shall be framed on the importation of goods that result in pollution and non biodegradable waste generation. Such items shall include packaging materials among others.

#### **7.4.e Rules of Origin:**

- a) The rules of origin are normally applied to goods imported under preferential tariffs. For availing tariff concessions, rules of origin agreed under a specific agreement shall be applied.
- b) Industries shall fulfil the requirements stipulated in the respective agreements to be granted certificate of origin.

### **7.5 Tourism**

The Tourism Policy shall continue to be guided by the principle of ‘high value low impact’. As an important growth sector, the Royal Government will seek to encourage and promote tourism throughout the country all year round and it shall also be used as a means to diversify rural economy. Establishment and promotion of new markets shall be a priority. The volume will be determined by the absorptive capacity of the country in terms of infrastructure, culture, security and environment.

- 7.5.1 The Royal Government may provide and facilitate creation of adequate funds for promotion and development of tourism. In particular, the tourism policy must support equitable distribution of tourism benefits.
- 7.5.2 The Royal Government shall create an enabling environment and develop institutional framework to promote tourism.
- 7.5.3 TCB shall be created as a statutory body.
- 7.5.4 The Royal Government shall create conditions to allow more competition, improvement of services, greater choices for visitors and equitable spread of benefits.
- 7.5.5 Sustainable tourism shall be promoted for socio-economic development by minimizing negative impacts and taking advantage of the country’s unique cultural and spiritual heritage as well as natural environment through high value tourism.
- 7.5.6 The Royal Government shall continue to encourage and support the tourism industry to promote the country as a high-end exclusive tourism destination. In this regard, marketing efforts will be intensified including opening of tourism offices as required.
- 7.5.7 The Royal Government shall broaden opportunities and participation in the tourism sector in order to expand its regional coverage, ensure broader participation and make the sector inclusive.

- 7.5.8 Regulations shall be strengthened and incentives shall be provided to improve all facilities and services to progressively reach the highest standards.
- 7.5.9 The Royal Government shall diversify tourism products having comparative advantage and with special emphasis on nature based activities including wellness tourism, MICE, spiritual and promotion of Bhutan as a Buddhist circuit destination.
- 7.5.10 The Royal Government shall ensure product diversification activities that would contribute to:
- a. The development of the country's cultural and natural heritage products in line with the 'high value, low impact' policy.
  - b. A more equitable and balanced development focussing on tourism deficient areas.
  - c. Establishment of new tourism clusters with appropriate services and activities.
  - d. Spreading the benefits to a larger proportion of the population through the creation of forward and backward linkages and diversification of livelihood opportunities especially for contribution to rural economy.
  - e. Promotion of local cuisine, art and crafts and traditional medicine.
  - f. Promotion and conservation of natural and cultural heritage.
- 7.5.11 Areas that have tourism potential including protected areas shall be identified and developed nationwide.
- 7.5.12 Domestic tourism shall also be encouraged for sustainable tourism development.
- 7.5.13 Exit/entry points through Phuentsholing, Gelephu and Samdrupjongkhar shall be developed and made customer friendly. Air connectivity shall also be extended and regional airstrips developed.
- 7.5.14 Tourism and hospitality services training institution shall be created to impart relevant courses of international standard through the development of appropriate curriculum.
- 7.5.15 The HTMTI shall be established as a regional centre for excellence in tourism while encouraging private sector initiatives in offering skill development opportunities/facilities.
- 7.5.16 Expatriates shall be allowed to work in key positions in the hospitality sector.

- 7.5.17 Issuance of tourist visa/permit shall be simplified to reduce administrative burden.
- 7.5.18 Promotion of rural tourism shall be a priority and avenues shall be explored including community based tourism.
- 7.5.19 Appropriate infrastructure and recreational facilities such as parks, theme based attractions and accommodation facilities shall be developed to promote domestic tourism.
- 7.5.20 Production of films and other audiovisual material in the country shall be promoted.
- 7.5.21 A Tourism Act shall be considered a priority legislation and shall be in place by 2011 as a legal instrument to guide the overall tourism development in the country.
- 7.5.22 In order to improve the accommodation standards and services for foreign tourists in the country, a hotel classification system with emphasis on green features shall be implemented by 2010.

## **7.6 Mining and Quarrying**

Minerals are valuable natural resources but are finite and non-renewable. Accordingly, Bhutan's policies on mining and quarrying consider inter-generational equity. This is important since minerals constitute vital raw materials for the mineral based manufacturing industries and are a major resource for economic development of a country. The management of mineral resources has to be closely integrated with the overall strategy for development and long-term national goals. Only about 33% of the country has been geologically mapped and prospected in 1:50,000 scale. There is potential for further discovery of minerals in the unexplored parts of the country. From the past exploration it has been found that the country is endowed with rocks, industrial minerals like limestone, dolomite, gypsum, quartzite, graphite, talc etc and metallic minerals like tungsten, lead-zinc and copper.

Non-renewable resources will be used in a sustainable manner to diversify the economy while at the same time ensuring due environmental considerations. This sector will form an important part of the supply chain to industries and the construction sector by providing a consistent source of raw materials. The Policy shall facilitate the mining sector to overcome the challenges of essential resource constraints, environmental degradation and low value addition.

- 7.6.1 A Mineral Development Policy shall be in place by 2010 to allow a selective and cautious exploitation of minerals for industrial purpose and manage the non-renewable mineral resources with consideration for inter-generational equity, maximise returns, ensure transparent and equitable allocation and access to mineral wealth and prevent undue damage on the ecology and environment.
- 7.6.2 Priority allotment of captive mines for raw material shall be provided to manufacturing industries that add substantial value to the resource on selective basis as may be established. While the Royal Government shall emphasize and prioritise value addition

of minerals before export, it shall allow the export of minerals in raw form for large-scale mines already auctioned within the limits of time as may have been agreed upon in the existing agreements after they fulfil domestic requirements. This will not apply to such materials as boulders, stone chips and sand for construction use.

- 7.6.3 Mineral based industries shall be permitted on evidence of substantial value addition and availability of raw materials.
- 7.6.4 The Royal Government shall encourage and promote participation from broader sections of the society in mining and trading of any mineral products so as to enable equitable distribution of income from mineral resource exploitation.
- 7.6.5 The Royal Government shall levy lower royalty for in-country value addition and higher for raw material export where permitted. The Mineral Development Policy shall specify the levels of value addition.
- 7.6.6 The Royal Government shall accord financial support towards completing the geological mapping of the country. PPP model for exploration shall be allowed.
- 7.6.7 Raw material requirement of the construction industry shall be provided high priority.
- 7.6.8 Permit for collection of sand and stone from riverbeds shall normally be accorded to NRDCL only. However, in places where NRDCL is not operating, permit to private parties shall be provided on a year by year basis, subject to strict environmental evaluation and monitoring.
- 7.6.9 After an approval for the grant of a mining lease, a development period of a maximum of one year shall be provided to a mine to carry out development and investment activities prior to the execution of the lease agreement.
- 7.6.10 The initial lease period for minerals shall differ from mineral to mineral subject to a maximum of 30 years. The lease period is detailed in the MMMR.

## **7.7 Construction**

Construction is a major economic activity. In 2008 it contributed about 11.5%<sup>3</sup> to the real GDP but created employment for only 3% of the labour force. There are 1,938 contractors in four defined categories holding about 7000 licenses for separate construction work. With as many as 10 hydropower projects slated to be constructed within the next 10 years, over 2000 kms of road to be built, electricity to be provided for all within the 10<sup>th</sup> Plan and planned improvement of urban infrastructure, the construction industry will see increased opportunities.

The lack of capital, technical knowhow and management skills, has prevented a greater level of participation by our contractors in the hydropower projects. The construction sector needs

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<sup>3</sup> Royal Monetary Annual Report 2007/2008

to enhance its technical capacity and also consolidate so that it is large enough and able to produce principal contractors in five to ten years to take part in hydropower construction. The construction companies need to gear up to meet these challenges and opportunities. Given its potential, it shall be the policy of the Royal Government to link the development of the hydropower projects and the construction industry in a planned manner. However, the sector faces many challenges that need to be addressed. The construction industry has two government bodies- CDB dealing with regulation and promotion of the industry while the CDC is mainly involved in hiring plant and equipment. In order to boost the industry, the following actions shall be undertaken:

- 7.7.1 Promotion of corporate social responsibility.
  - 7.7.2 Contractors shall be encouraged to specialize in specific areas of construction namely road, tunnelling, dams, bridges, buildings etc.
  - 7.7.3 The Ministry of Labour and Human Resource, Ministry of Economic Affairs and Ministry of Works and Human Settlement in collaboration with the Construction Association of Bhutan shall develop a strategic plan for capacity building of the construction industry. This plan shall also include recommendations on participation of Bhutanese contractors in construction of hydropower projects. Such a plan shall be in place by 2010.
  - 7.7.4 Mechanisation of the construction industry shall be promoted and made mandatory. Towards this end, approaches to award of public works that foster specialisation shall be introduced and promoted such as design and build, build and maintain etc.
  - 7.7.5 The large contractors shall support the development of ancillary companies specializing in such areas as electric wiring, tiling, wood processing, plumbing and fitting, ceiling, flooring, insulation installation, landscaping, architecture etc.
  - 7.7.6 In view of limited capacity in the country and opportunity offered by the hydropower projects, the CDCL shall be upgraded to a full construction company with the required management and engineering capabilities with long-term vision of also bidding for projects in the region. It shall be a publicly listed company.
  - 7.7.7 Barriers to entry to join higher classification of contractors by having to follow the gradual rise from the lowest classification shall be removed by allowing any contractor /construction company to join the higher grades as long as they fulfil the conditions of machinery and human resource to be classified. Furthermore, classification of large (“A” class) contractors shall be undertaken to link the skills and machinery for the job being implemented.
- I. Large (‘A’ class) contractors shall be provided specialized grading for the following categories:
- House (residential/office/shopping complex/airport) construction

- Road construction
- Bridge construction
- Dams and tunnelling

II. It shall be mandatory for the large contractors ('A' Class) to have all the machinery required to complete the work in an efficient manner using minimum labour. The list of equipment and human resource requirements (HRD plan and status) to be classified as a large ('A' Class) contractor shall be published from time to time by the relevant agency. (In addition, there may be pre conditions for certain projects on these aspects.)

7.7.8 Regular inspections shall be made to ensure the use of mechanisation and automation.

7.7.9 The qualification and experience of technical personnel of construction companies shall be given due consideration during the time of bid evaluation.

7.7.10 The Royal Government shall encourage FDI in construction activities.

7.7.11 Construction quality standards shall be benchmarked to the best regional standards and shall include green features.

7.7.12 Establishment and promotion of construction service centres through the VTIs.

7.7.13 MoLHR shall develop an apprenticeship programme for on the job training to be mandatorily implemented by the construction companies.

## **7.8 Education**

Skills and knowledge are the driving forces of economic and social development. Education in the fields of maths and sciences shall be the priority. The country's pristine natural environment, political stability and peaceful social environment are some of the advantages that can make the country a major player in attracting educational clientele from around the world. The economic boom in the region is increasing the spending power on high quality education. This could be a significant source for foreign exchange earnings and employment generation. Nevertheless, education policy shall continue to strive towards achieving the goal of universal education, which would eventually contribute towards building quality human capital for development of economy, promotion and preservation of culture and tradition, conservation of environment and establishment of good governance. These world class institutions shall provide certain number of scholarships to Bhutanese students based on guidelines issued by the Ministry of Education.

Private or foreign participation in the education sector shall not lead to privatization of the public education system.

The following shall be undertaken in the education sector:

- 7.8.1 Establish the country as a hub for general education. Special focus may be placed on environmental studies, Buddhism, GNH, renewable energy and so on.
- 7.8.2 World class international schools, general education colleges and specialised colleges in the field of ICT, architecture, engineering, medicine, law, management, designs etc shall be allowed and encouraged to open franchise/campus in the country under FDI rules and regulations.
- 7.8.3 Synergy between educational institutes and industries shall be established.
- 7.8.4 The country shall develop a large talent pool of technically educated human resource to attract investments.
- 7.8.5 The Ministry of Education shall frame a clear policy to encourage high end private education institutions by offering among others freedom of curriculum, fees, and salary structures as well as convenient immigration procedures and long-term land lease.
- 7.8.6 The Royal Government shall support and facilitate the establishment of education/knowledge cities.
- 7.8.7 The Royal Government shall encourage financial institutions to provide loans to students at minimum interest rates.

## **7.9 Health**

The country's development philosophy of GNH has helped to have an inherent comparative advantage in the health sector. Drawing on this, there is great potential to promote the country as an all round "wellness" destination. In particular, the health sector as a major service activity has immense potential to earn foreign exchange and generate employment. The niche area is to provide high-end luxury medical diagnostic and treatment facilities in the country. Other areas of potential are traditional medicine, spiritual healing, hot stone/spring bath and spas. The climatic conditions and natural environment provides the competitive advantage to such service providers in the country. The health sector shall be opened to private investment and practices and the Royal Government shall regulate the quality of health services and human resources.

The participation of the private sector or foreign companies and individuals in the health sector shall not under any circumstance, lead to privatization of the public health services.

The health sector policy shall be designed to take advantage of the emerging opportunities. To realize the desired objectives, the following shall be undertaken: -

- 7.9.1 Given the critical shortage of health personnel in the country, high end private sector clinics/hospitals shall be allowed to bring in as many expatriate doctors and nurses in keeping with rules and regulations as prescribed by Bhutan Health and Medical Council Act.

- 7.9.2 Ministry of Health shall draft a policy to open the health sector to private investment and competition and allow the country to be the destination for biotechnology and other emerging technologies or advancement in healthcare as well as R&D.
- 7.9.3 Establish medical facilities from diagnostics to testing to treatments in the country.
- 7.9.4 Traditional medical system shall adopt scientific methods for formulating and testing. Furthermore, means of co-promoting traditional medicines with modern allopathic medicines shall be explored.
- 7.9.5 Promote the country to become a centre for health and wellness tourism focussing on niche areas such as wellness and spirituality.
- 7.9.6 Develop an indigenous medical R&D base and be a centre of excellence for education in traditional medicine.
- 7.9.7. Encourage and facilitate establishment of private medical colleges.

## **7.10 ICT**

The transformation of the traditional Bhutanese society into a knowledge based society and the development of high end service industry shall be enabled by ICT. In so doing, the Royal Government shall endeavour to make Bhutan an attractive destination for FDI in R&D, data processing and high end BPOs through a highly skilled talent pool.

At present, the ICT is at a nascent stage of development and is primarily a hardware vendor-based industry. There are only about six software developing firms, which are also not adequately benchmarked. There is a huge deficiency of domestic skills. ICT has a significant potential in the development process of the country. It is also likely to play a major role as a sector with a huge potential to earn foreign exchange, generate employment opportunities and build up the capacity of the private sector. ICT is important as an infrastructure as well as an industry in itself. It will also play a vital role in promoting good governance, knowledge-based economy and green industries in the country, which are in line with principles of GNH. The potential for expansion in the ICT sector are hardware, software, ICT enabled services, communications, broadcasting and media services.

The further growth of the ICT as a core green sector would require appropriate planning and strategies. The ICT sector policy shall be designed to take advantage of the emerging opportunities. The foremost requirement will be to develop infrastructure and skill base besides promoting access to finance and R&D. The domestic investment needs shall be complemented with greater inflow of FDI.

The following shall be undertaken to mainstream ICT into developmental and economic growth:

- 7.10.1 Formulate an ICT infrastructure development policy and a master plan by end 2010.
- 7.10.2 The cost of connectivity will be benchmarked to costs within the region.
- 7.10.3 Licensing for ISPs should be liberalized to encourage and increase penetration of internet use and accessibility.
- 7.10.4 Institutional mechanism to protect intellectual property shall be developed and strengthened.
- 7.10.5 Identify the core competency areas and requirement of differential skills for the establishment of a regional institute of excellence in ICT.
- 7.10.6 R&D and Data processing centres shall be promoted as an important source of revenue, keeping in view the energy availability and the fact that it is not as sensitive to energy pricing as power intensive industries.
- 7.10.7 Initially BPOs shall be encouraged for employment prospects but in the long run the country shall aim at developing Knowledge Processing Organisations by providing quality education in the ICT field.
- 7.10.8 Build a nationwide fibre optic network in order to create a backbone to deliver ICT services, provide low cost bandwidth, e-Learning, e-Markets and connect every home to the knowledge economy for an inclusive society. Provision of the redundancy of network will be accomplished by the spring of 2011.
- 7.10.9 Promote e-governance for transparency and efficiency.
- 7.10.10 Review ICT courses in colleges and educational institutions to develop the skills required in the market.
- 7.10.11 The Royal Government shall strive to establish universal connectivity.

## **7.11 Agriculture and Biodiversity**

More than 75% of the population is engaged in agriculture and therefore it is the sector that is critical for a balanced and equitable development and to alleviate poverty.

The farming sector needs to be mechanized with focus on high value products such as high yielding varieties or organic vegetable, fruits, herbal, floriculture and medicinal plants. Reducing cost of production is another important initiative that has to take place.

It is important to adopt new farming techniques so that farmers can produce either before or after the harvest season in India and the region, which is the major factor which influences the price of agricultural produce. Organic farming will be a major focus area of the Royal Government to promote Bhutan as an organic brand.

For the development of the agricultural sector, the following shall be undertaken:

- 7.11.1 Promote efficient irrigation systems throughout the country.
- 7.11.2 Identify suitable crops for commercial farming in each geog by conducting field research on farm lands.
- 7.11.3 Development of dairy, poultry, fisheries, piggery, bee keeping, vegetable and mushroom cultivation etc.
- 7.11.4 Development of feed and fodder resources.
- 7.11.5 Facilitate availability of land for large scale commercial farming where sustainable.
- 7.11.6 Inter Dzongkhag and regional trade shall be promoted to enable movement of food and agriculture/natural resource products from one area to another.
- 7.11.7 Promote organic farming through use of viable alternative farming methods and inputs.
- 7.11.8 Phase out use of harmful chemical fertilizers and pesticides.
- 7.11.9 Promote commercial farming.
- 7.11.10 Enable provision of integrated rural services through one-stop farmer services to reduce time and resource.
- 7.11.11 Develop and implement “One Gewog, Three Products” concept.
- 7.11.12 Establish marketing outlets to support agro-based CSIs.
- 7.11.13 Identify prime agriculture land and preserve it.
- 7.11.14 Encourage bio-exploration and bio-prospecting.
- 7.11.15 Encourage cooperatives, crop insurance and credit.
- 7.11.16 Promote assured market for farm produces while strengthening storage capacities.

## **7.12 Financial services:**

A key determinant to the success of the Economic Development Policy will be the pace of reforms carried out in the financial sector of the country. Access to finance has been cited as a major binding constrain to private sector development. Therefore, enhancing access to finance for industry and business shall be an important priority of the Policy.

7.12.1 For economic growth and trade integration the development of financial services is highly important, therefore the Central Bank shall undertake the following:

- i. Improve the payment system on a priority basis to facilitate trade and economic growth.
- ii. Ensure that fiscal and the monetary policy reinforce each other so that imbalances in the economy are avoided.
- iii. Introduce banking association so that many issues related to the banks can be resolved through association.
- iv. Strengthen anti money laundering measures on priority basis.
- v. The Government will allow external borrowings for the private sector subject to rules and regulations developed by the RMA within 2010.
- vi. Inter-corporate borrowings will be permitted within rules and regulations prescribed by the RMA within 2010.
- vii. Develop the debt and capital markets; debt instruments such as bonds and treasury bills shall be issued on a priority basis.
- viii. Encourage the scope of insurance to new areas such as health, agriculture, childcare policies etc.
- ix. Strengthen the stock exchange through modernization and appropriate institutional restructuring.

7.12.2 The Central Bank shall frame a roadmap to increase the capital base. This process will enable the banks to finance larger projects.

7.12.3 The Central Bank shall encourage the Banks to discount bills of the RGoB, public sector corporations, registered NGO's and civil societies, reputable private sector entities/institutions so that businesses are able to improve liquidity and the banks also earn additional revenue.

7.12.4 The Royal Government shall conduct a feasibility study to develop Bhutan into an International Offshore Financial Centre and Financial Hub for the region within the 10<sup>th</sup> Plan.

7.12.5 To encourage sales and minimise the costs associated with use of cash and for transparency of financial transaction, the Royal Government shall facilitate financial institutions to establish direct links with electronic payments. The Royal Government shall also facilitate the use and acceptance of credit/debit cards by merchants throughout the country.

## 7.13 Transport services

Given the difficult mountainous terrain of the country, the Royal Government shall explore all options in developing new transportation routes, improving and reducing the cost of transportation. The existing highway will continue to be widened across the country. Transport development shall be planned together with the development of road networks and traffic system.

- 7.13.1 Surface transport sector shall be deregulated and in areas where there are market failures due to traffic volume, the Royal Government shall provide targeted subsidies to provide transportation. The Royal Government shall encourage the formation of organized public transport services including within cities.
- 7.13.2 Promotion of clean, safe and reliable mass transportation in all Dzongkhags, starting with the major cities first. Central to the transportation strategy will be expanding the road linkages to all the villages and building new highways and road tunnels to reduce distance.
- 7.13.3 All Dzongkhags shall have bus networks that run on time and on schedule as well as with high standards of safety and service. The Royal Government shall provide appropriate subsidies to operators in remote areas.
- 7.13.4 Thimphu, Phuentsholing and Paro could also be cities where the first electric tram/train network could be introduced given their larger population base, economic activities as well as favourable topography.
- 7.13.5 Explore the establishment of rope ways or cable car network in ecologically sensitive areas, remote areas and to tourist destinations to minimize the impact from road construction.
- 7.13.6 Development of domestic air transport and airports shall be given priority.
- 7.13.7 Development of land ports and railway links including supporting facilities such as customs, immigration, quarantine etc. at the land ports.
- 7.13.8 Domestic air services shall be introduced. Multipurpose helicopter operations shall be restricted to search and rescue, evacuation, emergencies, transportation of heavy machinery and non-scheduled services.
- 7.13.9 The sensitive mountain ecology and the difficulties of building multi lane highways make tunnelling the most viable option to reduce travel time as well as increase connectivity throughout the country. The development of the road sector especially tunnels shall be in sync with the hydropower development.
- 7.13.10 PPP Model for transport shall be encouraged.
- 7.13.11 In order to enhance connectivity, the neighbouring airports of Guwahati and

Bagdogra in India; seaports in Kolkata (India) and Bangladesh and connection to the South Asian road network shall be included as a strategic part of the country's transportation network.

## **7.14 Water based industries**

The country is endowed with abundant fresh water and being located in a region where safe fresh drinking water supply continues to be a challenge, there is a large untapped potential to build the water industry. The success of this industry will largely depend on the ability of RGOB to promote the image of the country as a source of clean and unpolluted water.

Support shall be provided to market the water in the sub-continent and global markets through the building of Brand Bhutan.

The possibility of marketing low cost drinking water to neighbouring Indian towns shall be explored.

## **8. Review of the Regulatory Framework**

All Acts, Policies, Rules and Regulation of all sectors shall be reviewed to create an enabling environment. This shall be done within the first three years of the 10<sup>th</sup> Plan and in accordance with the Policy and shall be coordinated by the GNHC. The Improving Public Service Delivery System (ISPDS) Committee shall be mandated to undertake the review. The following shall be reviewed:

1. Land Act, 2007
2. Labour and Employment Act of Bhutan, 2007
3. Immigration Act, 2007
4. Companies Act, 2000
5. Income Tax Act of the Kingdom of Bhutan 2001
6. Road Safety and Transport Act 1999
7. National Environment Protection Act, 2007
8. Intellectual Property Acts

However, review of the national regulatory framework shall not be restricted to what is recommended above and shall go beyond what is listed and recommended to ensure that all regulatory frameworks are in harmony with the Policy.

### **8.1 Cross Sectoral Licensing**

Business applicants are increasingly required to obtain numerous licences from several government agencies. With the adoption of this Policy, high priority will be placed on harmonising these multiple licensing requirements. All new acts and regulations being proposed or drafted shall improve public service delivery by reducing the need for licensing.

## 9. Incentives

The state of public finance shows signs of a growing fiscal crunch with demand for funds increasing at a much faster pace than revenue. Further, the huge amounts of capital investments in successive plans through assistance from development partners need to be kept in operation and maintained. Thus there is the need for ensuring a steady increase in revenue to the RGoB. However, there is also the need to encourage the development of the private sector to not only provide employment for the increasing number of job seekers but also to expand the tax base for the future. Therefore, any fiscal incentives have to be well targeted to promote growth in the economy and increase employment opportunities.

There shall be three types of incentives, namely, General Incentives, Specific Incentives and Sector Specific Incentives. General Incentives are available to all sectors. Specific Incentives include incentives provided for balanced development, CSIs and SEZs. Sector Specific Incentives includes sectors such as energy, agriculture, ICT, tourism etc.

The Ministry of Finance shall review the existing tax incentives as proposed hereunder and introduce such rules and regulations to operationalize the incentives including any amendments in future. These incentives shall supersede any incentives that may currently be in place. However, these incentives shall not apply to those industries established based on tax differential. In such cases the Ministry of Finance shall issue notifications from time to time.

### 9.1 General Incentives:

- 9.1.1 Custom duty and sales tax exemption shall be provided for import of plant and machinery directly related to the manufacture of its products or utilized in providing a licensed service, except for category of goods for civil, electrical or plumbing works, or goods and materials used for installation or housing plant and machinery. All spares, accessories, consumables, tools, kits, office equipment, furniture and vehicles shall not form part of plant and machinery. Exemption for manufacturing and service industries shall be extended for 10 years till 31 December 2019.
- 9.1.2 Sales tax exemption shall be provided for all permissible raw materials and primary packaging materials used by all manufacturing industries, for 10 years with effect from 1 January 2010 to 31 December 2019.
- 9.1.3 Export earnings in convertible currency of business enterprises established between 1<sup>st</sup> January 2010 and 31<sup>st</sup> December 2015 shall be exempted from corporate or business income tax for a period of 10 years. Such companies shall be required to maintain the same accounting and auditing standards prescribed in the Companies Act. However export earnings from tourism businesses shall not qualify for this exemption.
- 9.1.4 Export earnings in convertible currency of existing business enterprises established between 1 January 2004 and 31 December 2009 shall be exempted from corporate or business income tax for a period of 5 years until 31<sup>st</sup> December 2014. Such companies shall be required to maintain the same accounting and auditing standards prescribed in

the Companies Act. However export earnings from tourism businesses shall not qualify for this exemption.

- 9.1.5 All incentives related to export of goods or services such as income tax exemptions, use of convertible currency etc shall be applicable only if such exports meet the value addition of 40% to qualify for certificate of origin of the Ministry of Economic Affairs.
- 9.1.6 Reinvestment allowance shall be given to all companies, registered under the Companies Act as tax deductible expenses up to a maximum of 25% of the total reinvestment. Reinvestment allowance shall be given only once for every new investment undertaken till 31 December 2015.
- 9.1.7 Expenditure incurred including those by patrons for R&D shall be allowed as tax deductible expenditure in whole.
- 9.1.8 Business which has undertaken environmentally friendly technological up gradation shall be allowed income tax rebate of 15% of the up-gradation expenses. Such incentives shall be available if the up-gradation is beyond the minimum standards as required by law.
- 9.1.9 The Royal Government shall accord domestic preference of 5% for all its procurement.
- 9.1.10 Innovation/invention that results in patent registration of a new product or process shall be provided with a cash subsidy @ 50% of the expenditure incurred by the firm/institution/individual.
- 9.1.11 Import by financial institutions of software and hardware for credit/debit card or for electronic payment use shall be exempt from Custom duty and Sales tax.
- 9.1.12 Sales tax and customs duty exemption shall be granted for purchase of electric cars/hybrid cars/cars that run on renewable energy including spare parts.
- 9.1.13 Long term land lease shall be provided to businesses based on the type of activity.
- 9.1.14 Existing businesses which started commercial operation on or after 1<sup>st</sup> July 2007 shall also be eligible for all incentives provided in this chapter with effect from 1<sup>st</sup> January 2010 for the remaining period of the applicable incentive.

## **9.2 Specific Incentives**

### **9.2.1 Cottage and Small Industries (CSI)**

- 9.2.2.1 Rent free incubation facilities for a maximum period of three years shall be provided where available for both land and structure.
- 9.2.2.2 Focused entrepreneurship training and extension support shall be provided.

- 9.2.2.3 The Royal Government shall accord preference in its purchases from cottage and small enterprises provided they meet the quality criteria.
- 9.2.2.4 In order to promote balanced economic development, a 10 year tax holiday shall be given to new CSI and co-operatives established between 1<sup>st</sup> January 2010 to 31<sup>st</sup> December 2015 and outside Thimphu and Phuentsholing municipal areas.
- 9.2.2.5 An additional ten years tax holiday shall be given to cottage and small industries established in interior areas as notified by the Royal Government from time to time based on poverty levels.
- 9.2.2.6 Priority in human resource development programmes initiated by the Royal Government.
- 9.2.2.7 Interest income earned by financial institutions that lend at preferential rates to CSIs and entrepreneurship development programme shall be waived off income tax on interest earned from such lending. Eligibility for this shall be for lending between 1<sup>st</sup> January 2010 to 31<sup>st</sup> December 2015 and exemption shall be for five years till December 31, 2019.
- 9.2.2.8 Individual artisans and craftsmen in the rural areas shall be given sales tax and customs duty exemption on import of equipments and labour saving devices to promote mechanization or improvement of indigenous skills.

### **9.3 Sector-Specific Incentives**

#### **9.3.1 Energy**

The incentives shall be provided as per the relevant provisions in the Bhutan Sustainable Hydropower Development Policy, Renewable Energy Policy and Captive Power Generation Policy.

#### **9.3.2 Agriculture:**

The Royal Government shall provide the following support and incentives:

- 9.3.2.1 All farm machinery shall be exempted from sales taxes and import duties.
- 9.3.2.2 Sales tax and customs duty shall be exempted on any other agricultural inputs.
- 9.3.2.3 Income tax holiday of 10 years for commercial farming and related processing of its products from the date of first sale and established between 1<sup>st</sup> January 2010 to 31<sup>st</sup> December 2015. An additional 5 years tax holiday for commercial farming of organic produces.

### **9.3.3 ICT:**

The following support and incentives shall be provided. However, businesses engaged in the re-export of IT related products shall not be eligible for any incentives.

- 9.3.3.1 Tax holiday of 15 years from the actual date of commercial operation to the IT park developer who is engaged in the establishment of the IT park and related infrastructure and IT promotion services. Applicability shall be to businesses established between 1<sup>st</sup> January 2010 to 31<sup>st</sup> December 2015.
- 9.3.3.2 A tax holiday of 10 years from the actual date of commercial operation/production of goods and/or services to the IT/ITES businesses operating within the IT park and exporting 80% of their products/services. Applicability shall be to businesses established between 1<sup>st</sup> January 2010 to 31<sup>st</sup> December 2015.
- 9.3.3.3 Soft ware, hardware and all IT service providing companies registered under the Companies Act, with more than 80% national professional staff existing and new shall enjoy a tax holiday of 5 years from the date of establishment. Applicability shall be to businesses established between 1<sup>st</sup> January 2010 to 31<sup>st</sup> December 2015. Businesses established outside IT parks shall be eligible for the other incentives as those located inside the IT parks. This incentive shall apply from 1<sup>st</sup> January 2010 to 31<sup>st</sup> December 2015 for a period of 5 years.
- 9.3.3.4 Export earnings in convertible currency by the IT business/companies operating from the parks shall be exempted from Corporate Income Tax for the duration of the tax holiday.
- 9.3.3.5 Import of computers, related hardware and software shall be exempt from customs duty and sales taxes.
- 9.3.3.6 Exemption of Custom duty and Sales Tax on import of specific professional equipments required by the media services shall be given.
- 9.3.3.7 Sales Tax on Bhutanese film tickets by the film industries shall be reduced from 30% to 10% until 31<sup>st</sup> December 2015.
- 9.3.3.8 Income Tax on the income earned from production of film, documentaries and serials by the local media firms for public broadcasting in the country, during the period from 1st Jan 2010 to 31<sup>st</sup> Dec 2015 shall be exempted.
- 9.3.3.9 Sales tax and customs duty shall be exempted on imported construction materials forming direct inputs for IT park development.

### **9.3.4 Tourism**

- 9.3.4.1 Exemption of Customs Duty and Sales Tax on import of vehicles by tour

operators shall be provided for all tourist vehicles with a seating capacity of ten and above. The TCB shall frame rules and regulations for monitoring.

- 9.3.4.2 Exemption of Customs Duty and Sales Tax on equipments for camping, trekking, rafting, kayaking and boating and such other equipments subject to the recommendation of TCB and regulated by the Ministry of Finance for adventure tourism shall be granted for 10 years with effect from 1<sup>st</sup> January, 2010 to 31<sup>st</sup> December, 2019. Concerned units must maintain proper books of accounts and inventory.
- 9.3.4.3 The Income Tax Act will be reviewed to allow entertainment expenses up to 5% of the assessed net profit.
- 9.3.4.4 Sales tax shall be charged on published or actual charged discounted room rents rather than rack rates of the hotels. This shall be applicable only to hotels with computerized billing systems.
- 9.3.4.5 For newly established high end resorts and hotels established between 1<sup>st</sup> Jan 2010 and 31<sup>st</sup> Dec 2015, as classified by Tourism Council of Bhutan, a 10 year income tax holiday shall be provided from the date of commencing commercial operation.
- 9.3.4.6 Quality of tourist class hotels is of paramount importance and to facilitate such investments, import of furniture & fixtures, kitchen & laundry equipment, mattresses & linens, cutlery & crockery (with embossed logo of the hotel concerned), sanitary wares and electrical fittings shall be exempted from customs duty and sales tax on recommendation of the Tourism Council of Bhutan.
- 9.3.4.7 Farmhouses that meet the minimum standards for hospitality shall register with TCB and be exempt from all licensing requirements and income tax. A ten year tax holiday shall be provided to Guest houses and lodges that meet the minimum standards for hospitality and established between 1<sup>st</sup> January 2010 and 31<sup>st</sup> December 2015.
- 9.3.4.8 Foreign participants or attendees for MICE shall be exempt from daily tourist tariff/royalty. All visa applications for MICE participants shall be routed through the TCB.
- 9.3.4.9 Filming or production of promotional non-commercial audiovisual programmes or movies or documentaries of Bhutan by foreign media organisations shall be exempt from filming royalty.
- 9.3.4.10 A reinvestment allowance of 25% of total capital expenditure incurred shall be provided for the up-gradation of the existing hotels

### **9.3.5 Mining and Quarrying**

Mining shall be considered as any other business activity and the incentives applicable under different provisions shall be available. Specific incentives for mining and quarrying, if any, shall be provided in the Mineral Development Policy.

### **9.3.6 Film and Media:**

The following support and incentives shall be provided:

- 9.3.6.1 The Royal Government shall support this industry for participating in film festivals inside and outside the country to promote the country's films and songs.
- 9.3.6.2 The Animation film industry shall receive all incentives available to the IT service providers

### **9.3.7 Trade**

- 9.3.7.1 A feasibility study of a tax free zone shall be initiated within 2011 and if found feasible, a tax free zone shall be created.

### **9.3.8 Construction**

The following support and incentives shall be provided:

- 9.3.8.1 Earth moving, heavy lifting, drilling equipment and labour saving machinery and construction equipments shall be exempted from customs duties and sales tax.
- 9.3.8.2 Green building materials shall be exempted from customs duties and sales tax. The RGoB shall specify the list of materials classified as green from time to time.

### **9.3.9 Employment**

The Policy strives for creation of employment opportunities and in this regard there shall be subsidies for in-country training and employing skilled Bhutanese beyond what is required by law. The following support and incentives shall be provided:

- 9.3.9.1 The Royal Government shall provide stipend to the trainees.
- 9.3.9.2 The Royal Government shall bear up to 50% of the training fees.

The subsidies shall be provided based on the following conditions:

- a) Priority sectors identified from time to time.

- b) Independent accreditation of the institute and the courses.
- c) Applicable only for cottage, small and medium scale businesses.
- d) Valid only for 12 months per person.
- e) Each company can claim only 5 training subsidies per year.
- f) The company has to contribute a minimum of 50% of the training fee.
- g) The trainee's service must be regularized by the company after the first year of on-the-job training /apprenticeship.
- h) Businesses that are consistently or actively training nationals to replace expatriates should be assisted in further training of the national staff.
- i) VTIs should offer short term (2-3 weeks) vocational skills improvement training programmes for people working in private companies.

### **9.3.10 Education Service**

9.3.10.1 Education and Vocational Institutes established outside Thimphu and Phuentsholing municipality shall be given the following incentives:

- a. Educational institutes that meet the criteria established by the Ministry of Education on minimum investment size, structural, spatial, recreational, R&D, academic facilities etc shall be given a tax holiday of 10 to 15 years from the actual date of operation and for institutes established between 1<sup>st</sup> Jan 2010 and 31<sup>st</sup> Dec 2015.
- b. Exemption of Customs duty and sales tax on imported textbooks, journals, periodicals, teaching aid materials and library books used for educational purpose.
- c. Educational institutes shall be exempt from sales tax and customs duty for purchase up to five buses of ten seats and above every seven years. However, the actual number of buses up to five will be based on the number of students enrolled and capacity of the bus proposed. All school buses shall be colour coded and shall carry the name of the school.

### **9.3.11 Health Service**

9.3.11.1 Newly established pharmaceutical shops in the rural areas from 1<sup>st</sup> January 2010 – 31<sup>st</sup> December 2015 shall be given a five-year tax holiday.

9.3.11.2 Newly established high-end private health services shall be eligible for 10 years tax holiday.

### **9.3.12 Foreign Exchange**

The nation's foreign exchange reserves have been built meticulously over the years. However, this has been built mainly through external assistance and the sustainability of the reserves is important through the development of trade and industry. To

continue building the reserves and also to encourage the private sector to generate its own foreign exchange requirements while discouraging the misuse of such incentives, the following guidelines are proposed for the eligibility and use of foreign exchange:

- 9.3.12.1 All 100% FDI projects must bring their own foreign exchange to meet their requirements for import of capital goods and services.
- 9.3.12.2 Import of permissible raw materials from third countries shall be allowed duty free for industries that earn their own foreign exchange through the export of all Bhutanese origin agro, forest and mineral based products and direct project hard currency earnings. The level of use of hard currency earnings shall be:
  - i) The Royal Government will allow 100% duty free import of raw materials through direct exports of an industry's finished products in hard currency markets.
  - ii) If the hard earnings are not from direct export earnings but from export of Bhutanese origin products- all agro, forest and mineral then the Royal Government shall retain 20% of the hard currency earnings. The balance can be used to import the company's raw materials duty free.
- 9.3.12.3 Hard currency for importing critical secondary raw materials from third countries that constitute less than 15% of the value of direct inputs including electricity shall be provided by the Government, subject to the industry paying applicable import duty. Industries/businesses earning their own hard currency shall be exempt from applicable import duties and taxes.
- 9.3.12.5 Relevant Royal Government agencies shall certify all goods and services being exported and in the absence of technical competencies for such certification, internationally recognised inspecting agencies shall be used to authenticate the genuine manufacturing of the product or development of the service for export. The Royal Government will charge the companies or businesses for such services.
- 9.3.12.6 Private educational institutes earning convertible currency may retain 75% of such receipts in a foreign exchange account to meet the convertible currency costs on expatriate faculty members and such other related costs.

### **9.3.13 Waste Management Services**

- 9.3.13.1 Recycling plants processing domestic wastes shall be exempted from Custom duty and sales tax on plant and machinery and also exempted from CIT/BIT for 15 years and will be also provided with land on nominal lease.

- 9.3.13.2 All waste management plant/activities for domestic wastes shall be exempted from Custom duty and sales tax on plant and machinery and also exempted from CIT/BIT for 15 years and will be also provided with land on nominal lease.

#### **9.3.14 Transport Services**

- 9.3.14.1 Sales tax and customs duty exempted for buses by passenger transport entities
- 9.3.14.2 A 5 year income tax holiday shall be provided to taxi/car hiring service companies.

## **10. The Way Ahead**

The Economic Development Policy shall be implemented in a phased manner to attain its long-term objectives:

Stage 1: The Royal Government approves the Policy in March 2010.

Stage 2: All the necessary policy framework and institutional arrangements are established by end of 2011.

The GNHC shall take responsibility to review the implementation of the Policy, monitor performance, make projections about the future and recommend appropriate policy measures.