



Economic Development Policy

Royal Government of Bhutan

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1. INTRODUCTION

Since the commencement 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 witnessed improvements over the years. In the first decade of the present century, the country continued to experience acceleration in average annual growth rate of real GDP to 8.53% from 5.9% in the 1990s. With a per capita income of US\$ 2,611 as of 2014, Bhutan falls in the low middle income group.

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. The occupational structure of the economy has **however** 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 current account** deficit is **widening**, balance of payment situation **remains** weak, public debt is mounting, and foreign exchange reserves are difficult to sustain through exports. In addition, the other constraints are:

- 1) Small domestic market.
- 2) **Narrow export product base and markets.**
- 3) Inadequate infrastructure.
- 4) High transportation cost.
- 5) Difficult access to finance.
- 6) **Inconsistent policies/lack of coordination.**
- 7) Lack of management skills.
- 8) Shortage of professionals.
- 9) Low productivity of labour.
- 10) Absence of R&D capability.
- 11) Access to land.

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

- 1) Political stability.

- 2) Peace and security.
- 3) A vibrant and living culture.
- 4) Natural and pristine environment.
- 5) **Strategic** geo-economic location **with access to regional markets-**
- 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.

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 **average** economic growth rate of **10%** 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 **7.28%** in the **30** years after 1980. The average annual growth rate in the 1980s was 7.4%, which decelerated to 5.9% in the 1990s, but accelerated again to 8.53% in the first decade of the present century.

2.2 Changing Structure of the Economy

Table 1: Sector-Wise Share in Real GDP (in %)			
Year	Primary Sector	Secondary Sector	Tertiary Sector
1980	55.9	12.2	31.9
1990	44.6	23.3	32.1
2000	33.5	33.3	33.2
2010	16.80	42.78	40.42
2014	16.77	40.55	42.68

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.

Table 2 provides an insight into the changes in the composition of different sub-sectors of GDP. In 2014, the 1) Construction 2) Agriculture 3) Electricity and Water supply 4) Community and Social Services and 5) Transport, Storage and Communications were the top five contributors to GDP aside from manufacturing.

Table 2: Share of Sub-Sectors in Real GDP (%)							
Year	1980	1990	2000	2010	2012	2013	2014
Agriculture	27.8	15.4	12.7	16.8	15.96	16.10	16.77
Wholesale and Retail Trade	10.9	4.66	4.5	5.18	6.07	6.48	7.09
Transport, Storage & Communications	4.3	6.62	9.1	9.58	9.5	9.31	9.63
Community, Social Services	10.8	16.8	14.3	12.78	11.54	11.95	10.84
Finance, Insurance & Real Estate	6.3	8.73	7.1	7.65	7.61	7.65	7.57
Mining & Quarrying	0.6	0.86	1.6	2.23	2.01	2.65	2.82
Manufacturing	3.2	7.71	8.2	8.72	8.85	8.33	8.12
Electricity, Water & Gas	0.2	8.66	11.4	17.61	12.62	14.45	15.14
Construction	7.9	8.42	14.0	14.22	16.38	16.92	15.46
Hotels and Restaurants*		0.18	0.45	0.84	1.33	1.53	1.71

2.3 Public Finance

Although domestic revenue was able to cover 100% of the recurrent expenditure and 36.9% of capital expenditure in 2013-14, the state of public finance remains a matter of serious concern as external resources are required to bridge the gap. Public debt is rising and in 2013-14, total debt was about 98.30% of GDP.

2.4 Economic Reforms

The Economic Development Policy encompasses major economic reforms including the restructuring of the macroeconomic base which will include the five jewels, namely hydropower, agriculture, cottage and small industries, tourism and mining. The specific areas among others include finance, construction, ICT, trade, industry, transport, education, health 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 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

A green and self reliant economy sustained by a knowledge based society guided by the philosophy of GNH.

4. PURPOSE

The Economic Development Policy (EDP) shall provide the highest level of “strategic direction”, to ensure that economy takes the centre stage of development initiatives. The Policy recognizes that unless the constraints to business growth are systematically addressed, 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.

The EDP shall be the apex policy for economic development of the country and shall be the guiding document for all ministries and agencies to stimulate economic 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 EDP.

The time line to achieve the goals of this Policy shall be 2020.

5. A. OBJECTIVES

5.1 Achieve economic self-reliance by the year 2020.

5.2 Sustain full employment (97.5%).

5. B. STRATEGIES:

1. **Promote the five Jewels.**
2. Diversify the economic base with minimal ecological footprint.
3. Harness and add value to natural resources in a sustainable manner.
4. Increase and diversify exports.
5. Promote Bhutan as an organic brand.
6. Promote industries that build the Brand Bhutan image.
7. Reduce dependency on fossil fuel.
8. **Promote industries through a cluster effect and championing approach.**

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 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 Priority Sectors

Based on Bhutan's USP, resource endowments, developmental focus and desired outcomes of economic development, the following sectors shall be treated as priority growth areas. Among these, the Five Jewels constitute the core growth areas in terms of their potential and impact to the society at large.

A. Five Jewels

6.2.1 Hydropower

6.2.2 Cottage and Small Industries

6.2.3 Mining

6.2.4 Tourism

6.2.5 Agriculture

- a. Organic farming*
- b. Agro-processing*
- c. Biotechnology*
- d. Forest based products*
- e. Poultry*
- f. Fisheries*
- g. Floriculture*
- h. Health food*
- i. Animal feed*
- j. Apiculture*

- k. Horticulture
- l. Dairy

B. Other Sectors:

6.2.6 High Quality Green Services

- a. Education
- b. Health services and traditional medicines
- c. ICT (BPOs, KPOs, Green Data centres, Software development, animation)
- d. Financial services
- e. R&D and
- f. Professional services
- h. Waste Management Services

6.2.8 Energy

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

6.2.9 Information, Media and Cultural Industry

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

6.2.10 Transportation and Related Services

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

6.2.11 Construction

- a. Mechanization
- b. Green technology

6.2.12 Manufacturing

- a. Electronics
- b. Electric vehicles and transport
- c. Electrical transformers, equipment, gadgets, fittings.
- d. Computer hardware
- e. Building materials
- f. Power intensive industries
- g. Pharmaceuticals
- h. Traditional and herbal medicines

- i. Mineral processing
- j. Water based products
- k. Wood based industries

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 adopt the following measures.

7.1.1 Access to Land:

7.1.1.1 The relevant Government agencies responsible for promoting respective sectors of the economy shall proactively identify land in collaboration with the National Land Commission (NLC) and develop/facilitate development of infrastructure for growth of businesses.

7.1.1.2 Local Governments in collaboration with the NLC shall identify industrial areas within their respective jurisdictions by 2016 to facilitate establishment of industrial and service activities.

7.1.1.3 The allotment of State Reserve Forest (SRF) land shall be prioritised on strategic business activities such as large stand alone projects with cluster effects and public utility services.

7.1.1.4 The NLC shall prepare a national land use plan (Zoning) which will outline use of land for optimal use by 2017. For this purpose, all relevant sectors shall provide sectoral parameters to NLC by 2016.

7.1.2 Ease of Doing Business.

7.1.2.1 The Royal Government shall focus and continue its concerted efforts to improve the

ease of doing business and scale up its position within the top 50 in the Doing Business Ranking.

7.1.2.2 Different Government agencies responsible for providing sector clearances shall determine and adhere to the “turnaround time” for providing the clearances/licences by 2016. 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.

7.1.2.3 Leveraging on IT enabled services, the Royal Government shall enhance the delivery of public services and increase access of information through initiatives such as G2B, G2C, ePortal and iGuide. Each agency shall make available online, procedures for seeking clearances/licenses, turnaround time, fees and levies among others.

7.1.2.4 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.

7.1.2.5 The Royal Government shall adopt One Government principle whereby all Government agencies shall function as one Government and shall not seek repetitive documents. Required documentation submitted by a citizen or business to one government office shall suffice for all other government agencies for the project concerned.

7.1.2.6 Private sector investment shall be allowed in all areas except those listed in the Prohibited List attached as Annexure-II.

7.1.3 The burden of compliance shall be reduced by mandating all agencies to adopt the Licensing Policy by 2016.

7.1.4 Regulatory agencies shall increasingly adopt ex-post assessment and monitoring. 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.

7.1.5 The Royal Government shall establish a dedicated institution with adequate funds by 2016 to promote and support Research and Development.

7.1.6 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.

7.1.7 Embassies and missions abroad shall be strengthened to play a more active role in

economic diplomacy, multilateral and bilateral trading arrangements. The Royal Government shall appoint Trade Counsellors in all Embassies/Missions with clear Terms of Reference by 2017.

7.1.8 The Royal Government shall implement the PPP Policy by 2016 to facilitate public private partnership in infrastructure projects.

7.1.9 The Royal Government shall adopt an Intellectual Policy by 2016. The focus of the Policy shall be to promote and 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.

7.1.10 In view of the need to encourage economic growth, fiscal incentives shall be provided to promote the Jewels and priority sectors.

7.1.11 In order to promote confidence to investors, the Royal Government may consider acceding to relevant international/UN conventions.

7.1.12 The Royal Government shall develop and implement strategies and action plan for implementation of Brand Bhutan to promote Bhutanese products.

7.1.13 Access to Foreign Exchange

7.1.13.1 The Royal Government shall provide foreign exchange for import of plant and machinery/equipments for licensed businesses.

7.1.13.2 The Royal Government shall provide foreign exchange for the payment of fees, royalties for technology transfer and franchises and for expatriate professionals as approved.

7.1.13.3 The Royal Government shall provide foreign exchange for importing critical secondary raw materials from third countries that constitute less than 15% of the value of direct inputs including electricity.

7.1.13.4 The Royal Government shall provide foreign exchange for payment of interest, charges and amortization on convertible currency or permitted foreign currency loans as approved by the Royal Government.

7.1.13.5 The Royal Government shall provide foreign exchange for repatriation of dividends as provided for in the FDI Policy 2010.

7.1.13.6 The Royal Government shall provide foreign exchange for trade and industry as per rules in vogue.

7.1.13.7 The Royal Monetary Authority (RMA) shall review and revise the Foreign

Exchange Regulations 2013 to incorporate the eligibility and entitlement thereto for any foreign exchange requirements.

7.1.14 HRD & Employment

7.1.14.1 The Royal Government shall adopt the Technical and Vocational Education (TVET) policy and blueprint by 2016.

7.1.14.2 The Royal Government in collaboration with the private sector shall identify critical skilled labour deficiency areas and support skills development to address the needs of the labour market.

7.1.14.3 The Ministry of Labour and Human Resources (MoLHR) shall adopt and implement the National Work Force Policy by 2016.

7.1.14.4 The Royal Government shall establish an autonomous Entrepreneurship Development Institute by 2017 to promote entrepreneurship.

7.1.14.5 The Royal Government shall ensure that any foreign service provider wishing to participate in major works must engage local firms for transfer of technology/skills. A framework specifying the level of local participation shall be developed by 2017.

7.1.14.6 The Royal Government shall review the work permit extension and qualifications requirements to foster the growth of FDI and priority industries.

7.1.15 The Royal Government shall adopt and implement the Competition Policy by 2017.

7.1.16 The Royal Government shall allow outward FDI and the Ministry of Finance shall review the relevant regulation by 2017.

7.1.17 The Royal Government shall support the growth of domestic industries through preferential public procurement.

7.1.18 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.

7.1.19 The Royal Government shall revise and adopt the national public consultation guidelines to address conflicts on the subject under different legislations.

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 the 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 conserving environment. The energy policy shall be aimed at accelerating the growth in the sector.

A. Hydropower

The nation is well endowed with hydropower potential of 30,000 MW of which 23,760 MW is techno-economically feasible. Hydropower is a strategic national resource and the main driver of economic growth. It continues to be the largest revenue generator accounting for 19.1% of the total revenue contribution in 2014-15. Its development is key for achieving sustainable economic self-reliance. In order to achieve this important national goal, development of hydropower shall have a three pronged objective of i) meeting the nation's domestic energy security, ii) promoting industrial growth and iii) enhancing revenue.

Acknowledging the potential, the Royal Government has declared hydropower as one of the five jewels of economy. In this regard, the Royal Government shall strive to achieve a minimum power generation of 5000 MW by 2020. Efforts will also be made to build capacity to become a knowledge centre for hydropower development and related services both in the region and globally.

The Policy framework for the development of hydropower sector shall be the following:

7.2.1 The Royal Government shall provide electricity to all households.

7.2.2 Essential public institutions and services shall receive highest priority for supply of electricity. An Electricity Allocation Policy shall be adopted by 2017.

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 and further integrate with regional grids to promote electricity trade.

7.2.4 Hydropower projects shall be developed in line with the Bhutan Sustainable Hydropower Policy (BSHDP) 2008 and amendments thereto.

7.2.5 The Royal Government shall continue to meet the growing domestic energy requirements while taking advantage of export opportunities. In order to ensure national energy security through increased firm power capacity, the development of storage hydroelectric projects shall be accorded priority. The Royal Government shall also encourage R&D in respect of energy storage technology.

7.2.6 A Bhutan Power System Coordination Committee (BPSCC) shall be established for

efficient coordination, operation and supply within the country and trading of electricity in the region.

7.2.7 In accordance with the Domestic Electricity Tariff Policy 2016, the Royal Government shall promote micro, small and medium industries through provision of subsidies.

7.2.8 The generating companies shall provide free “royalty energy” from medium, large and mega power generating companies to the Royal Government in line with the BSHDP. To ensure sustainability of the hydropower resource, besides using royalty revenue for subsidizing the domestic tariff, part of the royalty shall be ploughed back to conserve the catchment area, support alternative renewable energy and energy efficiency initiatives and also to meet any payment for environmental services.

7.2.9 While implementing hydropower projects, mechanisms shall be built in the contract documents to ensure maximum benefits to local suppliers of construction materials, transporters, contractors, manufacturers, and other service providers.

7.2.10 It shall be mandatory for the foreign contractors/firms wishing to participate in construction of hydropower projects to engage local contractors/firms for skills and technology transfer. For such arrangement, the hydropower projects shall make special provision in the tender documents defining the role of Parties and also specific conditions to ensure transfer of technology/skills and engagement of local manpower in the project execution.

7.2.11 The Royal Government shall continue to review and reform the sector to enhance efficient delivery of electricity services and develop institutional capacity to take advantage of emerging electricity markets in the region.

7.2.12 In fulfilling its pledge to remain carbon neutral at all times, the Royal Government shall encourage development of hydropower and **alternative** renewable energy projects through 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.

7.2.13 Preference shall be given to the employment of available local skills and expertise during construction and operation of hydropower projects.

7.2.14 The Royal Government shall promote the development of hydropower related activities such as consultancy and construction services, manufacture, repair and maintenance of hydropower components.

7.2.15 Hydro-meteorology data acquisition and dissemination shall be strengthened to facilitate reliable weather, GLOF and flow forecasting for hydropower generation and safety

of hydro installations.

B. Alternative Renewable Energy

Alternative renewable energy shall be promoted to diversify the energy supply mix and enhance energy security.

7.2.16 The Royal Government shall give priority to develop solar and wind power and its integration with the national grid.

7.2.17 The Royal Government shall conduct resource mapping of solar, wind, small hydro and biomass by 2017 and implement selected RE projects.

7.2.18 The MoEA shall adopt a Feed-in-Tariff Policy to support the development of alternative renewable energy by 2017.

7.2.19 The Royal Government shall provide incentives to promote roof top solar water and space heating systems to address firm power constraints. Towards this DRE shall prepare a strategy and pilot installation of such systems by 2017.

7.2.20 The Royal Government shall promote R&D in the areas of renewable energy, energy conservation and efficiency.

7.2.21 Energy efficiency and conservation measures shall be promoted for sustainable use of energy across all sections of the consumers through the adoption of a National Energy Efficiency and Conservation Policy by 2017. The Royal Government shall encourage general improvements in the energy performance standards of four major sectors of Industry, Transport, Buildings and Appliances.

7.2.22 Energy Efficiency Building Codes and Guidelines shall be developed by 2018 to facilitate the concerned agencies to incorporate in the Bhutan Schedule of Rates and their building designs. Energy Efficient Equipment and Appliances shall comply with the Standards and Labelling program.

7.3 Industrial Sector

Industrial development is key to diversification of the economy, job creation, export enhancement and revenue generation among others. It is one of the expansionary sectors that is expected to diversify the economic base through creation of new sustainable activities. However, owing to numerous inherent constraints, manufacturing sector has remained rather stagnant with its contribution to GDP hovering in the range of 8.12% to 8.85% over the last 5 years (2010-20014).

Stimulating investments in the key sectors of the economy namely the five jewels and other

areas with comparative advantages will therefore be essential to foster industrial development. At the industry level, leveraging on the comparative advantages, industrial sector shall be encouraged to foster backward and forward linkage to the economy and move up the industrial value chain over the long-term. The Royal Government as the enabler shall continue to improve environment for business establishment and operation through policy reforms and necessary interventions.

A. Industries Overall

7.3.1 The MoEA shall continue to create an enabling environment by adopting policies and regulations for promotion of investments in the country.

7.3.2 While 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.

7.3.3 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.

7.3.4 Business infrastructure shall be developed to encourage investments and exports. Private investments in business infrastructure shall be encouraged. To this effect, the Business Infrastructure Policy shall be adopted by 2017.

7.3.5 To foster recognition of industrial products, national standards shall be developed and enforced and mutual recognition agreements shall be pursued with foreign standard agencies by relevant national agencies.

7.3.6 All industries must strictly abide by environmental laws and shall undertake voluntary compliance.

7.3.7 Industrial estates will be declassified by the Ministry of Home and Cultural Affairs from the restricted areas list by 2016.

7.3.8 The Royal Government shall allow import of used but certified non-polluting machines that meet the minimum energy efficiency standards by the industries.

7.3.9 The MoEA shall promote the development of assembly line production systems in order to promote manufacturing in the country.

7.3.10 The Royal Government shall implement the amended Companies Act on priority.

B. Cottage and Small Industries

Cottage and Small Industries (CSI) constitute more than 96 percent of the total number of industries with 16,548 operational activities accounting for employment of over 66,000 as of April 2016. The sector remains dominated by the service and contract sector with a very small manufacturing base and needs to be accorded high priority. There is therefore the need to boost development of CSIs as it has the potential to promote regionally balanced development, create jobs and inculcate entrepreneurship in society. Acknowledging this critical role, the Royal Government adopted the CSMI Policy in 2012.

Given such potential and importance, it has been designated as one of the five jewels to accelerate the pace of economic growth. A focussed approach to development of CSI is envisaged, through the following policy interventions:

7.3.10 The MoEA in collaboration with RMA shall identify, test and introduce new financial products that are suitable for CSIs in the market by 2017.

7.3.11 The RMA shall require the financial institutions to reserve at least 20% of their total lending portfolio for CSIs.

7.3.12 The Royal Government shall designate CSI start ups, technology up-gradation and diversification as priority sector for preferential lending under the Economic Stimulus Plan.

7.3.13 The Royal Government shall develop and adopt the business incubation guidelines by 2016 and establish at least three incubation centres at different locations by 2020.

7.3.14 The Royal Government shall continue and expand the Credit Guarantee Scheme for CSIs.

7.3.15 The Royal Government shall design and implement schemes such as the rural enterprise development schemes to promote promising new industries particularly in the rural areas.

7.3.16 The Royal Government shall identify and establish networks with relevant multilateral and regional agencies to promote culture of entrepreneurship, innovation and creativity amongst CSIs. Further, recipients of the various Awards schemes shall be recognised and accordingly incentivised.

7.3.17 The Royal Government shall identify critical skill training needs and provide training free of cost to potential entrepreneurs on a regular basis.

7.3.18 National Resource Inventories shall be updated periodically beginning from 2016 and made available to prospective entrepreneurs to enable identification of areas of opportunities for investment.

7.3.19 The MoEA shall identify scope of subcontracting/outsourcing opportunities by large and medium industries to small and cottage industries and initiate such business linkages and partnerships by 2016.

7.3.20 The Royal Government shall expedite implementation and achievement of CSMI Policy goals through coordinated ownership among the sectors.

7.4 Mining

Mining sector plays an important role in the economy. However, only about 40% of the country has been geologically mapped and prospected in 1:50,000 scale. There are currently 24 active mines and 40 quarries in the country covering 3,319.86 acres. Mining plays an important role in supply of raw material for the mineral based industries, infrastructure and other development projects. While mineral exploitation brings about increased economic activity and development, it can also have adverse social and environmental consequences, which must be adequately addressed and managed in the interest of the well being of all citizens and environment. A properly planned, efficiently regulated and professionally managed mining industry can make a significant contribution to national development. Minerals are valuable natural resources but are finite and non-renewable. Accordingly, Bhutan's policies on mining and quarrying consider inter-generational equity.

This Policy thus emphasizes on improving the capacity of the relevant agency both in terms of Institutional Capacity and Human Resource Development including the Geological mapping of minerals in the country. The Royal Government shall ensure effective management and monitoring of the mineral sector through proper separation of Policy Functions from Regulatory Functions.

Mineral resources shall be utilized in a sustainable manner to diversify the economy as it forms an integral part of the supply and value chain to industries. These objectives shall be pursued through the following:

7.4.1 A Mineral Development Policy shall be in place by 2016 to provide a holistic policy framework and a roadmap for the sustainable development of the mining sector.

7.4.2 Priority allotment of captive mines for raw material shall be provided to manufacturing industries that add value to the resource on selective basis as may be established.

7.4.3 To optimise the exploitation of mineral resources, value addition to minerals before export shall be the overriding policy objective in the mining sector. However, where mines have been auctioned and existing leases are in operation, the government shall allow export of mineral in raw form within the limit of the existing agreements after they fulfil the need of the domestic requirements/industries.

7.4.4 The Royal Government shall encourage and promote broad based participation in mining. All medium and large mining companies shall be listed on the stock exchange and offer at least 49% of the shares to the general public. Under no circumstances shall the promoter be permitted to own more than 51% throughout the life of the company. The MoEA shall determine the framework for mining companies that need to have broad based ownership.

7.4.5 The Royal Government shall levy lower royalty for in-country value addition and higher for unprocessed mineral export where permitted. The royalty for minerals shall be revised on a periodic basis. The rate of royalty for the various minerals shall be determined commensurate with the market value of the resource.

7.4.6 The MoEA shall constitute a committee of experts from trade, industry, mining and finance to review and recommend the level of value addition to various minerals found in the country.

7.4.7 The Royal Government shall give priority to geological mapping and investigation of minerals in the country and continue to allow exploration and prospecting through PPP model as well as by private enterprises subject to statute of limits of time to avoid speculation on permits to explore and prospect.

7.4.8 Permit for collection of sand and stone from riverbeds shall normally be accorded to government authorised agencies. However, in places where authorised agencies are not operating, permit to private parties shall be provided on a year by year basis, subject to strict environmental evaluation and monitoring.

7.4.9 The lease period for minerals shall be subject to a maximum of 30 years.

7.4.10 The Royal Government shall define and classify strategic minerals on a periodic basis and allocation of mines thereof. The MoEA shall adopt an allocation framework by 2017.

7.4.11 The first come first serve rule shall be discontinued and criteria for allocation of mines established by 2017. All allocation of mines shall be based on the criteria.

7.4.12 Export of minerals/construction materials in raw form shall be canalized through an authorized agency to maximise the returns from exports and discourage primary exports.

7.4.13 The competent authority for any authorizations or restrictions on mining activities in the country shall be the MoEA. Any restrictions imposed without authorization of the Ministry shall be null and void.

7.4.14 Issuance of Surface Collection Permit shall be reverted to the MoEA from MoAF.

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, and environment. Policy focus for the sector shall be the following:**

7.5.1 The Royal Government shall create an enabling environment and provide adequate funds for promotion and development of tourism.

7.5.2 The Royal Government shall adopt a Tourism Policy by 2016 to promote sustainable tourism.

7.5.3 The Tourism Council of Bhutan (TCB) shall be created as a statutory body. To this end, a Tourism Bill shall be considered a priority and legislation shall be submitted to the Cabinet by 2017 as a legal instrument to guide the overall tourism development in the country.

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 an exclusive tourism destination.

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 community based tourism, MICE, and wellness/spiritual tourism.

7.5.10 The Royal Government shall ensure product diversification activities that would contribute to:

7.5.10.1 The development of the country’s cultural and natural heritage products in line with the ‘high value, low impact’ policy.

- 7.5.10.2 A more equitable and balanced development focussing on tourism deficient areas.
- 7.5.10.3 Establishment of new tourism clusters with appropriate services and activities.
- 7.5.10.4 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.
- 7.5.10.5 Promotion of local cuisine, art and crafts and traditional medicine.
- 7.5.10.6 Promotion and conservation of natural and cultural heritage.
- 7.5.11 Areas that have tourism potential including protected areas shall be identified, earmarked and developed nationwide.
- 7.5.12 Domestic tourism shall also be encouraged for sustainable tourism development. Appropriate infrastructure and recreational facilities such as parks, theme based attractions and accommodation facilities shall be developed to promote domestic tourism.
- 7.5.13 The Royal Government shall improve access to facilitate movement of visitors into and within the country to spread visitations.
- 7.5.14 The Royal Institute for Tourism and Hospitality (RITH) shall provide tourism and hospitality services training courses of international standard. Additionally, private institutes shall be encouraged to provide short term training courses.
- 7.5.15 Expatriates shall be allowed to work in key positions in the hospitality sector.
- 7.5.16 Issuance of tourist visa/permit shall be simplified by MoHCA to reduce administrative burden by 2016.
- 7.5.17 Promotion of rural tourism shall be a priority and avenues shall be explored including community based tourism. The Royal Government shall encourage regional destinations to develop niche products and enhance the attractiveness of local tourism infrastructure and generate greater awareness of the tourism offerings within the local areas.
- 7.5.18 The Royal Government shall promote and support research and tourism statistics development to improve the tourism sector's competitiveness and facilitate informed public policy decisions affecting tourism.
- 7.5.19 In order to develop and promote regionally balanced tourism, RGoB shall ensure creation of Regional Tourism Offices in east, central and south by 2017.

7.5.20 The Royal Government shall create conditions to allow more competition and greater choices for visitors. The current royalty shall be renamed as Sustainable Development Fee (SDF) and shall be the sole mechanism to promote high value low impact tourism. The TCB shall draw up strategy for tariff rationalization by 2017.

7.5.21 The TCB shall develop and implement a streamlined mechanism for regional visitors to Bhutan by 2016/17 to ensure enrichment of visitor experience as well as enhancement of benefit to the hosts.

7.5.22 The TCB as the apex tourism body in the country shall coordinate development and promotion of tourism in Bhutan. As such, all tourism development initiatives by other agencies shall be routed through TCB to ensure sustainable and coordinated development of tourism in the country.

7.5.23 There shall be no royalty charged for films and other audio visual materials produced to promote Bhutan. All requests for production of such materials shall be routed through TCB.

7.5.24 The Royal Government shall develop and implement a long term plan to preserve Bhutanese way of life in select tourist attractions by drawing up an inventory of tourism assets (public goods) to support development of sustainable tourism.

7.5.25 The TCB shall finalize the absorptive capacity of the infrastructure, culture and environment by 2017.

7.5.26 The Royal Government may appoint tourism promotion officers in Embassy/Missions by 2017.

7.6 Agriculture

Agriculture also known as RNR sector comprising of agriculture, livestock and forestry continues to be a major player in the economy. The sector accounts for 16.77% of GDP and employs about 56.6% of the total population. With majority of the population engaged in agriculture, the sector has considerable potential for growth, employment, poverty reduction and for attracting increased investment.

Emphasis shall be on improving agricultural productivity and production to achieve national food security, supply raw materials to agro based industries and for exports. A pressing priority shall be to create enabling conditions to transform from subsistence to commercial production including postharvest value addition, processing and marketing. Therefore, the Royal Government's intervention is necessary in providing assured irrigation, construction/renovation of farm roads, land development, farm mechanization, mitigating human-wildlife conflicts, strengthening marketing infrastructures and systems and providing incentives to farmers and private sectors involved in agriculture.

Achieving higher and sustainable growth rates in the sector also necessitates a vision that nurtures renewed private sector investment, need-based research and progression in agriculture technologies and sustainable management of natural resources. Self sufficiency in cereals, vegetables, livestock products and optimal utilization of forestry resources constitute the focus of the development of this sector.

Private sector participation shall be promoted in the RNR sector to augment the efforts of the Royal Government towards the sustainable development of the RNR sector. For the development of the agricultural sector as one of the five jewels, the Royal Government shall undertake the following:

7.6.1 Invest and promote efficient irrigation and water management. Private sector/community participation in the development and maintenance of irrigation and water management systems shall be promoted.

7.6.2 Identify and promote suitable commodities for commercial farming in each geog by conducting field research on farm lands.

7.6.3 Intensify development of crops, livestock and forestry products for domestic consumption as well as for income and employment.

7.6.4 The Ministry of Agriculture and Forests (MoAF) shall encourage and promote commercial scale feed plants on a regional basis.

7.6.5 Commercial farming shall be extensively promoted by expediting the leasing process for SRF land as per relevant laws.

7.6.6 Promote inter Dzongkhag and regional trade to enhance domestic marketing of agricultural produce.

7.6.7 The MoAF shall proactively promote organic farming in terms of production, certification and export.

7.6.8 Establish farm shops in all Gewogs by 2018 to provide integrated rural services.

7.6.9 Establish distribution, logistics infrastructure and systems to support marketing of RNR products.

7.6.10 Identify prime agriculture land and protect it for sustained food production through incentives.

7.6.11 Encourage bio-exploration and bio-prospecting.

- 7.6.12 Upscale formation of farmers groups and cooperatives.
- 7.6.13 Promote assured market for farm produces through price stabilisation measures.
- 7.6.14 Promote private sector led investment and trade in value addition, processing and marketing of RNR products through incentives.
- 7.6.15 Establish a commodities exchange with storage facilities in different parts of the country.
- 7.6.16 The MoAF shall review the current timber allocation policy with particular focus to rationalise timber subsidy to ensure optimal utilization of the timber resources.
- 7.6.17 The MoAF and MoEA shall adopt a strategic framework to add value and enhance the competitiveness of the wood based industry by 2018.
- 7.6.18 Integrated wood industry development will be accorded priority and outdated sawmilling operations phased out by 2018. Sale and trading of timber in processed form shall be promoted to ensure optimal utilization.
- 7.6.19 Standardised wooden joinery components shall be encouraged and government procurement for such products shall only be from integrated wood industries.
- 7.6.20 The Royal Government shall ease access to credit to the agriculture sector as well as the cost of capital through extension of credit support measures. The MoAF shall draw up a proposal by 2017.
- 7.6.21 The MoAF shall identify suitable agriculture land for commercial cultivation in different parts of the country with comprehensive profile of farm produce for cultivation by 2017.
- 7.6.22 Identify and incentivise traditional and high value products.
- 7.6.23 Promote regional and global market linkages for RNR products.
- 7.6.24 Provide affordable crop and livestock insurance schemes by 2017. Till such time the insurance schemes comes into effect, the Royal Government shall provide adequate compensation budget for disaster related losses to the farmers.
- 7.6.25 Promote green and climate smart agriculture.
- 7.6.26 Develop comprehensive input supply (greenhouse, seeds, fertilizers, seedlings, livestock inputs) systems as basis for production.

7.7 Construction

Construction is a major economic activity comprising of 3,866 contractors and contributing 16.86% to the real GDP and employing 3.2% of the labour force in 2014. Government appropriations reveal that about 60% of the total outlay is allocated for procurement. Of this, about 80% accounts for procurement of construction works. In addition, the Royal Government targets to harness at least 5,000 MW of hydropower generation by 2020. While the sector holds tremendous potential for employment opportunities, it also faces serious challenges.

The following policy measures shall be pursued to develop the sector:

7.7.1 Corporate social responsibility shall be promoted in the construction industry.

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 Works and Human Settlement (MoWHS) in collaboration with Ministry of Labour and Human Resource, Ministry of Economic Affairs and 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 2017.

7.7.4 Mechanisation of the construction industry shall be promoted and made mandatory in a phased manner and wherever feasible. 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 Royal Government shall invest in Research and Development and promote appropriate mechanisation that will enhance attraction of Bhutanese and reduce imported labor in the construction industry.

7.7.6 The Royal Government shall support the development of companies specializing in such areas as electric wiring, tiling, wood processing, plumbing and fitting, ceiling, flooring, insulation installation, landscaping, architecture etc.

7.7.7 The Royal Government shall encourage FDI in construction industry.

7.7.8 Construction quality standards shall be benchmarked to the best international standards and shall include green features that include building performance standards and energy efficiency and seismic resilient provisions.

7.7.9 The Royal Government shall establish and promote construction service centres through the TTIs and promote the apprenticeship programme for on the job training in collaboration

with the construction companies.

7.7.10 The MoLHR shall develop provision of training in the TTI's as per the requirements of the construction job market and national needs.

7.7.11 The Royal Government shall adopt Industrialized Building Systems and encourage the manufacture of prefabricated and standardized components. The use of local construction materials shall be encouraged.

7.7.12. Rules and regulations for registration and other construction related activities shall be formulated by 2017 to strengthen integrity and ethics in the construction industry and improve quality of construction. Major public procurement works shall have a minimum defect liability period of three years and an inbuilt system of repair and maintenance thereafter to ensure the quality and sustainability of public infrastructure.

7.7.13 Targeted modules and institutionalization of mandatory training for the contractors shall be introduced to develop professional capacity of the contractors. Similarly, to address the mismatch of skills and jobs, the government engineering sector shall create specialized trades.

7.7.14 Monitoring of construction works will be enhanced through the development of an implementation and accountability framework. It will first be piloted with larger public sector undertakings. Possibilities of establishing an independent Quality Control/Monitoring agency will be explored. A review will be undertaken to provide incentives to contractors that deliver high quality infrastructure.

7.7.15 Procurement rules and regulations and its accompanying manuals/documents shall be reviewed from time to time to align to the needs of the changing times.

7.7.16 Efforts shall be made to improve the generation of employment in the construction industry. Long term as well as short term strategies shall be formulated for employment of Bhutanese workforce.

7.7.17 The Royal Government shall review existing policy conflicts and make construction industry favourable for economic development.

7.7.18 The Royal Government shall assess and ensure the participation of Bhutanese contractors in the construction of hydropower projects.

7.7.19 The Royal Government in pursuit of national strategic goals of domestic capacity development, shall directly award works in specialized constructions to facilitate professionalizing of national contractors in specialized disciplines. The MoWHS shall formulate the implementation guidelines by 2017.

7.7.20 The MoWHS and CDB shall formulate a Green Construction Policy by 2018.

7.7.21 The MoWHS shall explore strategic options for road maintenance. Towards this, the Ministry shall pilot the establishment of Road Maintenance Centers along the 500 km Northern East-West highway.

7.8 Education

Skills and knowledge are the driving forces of economic and social development. Education in the fields of **Science, Technology, Engineering and Mathematics (STEM)** 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. These world class institutions shall provide certain number of scholarships to Bhutanese students based on guidelines issued by the Ministry of Education. However, private or foreign participation in the education sector shall not lead to privatization of the public education system.

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.

The following shall be undertaken in the education sector:

7.8.1 The Ministry of Education shall implement the **Bhutan Education Blueprint 2014-2024** and operationalise the **Tertiary Education Policy 2010**.

7.8.2 Establish the country as a hub for education. Special focus may be placed on environmental studies, Buddhism, GNH, renewable energy and so on.

7.8.3 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 **including FDI**.

7.8.4 Synergy between educational **policies/strategies** and **labour market needs** shall be **ensured**.

7.8.5 The **Royal Government** shall develop a large talent pool of technically educated human resource to attract investments.

7.8.6 The **Royal Government** shall adopt policies that foster private sector investments in the **education sector**.

7.8.7 The Royal Government shall **continue to** encourage financial institutions to provide loans to students at minimum interest rates.

7.8.8 **Autonomy and independence shall be granted gradually to existing public schools and educational institutes by providing grants based on performance. The management of public schools may be outsourced with performance targets.**

7.8.9 **In the development of infrastructure for educational institutes, PPP model shall be encouraged.**

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. **Selected services in 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 Royal Government will continue to provide free health care through the public hospital network both in modern and traditional medical systems. 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, private sector **involved in health care** shall be allowed to bring in **the required expatriate medical and health professionals** in keeping with rules and regulations as prescribed by Medical and Health Council Act, 2002.

7.9.2 Ministry of Health shall **adopt** a policy to open the health sector to private investment **including traditional medicines by 2017.**

7.9.3 **The Royal Government shall facilitate establishment of** medical facilities from diagnostics to testing to treatments in the country.

7.9.4 **The Royal Government shall** promote the country to become a centre for health and

wellness tourism focussing on niche areas.

7.9.5 Enhance the indigenous medical R&D base and be a centre of excellence for education in traditional medicine.

7.9.6 The Royal Government shall facilitate the development of a health insurance market to address and support the increasing costs of public healthcare. The MoH shall formulate the technical guideline for the health insurance products by 2017.

7.9.7 The Drug Regulatory Authority shall collaborate with similar agencies in the source markets to fast track the registration process and explore avenues for automatic recognition.

7.10 ICT

To enable the realisation of the national development objective of a “green knowledge based economy”, the ICT industry is a core sector that needs to be developed to enable a structural transformation of the economy over time. The industry needs to move way from a predominantly vendor based industry to higher value industries of software programming, business process outsourcing, designs, animations, data processing and data centres through development of skills.

ICT will be a cross-cutting national endeavour and the following shall be undertaken to mainstream ICT into the national development agenda:

7.10.1 The Royal Government shall formulate and update the ICT infrastructure development policy and plan every five years.

7.10.2 The cost of connectivity will be benchmarked to costs within the region.

7.10.3 Licensing for ISPs and mobile service providers shall be liberalized to encourage and increase penetration of internet use and accessibility by 2018.

7.10.4 Institutional mechanism to protect intellectual property shall be developed and strengthened for the ICT sector.

7.10.5 The Royal Government shall identify the core competency in niche areas and requirement of differential skills for the establishment of a regional institute of excellence in ICT.

7.10.6 Software Development, Animation, R&D and Data processing centres shall be promoted as priority activities in ICT sector.

7.10.7 Investment in IT and ITES industries shall be encouraged by providing capability development training and quality education in the ICT field.

7.10.8 Provision of both domestic and international redundancy of network will be accomplished by 2017.

7.10.9 Promote e-governance for transparency and efficiency.

7.10.10 Review and integrate market oriented ICT courses in colleges and educational institutions to develop the required skills. The ICT Advisory Panel shall be mandated to identify and develop the relevant skills in the private sector for overall development of the ICT ecosystem.

7.10.11 The Royal Government shall strive to achieve universal connectivity and bring down the cost of connectivity.

7.10.12 The Royal Government shall implement the ICT Industry Masterplan by 2017.

7.10.13 To encourage and promote innovation in the development of the film, media and creative art sector, foreign investments shall be allowed in the sector with the exception of news media.

7.10.14 The minimum investment threshold for FDIs in IT/ITES activities located in the IT Park shall not be applicable.

7.10.15 Multi Service Operators (MSOs) shall be encouraged and licensed by 2018.

7.10.16 The Royal Government shall support innovation and development in ICT Sector.

7.11 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.

7.11.1 A Trade Development Act shall be enacted to promote trade. It shall enable adoption of regulations in all aspects of trade such as anti-dumping measures, safeguards, conformity assessment procedures, mutual recognition agreements amongst others. The legislation shall be benchmarked to international best practices.

7.11.2 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. Wholesale centres importing goods directly from manufacturers shall be

established at all border towns.

7.11.3 The Royal Government shall formulate a Competition Act by 2018 to regulate anti competitive behaviour and unfair trade practises by firms.

7.11.4 The Royal Government shall implement the Consumer Protection Act to safeguard consumer rights including the establishment of dispute settlement mechanism in all major population centres.

7.11.5 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.

7.11.6 The Royal Government shall pursue the establishment of dry ports and warehousing facilities at all major exit points in Bhutan. Dry ports in Phuentsholing and Pasakha shall be established by 2018.

7.11.7 Efforts shall be made to harmonize customs documentation, procedures and formalities through bilateral and regional initiatives.

7.11.8 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.

7.11.9 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. Existing trading arrangements at bilateral, regional and multilateral levels shall be further negotiated to foster market access for Bhutanese products. Efforts shall be made to complete negotiations with Nepal, Thailand, BIMSTEC and WTO.

7.11.10 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.

7.11.11 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.

7.11.12 The MoEA shall give high priority and implement the recommendations of the Export Promotion Strategy by 2017.

7.11.13 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. 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. The MoEA, MoF and RMA shall jointly develop a framework for implementation of the above provisions by end of 2017.

7.11.14 The Royal Government shall implement a quality assurance program to support export oriented businesses to meet product quality requirements of the markets.

7.11.15 The Rules and Procedures for Imports from Third Countries, 2001 shall be revised by 2017. The revision shall also incorporate the rules and procedures for import from India. The list of restricted items for imports shall also be reviewed on an annual basis.

7.11.16 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.

7.11.17 Trading and distribution of **Petroleum Oil and Lubricant (POL)** products shall be regulated as long as the products remain controlled items in India. A Policy for distribution of POL products shall be adopted by 2017.

7.11.18 The rules of origin are normally applied under preferential **trading arrangements**. For availing tariff concessions, rules of origin agreed under a specific agreement shall be applied. Industries shall fulfil the requirements stipulated in the respective agreements to be granted certificate of origin.

7.12 Financial services:

Financial sector is vital for economic development. Development of a dynamic financial sector that supports the National Development Plan objectives shall be the cornerstone of this Policy. Thus, to support the country's sustainable socio-economic development targets, the Royal Monetary Authority (RMA) in collaboration with the Royal Government and financial institutions shall undertake the following.

7.12.1 The RMA and the Royal Government shall implement the recommendations under the Financial Sector Development Action Plan in line with the proposed timeframe in the Action Plan.

7.12.2 In order to enhance the domestic productive capacity, the RMA shall formulate legal framework for the promotion of lending to priority sectors identified by the Royal Government that includes promotion of CSI banking and development of micro financial institutions. To support CSIs financing, the Royal Government shall introduce credit guarantee schemes and interest subsidy.

7.12.3 The RMA shall continue to improve and upgrade payments and settlement system including payment gateways in the country by 2018.

7.12.4 The RMA shall implement macro-prudential policy and develop domestic liquidity management system through introduction of new money market instruments by 2018.

7.12.5 Develop and adopt a National Strategy and Action Plan for combating anti-money laundering and terrorist financing by 2018.

7.12.6 The Ministry of Finance in collaboration with RMA shall review the External Commercial Borrowing guidelines by 2017 with focus on easing access to external funding.

7.12.7 The RMA, Ministry of Economic Affairs and Ministry of Finance shall formulate appropriate strategies to promote debt and capital markets by 2018.

7.12.8 To support efforts towards the deepening of the financial sector, the RMA shall develop legal, regulatory and monitoring system for promoting specialized banks and other forms of financial services.

7.12.9 The RMA shall develop policies to encourage financial institutions to increase their capital base.

7.12.10 The RMA shall establish necessary infrastructure for use of all major international credit and debit cards in the country by 2018.

7.12.11 The Royal Government shall mandate businesses and citizens to move towards a more cash less payment system in a progressive manner starting in 2017.

7.12.12 The Royal Government shall ensure that fiscal and monetary policy reinforces each other so that imbalances in the economy are avoided. An Economic Intelligence Bureau shall be established for ensuring this mandate. A consultation protocol shall be formulated for the process.

7.13 Transport services

Given the difficult mountainous terrain of the country, the Royal Government shall explore all options in developing new transportation **modes**, 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. **The following policies shall be adopted for development of transport sector in the country.**

7.13.1 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 provide appropriate subsidies to operators in remote areas.

7.13.2 Promote **establishment** of clean, safe, **affordable** and reliable mass transportation, starting with the major cities. **Improved urban transport shall be through the introduction of Bus Rapid Transit system and associated interventions to reduce congestion and vehicular emission.** Central to the transportation strategy will **also** be expanding **of** the road linkages to all the villages and building new highways and road tunnels to reduce distance **and costs.**

7.13.3 **Explore possibilities of introducing electric/hybrid public transport system in major urban centres by 2017** given their larger population base, economic activities as well as favourable topography.

7.13.4 Explore the establishment of rope ways or cable car network in ecologically sensitive and **remote locations to improve access and minimize the impact from road construction.**

7.13.5 **The Royal Government shall give priority to the** development of domestic air transport and airports.

7.13.6 Develop **inland Container Depots or Dry** ports **including** railway links **together with** supporting facilities such as customs, immigration, quarantine etc. at the **border crossings.**

7.13.7 Multipurpose helicopter operations **shall be introduced for** search and rescue, **medical** evacuation, emergencies, **disaster management**, transportation of heavy machinery and non-scheduled services **in places not served by fixed-wing aircraft operations.**

7.13.8 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.

7.13.9 To enhance **quality of transport services**, connectivity to seaports in India and Bangladesh and connection to the Asian road network, shall be included as a strategic part of the country's transportation network.

7.13.10 **The provision in the Road Act on minimum speed limits shall be amended to reflect the carrying capacity of the improved road infrastructure.**

7.13.11 The Royal Government shall promote the use of hybrid and electric vehicles through **suitable policy interventions.**

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.

8. REVIEW OF THE REGULATORY FRAMEWORK

All Acts, Policies, Rules and Regulations of all sectors shall be reviewed to create an enabling environment. This shall be done within [one year of adoption of this Policy](#) in accordance with [its provisions](#) and shall be coordinated by the GNHC. The following shall be reviewed [and revised](#):

1. Land Act, 2007
2. Labour and Employment Act of Bhutan, 2007
3. Immigration Act, 2007
4. Income Tax Act of the Kingdom of Bhutan 2001
5. Road Safety and Transport Act 1999
6. National Environment Protection Act, 2007
7. Intellectual Property Acts
8. [Bhutan Information, Communications and Media Act, 2006](#)
9. [Civil Aviation Act, 2000](#)
10. [Movable and Immovable Property Act](#)
11. [Local Government Act](#)

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. All new acts and regulations being proposed or drafted shall improve public service delivery by reducing the need for licensing.

9. INCENTIVES

There shall be three types of incentives, namely, General Incentives, Sector Specific Incentives [and Performance Based Incentives](#). General Incentives [and performance based incentives](#) are available to all sectors. Sector Specific Incentives [are available to the sectors as](#)

specified.

The draft proposed incentives is attached as Annex I for reference:

10. THE WAY AHEAD

The GNH Commission shall take responsibility to review the implementation of the Policy, monitor performance, make projections about the future and recommend appropriate policy measures. As the feedback on the EDP 2010 resounded lack of implementation and accountability of Policy provisions, it will be critical that a proper system is designed to ensure that relevant sectors give high priority to implementation. The following shall be strictly adhered:

10.1 GNHC Secretariat shall ensure that the specified activities for various agencies are incorporated in the Annual Performance Agreements.

10.2 A system of monitoring and reporting on the implementation of reform activities as identified in the Policy is instituted.

10.3 In the implementation of Policy provisions that require inter-sectoral representation and decisions, specific Committees shall be instituted with clear delineation of authority and responsibility of the members.

ANNEX I: INCENTIVES

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 till 31 December 2019.

9.1.2 Sales tax exemption shall be provided for all permissible raw materials and packaging materials used by manufacturing industries, till 31 December 2019.

9.1.3 All incentives related to export of goods or services such as income tax exemptions, shall be applicable to wholly obtained domestic goods and those with imported content that meet the value addition of 40%.

9.1.4 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 2019.

9.1.5 Expenditure incurred including those by patrons for R&D shall be allowed as tax deductible expenditure in whole.

9.1.6 Businesses adopting environmentally friendly technological up gradation on or before 31st December, 2019 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.

9.1.7 The Royal Government shall accord domestic preference of 10% for all its procurement.

9.1.8 Expenditure incurred for innovation/invention that results in grant of patent of new products or processes shall be allowed as tax deductible expenditure in whole.

9.1.9 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.

9.1.10 Sales tax and customs duty exemption shall be granted for purchase of electric automobiles/hybrid cars/cars that run on renewable energy including spare parts.

9.1.11 To ensure that ICT is available for all citizens and further to support the development of the overall IT/ITES Industry in the country, the existing 5% service tax on telecom services shall be lifted.

9.1.12 Existing businesses which started commercial operation on or before January 1, 2016 shall also be eligible for all incentives provided in this chapter for the remaining period of the applicable incentives.

9.1.13 The Royal Government shall negotiate for exemption of excise or GST from India and develop an equivalent local levy at the border to prevent deflection.

9.1.14 The TDS for global tenders for foreign suppliers shall be double of the applicable rate of domestic suppliers.

9.1.15 To promote an eSociety, import of computers, cellular handsets, smart devices along with all related hardware and software shall be exempt from customs duty and sales taxes.

9.1.16 The RGoB shall ensure that the industrial lease rents are reasonable and affordable.

9.2 Sector Specific Incentives

9.2.1 Cottage and Small Industries (CSI)

9.2.2.1 Subsidised Incubation facilities shall be provided where available for both land and structure based on the Incubation guidelines.

9.2.2.2 The Royal Government shall accord 15 per cent margin¹ of preference in its purchases from cottage and small enterprises and provided they meet the quality criteria.

9.2.2.3 In order to promote balanced economic development, a 10 year tax holiday shall be given to new CSI and co-operatives established between 1st January 2016 to 31st December 2019 outside Thimphu and Phuentsholing municipal areas.

9.2.2.4 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 before lending between 1st January 2016 to 31st December 2019 and exemption shall be till December 31, 2019.

9.2.2.5 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.

¹ As per the Procurement Rules and Regulations 2009, in case of goods of Bhutanese origin, a 5% margin of preference is given to the national bidders in case of works.

9.2.2.6 To encourage small industries to upgrade to medium and large scale, the Royal Government shall continue to provide tax holidays for a maximum period of three years or till the end of 31st December 2019, whichever is earlier; from the day they upgrade the scale of their business.

9.2.2 Energy

The incentives shall be provided as per the relevant provisions in the Bhutan Sustainable Hydropower Development Policy, [Alternative Renewable Energy Policy](#), and [Energy Efficiency and Conservation Policy](#).

9.2.3 Agriculture:

The Royal Government shall provide the following support and incentives:

9.2.3.1 All [agriculture machinery, equipments, tools, implements including spares and accessories](#) shall be exempted from sales taxes and import duties.

9.2.3.2 Sales tax and customs duty shall be exempted on any other agricultural inputs.

9.2.3.3 Income tax holiday of 10 years [shall be given](#) for commercial farming and related processing of its products from the date of first sale and established between 1st January 2016 to 31st December 2019. An additional 5 years tax holiday [shall be granted](#) for commercial farming of organic produces.

9.2.3.4 [Cost sharing insurance schemes shall be introduced for selected commodities of crops and livestock.](#)

9.2.3.5 [The RGoB shall continue to bear the entire cost of transport of agriculture inputs](#)

9.2.3.6 [The RGoB shall provide access to start-up capital to promote critical RNR enterprises.](#)

9.2.4 Tourism

9.2.4.1 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.

9.2.4.2 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 [until 31st December, 2019. This will be eligible for incorporated companies.](#) Concerned units must

maintain proper books of accounts and inventory.

9.2.4.3 The Income Tax Act will be reviewed to allow entertainment expenses up to 5% of the assessed net profit.

9.2.4.4 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.

9.2.4.5 For [tourist standard](#) hotels established between 1st Jan 2016 and 31st Dec 2019, as classified by Tourism Council of Bhutan, a 5 year income tax holiday shall be provided from the date of commencing commercial operation.

9.2.4.6. For [tourist standard hotels established between 1st January 2016 and 31st December 2019 in tourism deficient areas, as classified by Tourism Council of Bhutan, a 15 year income tax holiday shall be provided from the date of commencing commercial operation.](#)

9.2.4.7 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, sanitary wares and electrical fittings shall be exempted from customs duty and sales tax on recommendation of the Tourism Council of Bhutan.

9.2.4.8 Farmhouse [home stays that](#) meet the minimum standards for hospitality shall register with TCB and be exempt from all licensing requirements and income tax.

9.2.4.9 Foreign participants [coming](#) for MICE shall be exempt [along with their spouses and minor children](#) from daily tourist tariff [as per the Tourism Rules and Regulations](#). All visa applications for MICE participants shall be routed through the TCB.

9.2.4.10 A reinvestment allowance of 25% of total capital expenditure incurred shall be provided for the up-gradation of the existing hotels.

9.2.4.10 Human resource development plays an integral role in the successful development of tourism. Therefore, in order to encourage tour operators, accommodation providers and other service units under tourism sector to train their employees, a tax rebate on training expenses will be provided. TCB shall institute monitoring mechanisms by 2016/17.

9.2.5 Mining

[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 and shall cover the following and other relevant incentives:](#)

9.2.5.1 On certification by DGM, MoEA and NECS, companies that have invested in equipments and machinery and/or capacity building programmes that comply beyond prevailing environmental standards shall be allowed full tax credits. The credit is deductible to a maximum of 30% of companies tax payable in a given year and balance can be carried forward for use in future years.

9.2.5.2 Sales tax and custom duty exemption on all capital goods used for mining- earth moving equipments (excavators, bulldozers, trucks etc) and also other mining equipments like jackhammer, rock breakers, rack drills, compressors etc shall be provided. Spare parts shall also be exempted from sales tax and custom duty.

9.2.5.3 Investments that lead to reduction in the number of expatriate labour employed shall be allowed accelerated depreciation at half of the prevailing time period for depreciation.

9.2.5.4 For new capital investments, defined as either in new mines and processing facilities or major expansions of existing mines or processing facilities, accelerated depreciation of double the prevailing rates shall be allowed.

9.2.5.5 New investment tax credit up to 30% of the mining tax payable in a given years shall be available and balance can be carried forward for use in future years.

9.2.5.6 Mining companies with processing facilities or exploration companies that increase their exploration activities in search of new mines are entitled to a deduction equal to 150% of exploration expenditures. Eligible exploration expenditures in a given year must exceed the average of expenditures in the previous three years.

9.2.5.7 Tax holiday of shall be given for new mining companies with processing facilities established after 1st January 2016. Qualifying publicly listed and privately held companies shall be exempt from paying BIT/CIT until the taxable profits equal their capital outlays for expansion/new unit etc. The qualifying criteria shall be:

For Publicly listed companies

- a) All technical personnel including chief finance officers shall be nationals unless such expertise is not available within the country and is certified to that effect by MoLHR/DGM.
- b) The general public or small retail investors shall hold at least 30% of shares.

For Privately held companies

- a) All technical personnel including chief finance officers should be nationals unless such expertise is not available within the country and is certified to that effect by MoLHR/DGM.
- b) Be registered under the Companies Act of the Kingdom of Bhutan 2000.

c) Earning at least 30% of revenues in convertible currency.

9.2.5.8 Companies engaged in technology transfer either from established companies or engaging in research and development shall be entitled to 33% accelerated depreciation on the technology transfer.

9.2.5.9 Allow 10% retention of taxable income for establishment of the company's science and technology fund or unit.

9.2.5.10 Hiring of mining and geology consultants on short-term basis shall be fully tax deductible.

9.2.6 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.

9.2.6.1 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 1st January 2016 to 31st December 2019.

9.2.6.2 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 1st January 2016 to 31st December 2019.

9.2.6.3 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 10 years from the date of establishment. Applicability shall be to businesses established between 1st January 2016 to 31st December 2019. Businesses established outside IT parks shall be eligible for the other incentives as those located inside the IT parks. This incentive shall apply from 1st January 2016 to 31st December 2019 for a period of 10 years.

9.2.6.4 Import of computers, related hardware and software shall be exempt from customs duty and sales taxes.

9.2.6.5 Exemption of Custom duty and Sales Tax on import of specific professional equipments required by the media services shall be given.

9.2.6.6 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 2016 to 31st Dec 2019 shall be exempted.

9.2.6.9 Sales tax and customs duty shall be exempted on imported construction materials forming direct inputs for IT park development.

9.2.7 Film and Media:

The following support and incentives shall be provided:

9.2.7.1 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.

9.2.7.2 The film industry shall receive all incentives available to the IT service providers. [Filming or production of audio visual programmes or movies or documentaries by foreign organisations shall be exempt from filming royalty subject to duration of at least 7 days.](#)

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.

9.2.9 Education Service

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

9.2.9.1 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 1st Jan 2016 and 31st Dec 2019.

9.2.9.2 Exemption of Customs duty and sales tax on imported textbooks, journals, periodicals, teaching aid materials and library books used for educational purpose. [Sales tax shall be exempted on all food items imported for supply to educational institutions.](#)

9.2.9.3 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.

9.2.10 Health Service

9.2.10.1 Newly established pharmaceutical shops in the rural areas from 1st January 2016 – 31st December 2019 shall be given a five-year tax holiday.

9.2.10.2 Newly established private health services shall be eligible for 10 years tax holiday.

9.2.11 Waste Management Services

9.2.11.1 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.

9.3.12 Transport Services

9.3.12.1 Sales tax and customs duty shall be exempted for buses by passenger transport entities.

9.3.12.2 A 5 year income tax holiday shall be provided to taxi/car hiring service companies.

9.3 Performance Based Incentives

9.3.1 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:

9.3.1.1 Direct contracts in the construction sector shall be awarded to businesses employing 100% Bhutanese nationals based on the criteria developed by the Construction Development Board.

9.3.1.2 Preference shall be given to businesses employing 100% Bhutanese nationals in the national human resource development planning and training opportunities.

9.3.1.3 Tax rebate of 10% shall be allowed for businesses employing 100% Bhutanese nationals with no less than 20 employees for consecutive 2 years.

9.3.1.4 The Royal Government shall provide stipend to the trainees.

9.3.1.5 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.

9.3.2 Foreign Exchange

9.3.2.1 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.
- iii. 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.

9.3.2.2 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.

9.2.3.3 Export earnings in convertible currency of business enterprises established between 1st January 2016 and 31st December 2019 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.

9.3.3 Value addition

Fiscal incentives in the form of tax rebate shall be provided for enterprises that achieve value addition of 50% or more.

9.3.4 Environmental and Technology Up-gradation

Environment friendly and efficient technology meeting environmental baseline standards as a performance based criteria.

9.3.4.1 Industries that maintain higher environment standards than legislated or demonstrate continual improvement shall be provided additional incentives.

9.3.4.2 A 10-year income tax holiday shall be provided to those who have up-graded the facility to an integrated wood industry.

9.4 *Non-Fiscal Incentives for Five Jewels*

The Royal Government shall,

9.4.1 Streamline legislations and policies on a priority basis and adopt whole of Government recognition of these sectors as priority sectors for growth and provide collective support to the development of these sectors.

9.4.2 Provide sufficient budget and institutional support to achieve the sectoral targets

9.4.3 Develop ancillary infrastructure, technical and extension services where necessary

9.4.4 Provide subsidies where deemed necessary

9.4.5 Integrate activities and targets in local government plans

9.4.6 Assign higher weightage in Annual Performance Agreement for these sectors

9.4.7 Give preference in the allocation of scarce resources

Annex II: Prohibited List

1. Activities that violate any relevant laws of the Kingdom of Bhutan
2. Activities that threaten national security and public order
3. Activities that has harmful effects on public health, environment and Bhutanese morals and culture
4. Arms, ammunitions and explosives
5. Production of hazardous chemicals (as per the restricted list of NEC)
6. Activities based on imported waste
7. Production, display and sale of Pornographic materials
8. Gambling and Betting
9. Tobacco and tobacco based products