

Role of Incentives in Promoting FDI for Inclusive and Sustainable Development



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**PRESENTATION
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Bhutan- International Rankings

One of the
Fastest
Growing
Economies

4th in 2011-
2012 (*IMF
World
Economic
Outlook*)

Best In
Travel
Amongst
Top 10
Countries
for 2012

Ranked 6th
by Lonely
Planet

Corruption
Perception
Index 2012

Best in
South Asia
- Ranked
33rd

Global Peace
Index

19th Most
Peaceful

Happy
Planet
Index

Ranked 17th
(2009)

Amongst
the 9 “Star
Emerging
Countries”
by

Overseas
Developme
nt Institute
(UK)

Investment Promotion



- Bhutan is known as a “tourist destination”
- Efforts are made to promote the country also as an investment destination through policy reforms, provision of incentives and other measures.
- Various procedural and regulatory frameworks are being reviewed and simplified such as fast tracking of approvals, revision of companies act, formulation of enterprise registration act, G2C, G2B initiatives amongst a number of other reforms to attract investment.
- Incentives are part of the promotional package to attract investment including the FDI

Selling Points



- Our selling points, amongst others, comprise of
 - ✦ Political stability
 - ✦ Peace and security
 - ✦ Access to vast regional market
 - ✦ Reliable and competitively priced electricity
 - ✦ Low corruption level (33rd CPI)
 - ✦ Political commitment to economic growth
 - ✦ Pristine environment
 - ✦ English speaking workforce amongst others

Priority Sectors



Manufacturing

- Agro based
- Forest based
- Energy (Electricity)
- Water Based products
- Other manufacturing – electronics; electricals ; computer hardware; building materials etc

Services

- Education
- Specialized Health Services
- Hotels/resorts
- Infrastructure facilities
- R & D
- Head Office
- IT/ITES
- Construction
- Waste Management
- Water supply & Mgm (Urban)
- Technical & Vocational Education
- Transportation & related services
- Consultancy
- Financial Services

Incentives for Investment



- FDI Law provides for Equal Treatment in provision of incentives and privileges
- Fiscal Incentives provided to domestic investment also apply to FDI.
- Bhutan moved away from time-bound incentives to sector based incentives in 2010.
- Currently, different forms of incentives are in place namely General Incentives, Specific Incentives and Sector Specific Incentives to different types and sizes of industries including FDI

Types of Incentives



- General Tax Incentives – applicable to all types of investment are:
 - Duty exemption on import of capital goods for industries
 - Sales tax exemption on industrial raw materials
 - Tax exemption on hard currency earnings
 - Re-investment allowance upto 25% (tax deductible)
 - Environment friendly technology up-gradation (15% tax rebate)
 - Expenditure incurred in R & D (tax deductible)
 - Use of self generated foreign exchange for import of industrial inputs

Specific Tax Incentives



- Specific tax incentives are provided to promote two main areas namely:
 - Cottage and small Industries (CSIs)
 - ✦ 10 year tax holiday
 - ✦ Additional 10 year in remote location
 - ✦ Income tax exempt on interest income earned by FI through lending to CSIs
 - Waste management
 - ✦ 15 year tax holiday

Sector Specific Incentives



- Sector Specific Tax Incentives are provided to the following sectors and mainly comprise of income tax holidays of 5-15 years:
 - ✦ Agriculture,
 - ✦ ICT, IT/ITES,
 - ✦ Tourism & hotels,
 - ✦ Film and media,
 - ✦ Construction,
 - ✦ Transport
 - ✦ Education
 - ✦ Health
 - ✦ Infrastructure

Role of Incentives

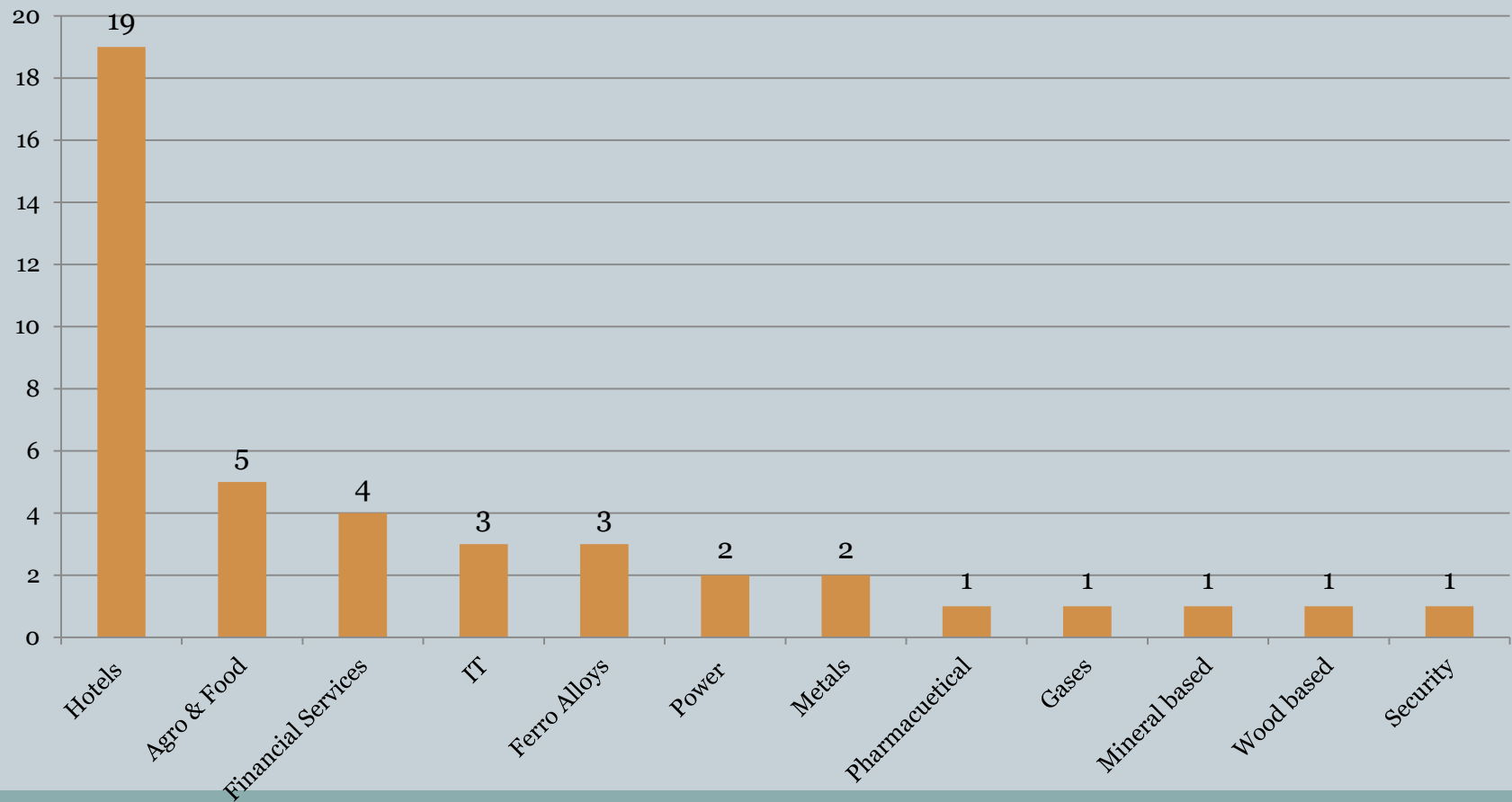


- Incentives are targeted to specific sectors and areas to promote green and sustainable industrial development.
- Review indicates predominant FDI interest in Hotels
- Majority of FDI fall in sectors that have been given incentives including hotels
- While incentives support channeling of investment in key areas, investments attraction is apparently driven by business potential. Hotels are directly associated with Bhutan as ‘tourist destination” while construction and manufacturing industries draw on large scale hydro-power development and availability of reliable hydro-electricity.
- Incentives is, therefore, viewed to complement business prospects.

Current FDI Scenario



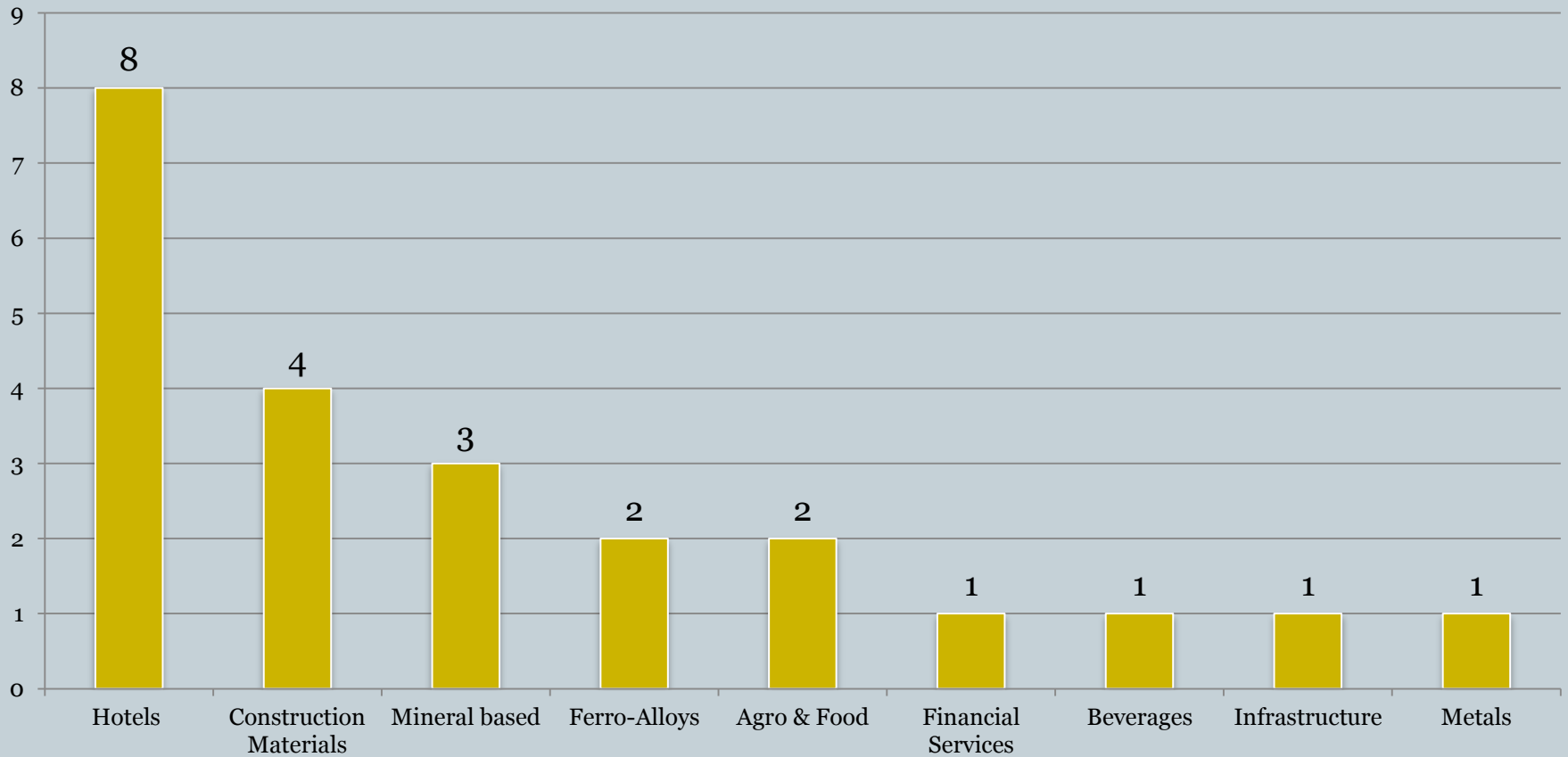
Approved FDI Projects as of October, 2013



FDI in Pipeline



FDI in the Pipeline, 2013



Challenges



- Choice and type of incentives need to be clearly linked to development objectives and targeted
- Phasing out incentives could be difficult even with sunset clauses
- Sustainability of an investment without incentives may be a concern and thereby lead to long term dependence on incentives
- Long term sustainability of incentives – a major concern

Cost and Benefits



- Cost of incentives are generally “deemed revenue loss” as incentives are provided to new establishments. The real cost of incentives cannot be firmly ascertained but are debated.
- Similarly, the benefits of incentives are equally debated as to whether incentives were really necessary and effective in attracting investments.
- However, the general trend appears to hold that incentives are necessary to attract investment and particularly FDIs.

Necessity of Incentives



- Incentives were deemed necessary to stimulate investment and diversify the economy. The focus is to attract investment in green and sustainable industries to achieve economic self reliance.
- Global economic slowdown impacted FDI flows. In competing for lower FDI flows, host countries rely on policy reforms and incentives to attract FDIs.
- Foreign investors have a choice of investment locations and incentives is presumed to be one of the variables in deciding investment location.
- As such, incentive forms a part of investment promotion tool. Bhutan, like any other country leverages on these promotional tools.



- For further information on FDI, please contact

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For further information on FDI Policy and Procedures
please visit the website

www.moea.gov.bt

THANK YOU