

NATIONAL COUNCIL OF BHUTAN

Review of the Economic Development Policy 2010

Economic Affairs Committee

11 June 2010

Economic Affairs Committee, National Council

Background

The Economic Affairs Committee of the National Council is pleased to provide a review of the Economic Development Policy (EDP) 2010. The review is based on the mandate provided for in the Constitution of Bhutan and the National Council Act under the following articles:

Article 10.2 of the Constitution provides the basis for parliamentary review of executive functions when it says: *“Parliament shall ensure that the Government safeguards the interests of the nation and fulfils the aspirations of the people through public review of policies and issues, Bills and other legislations, and scrutiny of State functions.”*

The Constitution in Article 11.2 also confers specific additional powers on the National Council to *“act as the House of review on matters affecting the security and sovereignty of the country and the interests of the nation and the people that need to be brought to the notice of the Druk Gyalpo, the Prime Minister and the National Assembly”*.

The Article 7 of the National Council Act states that:

“The National Council shall ensure that the Government safeguards the interests of the nation and fulfills the aspirations of the people through public review of policies and issues, Bills and other legislation, and scrutiny of State functions.”

Further Article 10 of the National Council Act highlights the review function of the National Council as follows:

“In exercising its review function, the National Council shall:

- a) Review and comment on the policies, plans and programmes of the government;*
- b) Review performance of the government;*
- c) Review implementation of resolutions and laws; and*
- d) Review issues of national importance.”*

Contents

1. Summary	4
2. On the Purpose and Scope of the Document	5
2.a. Defining the Purpose of the Document	5
2.b. Limited Scope of the EDP	5
3. On Defining Clear and Meaningful Objectives of the EDP	7
3.a. Setting Clear Goals and Objectives	7
3.b. Defining and Clarifying Goals and Objectives	7
4. On Linking Goals, Objective and Strategies	10
5. On Fiscal Incentives	11
6. On Monitoring Implementation	13
7. On Gross National Happiness	14
8. On Alternative Ideas and Institutions	15
8.a. Role of CSOs in CSME Promotion	15
8.b. Role of Micro Finance	15
8.c. Role of DHI	15
8.d. Role of Development Partners	15
9. On Areas of Concern	17
9.a. Ensuring Global Responsibility	17
9.b. Ensuring Good Governance	17
9.c. Plugging a revenue loophole	17
10. Summary of Recommendations	18
Annexure I: Adoption of New Policies and review/enactment of Acts	19
Annexure II: Incentives	20
Annexure III: World Bank Ease of Doing Business index	21

1. Summary

The National Council commends the government for publishing the Economic Development Policy 2010. The EDP can play a very important role in laying the basis for a predictable interface between the government and the private sector. Steered in the right direction, the private sector can contribute immensely in addressing, among others, two of the most pressing development challenges related to employment generation and poverty alleviation.

Since the EDP was launched only on 31st March 2010, it is too early to evaluate its implementation progress and results. Therefore, the scope of this document is limited to providing a review of: the overall intent of the document, the objectives outlined, and an analysis of strategies proposed. The review also highlights some areas of concern and proposes a set of recommendations for an inclusive and pro-poor growth that fosters greater human welfare and happiness.

There are several commendable policy reforms in the EDP that will create an enabling environment for private sector growth. However, there are also other areas where the revisions to the EDP are recommended. Such revisions are critical in view of the anomalies in the goals and objectives and major omissions related particularly to the role of the private sector in addressing rural development and poverty alleviation.

An examination of the goals/objectives of the EDP reveals that some of the goals set (such as becoming a middle income country and attaining full employment) have statistically been attained as of March 2010. Other goals like 9 percent growth rate and self-reliance have to be defined clearly to ensure that the outcome of the EDP has a meaningful impact on poverty alleviation and employment generation.

A revision of the EDP is also imperative because EDP states: “*Wherever necessary, policies, laws, rules and regulations shall be harmonized or amended in line with the provisions of the Economic Development Policy.*” If the EDP is not rooted on a firm basis (such as the reality of the Bhutanese economy and society), it is only logical that the 13 new polices to be drafted, 3 Acts to be enacted and the 8 laws to be amended as per the EDP will be based on weak premises as well (see full list in Annexure I). This would have a detrimental impact on our economy and society in the years to come.

While clearly beyond the scope of the EDP, the Council’s review of the document highlights the need to envision the attributes of the GNH Society we aspire to. If we are clear on the attributes of the GNH state we are working towards, then the EDP can be formulated to guide the private sector towards a GNH state. In the absence of a description of this ideal GNH state, as a goal of the EDP, this document looks like a conventional economic policy applicable to any developing country.

2. On the Purpose and Scope of the Document

For a document that seeks to lay out a comprehensive economic policy for the country it is very important for the EDP to have a clear purpose. However, the purpose for the EDP as stated in the Honorable Prime Minister's Foreword and the purpose stated in the EDP document are not consistent. Furthermore, the scope of the document is also limited to mostly urban based formal business enterprises and does not adequately address the needs of small rural enterprises.

2.a. Defining the Purpose of the Document

The Honorable Prime Minister's Foreword states that: "*the Royal Government has prepared this Economic Development Policy (EDP) to serve as a framework for government agencies while formulating their strategies, rules and procedures, and as a reference for the private sector...and the primary purpose of the EDP is to facilitate private sector development and stimulate economic growth*" The Foreword further states that: "*The EDP is intended to create a transparent and conducive environment for business and investment in the Bhutanese Economy.*" According to this foreword the document should more aptly be called a Private Sector Development Policy.

However, the title of the document projected as "Economic Development Policy" implies that the EDP is a broad policy document that covers macro- economic and social development policy for the entire economy and population and not just the private sector. Further, the Introduction chapter in the EDP states that "*The Economic Development Policy shall be the apex policy for economic development of the country and shall be the guiding document for all ministries and agencies to stimulate the economy growth and more importantly, to ensure that growth takes place in consonance with the principles of GNH.*" This also implies that the EDP is more than just a private sector development policy.

2.b. Limited Scope of the EDP

The EDP, even if it is indeed a private sector development policy has a limited scope. The thrust of the policy caters to private enterprises (such as finance, construction, tourism, high end health, high end education, ICT, etc.,) which are large and well organized through industry associations and the chamber of commerce.

In the context of a developing economy like Bhutan, it is important to recognize that the private sector should not be limited only to the formally organized business sector. It also includes individuals and households, both poor and rich, in rural and urban areas who operate as private economic actors when they consume goods and services, sell their labor, farm or produce goods and services. Thus a vast majority of the Bhutanese who live on small farms in rural areas also fall very much within the private sector.

Economic Affairs Committee, National Council

The EDP does not acknowledge on the role of the private sector in poverty alleviation, the most important development priority for Bhutan. The term “poverty” is mentioned only twice in sections 7.11 and 9.2.2.5. (in the context of agriculture and biodiversity and tax holidays respectively) and never as an intended outcome of private sector development. While the EDP may have been drafted after holding wide stakeholder consultations, the largest stakeholders, who are the rural people comprising a majority of the population have clearly been excluded. To be considered as a national policy document for a developing private sector in a country like Bhutan, the EDP must include a comprehensive section on poverty alleviation and rural enterprise development which is missing from the document.

Stable and sustainable economic growth must be inclusive and should transcend focusing only on the sectors that are organized and deemed to have the highest potential. It should also tap the potential of the poor as innovators and entrepreneurs and not just as passive recipients or beneficiaries of state projects. Therefore, the EDP must include conscious efforts to stimulate enterprise at the grassroots level, especially in the rural areas.

3. On Defining Clear and Meaningful Objectives of the EDP

In any policy document it is important to set clear goals and/or objectives. Goals describe expected outcomes or states and are the ends towards which effort or action is directed and coordinated. Objectives address outcomes or processes which when achieved move towards attaining a goal. Strategy is understood as a thoughtfully constructed method or plan that is employed to meet the objectives and goals.

In order to guide policy execution, monitoring and accountability for results, it is vital for any policy to have objectives that are SMART (Specific, Measurable, Achievable, Relevant and Time-bound).

In the case of the EDP the following observations have been made.

3.a. Setting Clear Goals and Objectives

Section 5.a of the EDP states that Objectives are:

5.1 Achieve economic self-reliance by the year 2020.

5.2 Full employment (97.5%).

In the same document, the last paragraph of the introduction reads: *“The Royal Government shall work towards achieving a minimum economic growth rate of 9% annually and strive to be a middle-income nation by 2020.”*

Looking at the two statements quoted above, achieving economic self-reliance and becoming a middle income nation by 2020 are like goals, while attaining 9 percent growth rate and full employment sound like objectives. Further, these are conventional development goals that are relevant for any other developing country, and there is nothing uniquely Bhutanese or GNH about such goals. The EDP must set out clear goals, objectives and strategies in line with the philosophy of Gross National Happiness.

3.b. Defining and Clarifying Goals and Objectives

There is a need to define what terms like self-reliance, full employment, 9 percent growth and becoming a middle income country mean. A shared understanding of these terms will help to focus strategies and aid in monitoring the implementation of the EDP.

Firstly, there is a need to define economic self-reliance explicitly. From the Honorable PM’s Foreword, it is apparent that economic self-reliance is understood as Bhutan’s ability to finance recurrent and capital budget expenditure from domestic sources and not to have to depend on foreign aid. Bhutan 2020, A Vision for Peace Prosperity and Happiness published in 1999 extends

Economic Affairs Committee, National Council

this definition to include self-reliance for “basic necessities of life, skills and experience.” There are yet other dimensions to economic self-reliance that would include attaining a strong balance of payment position, building adequate convertible currency reserves, diversifying sources of tax revenues, etc. Hence for the purpose of the EDP and the target set for 2020 it will be vital to define self-reliance clearly.

Secondly, one of the goals set is to become a middle income nation by 2020. This classification method, based on income category, was developed by the World Bank for its operational and analytical purposes. By this method, “Economies are divided according to 2008 GNI per capita, calculated using the World Bank Atlas method. The groups are: low income, \$975 or less; lower middle income, \$976 - \$3,855; upper middle income, \$3,856 - \$11,905; and high income, \$11,906 or more.”¹

With Bhutan’s per capita GNI in 2008 at US\$ 1900, Bhutan has already entered into the ranks of middle income countries. Hence this goal has already been met before the implementation of the EDP. Further, the usefulness of such a measure to measure the outcome of EDP for Bhutan is questionable because GNI per capita is an aggregate measure does not shed enough light on income distribution and human welfare.

The third objective is to achieve “*a minimum economic growth rate of 9 % annually.*” It would be important to confirm that 9 percent annual growth stated is growth per annum and not an average annual growth rate for 2010-2020.

Further, GDP is largely an aggregate accounting measure which does not capture important and desirable development outcomes such as improved societal welfare, quality of environment, security, income distribution etc.,. A focus on GDP growth alone cannot address national priorities such as generating employment, enhancing productivity and diversifying the economy. For example, data from 2007 shows that the electricity sector comprised about 20 percent of the GDP, and attained growth rates as high as 139 percent. However, it provides direct employment for only 1.1 percent of the total labor force (i.e., 3,500 persons out of total labor force of 312700).²

It is recommended that the EDP (for a developing country like Bhutan which emphasizes in people centered human development) set meaningful outcome targets such as poverty reduction, lowering income gap, and improvement in HDI rankings rather than aggregate concepts like GDP growth rate. This would then add more holistic development dimensions to purely economic measures such as GDP growth, full employment, etc., and take this document closer to a GNH inspired development path.

¹ The World Bank, Country Classifications on <http://data.worldbank.org/indicator/NY.GNP.PCAP.CD>

² National Statistical Bureau, Statistical Year Book of Bhutan, 2009. October 2009, Thimphu

Economic Affairs Committee, National Council

The fourth objective to attain full employment at 97.5 percent is commendable. However, this objective also needs to be defined and closely examined in terms of the local context.

Full employment, in macroeconomics, is defined as “*a condition of the national economy, where all or nearly all persons willing and able to work at the prevailing wages and working conditions are able to do so.*” It is a labor market situation where opportunities exist in the job market and the unemployed are those who are in search of other opportunities. Through this definition of full employment, Bhutan has already attained this goal as well.

In the current local context, it is common knowledge that there are numerous jobs available, especially in the construction sector. However, Bhutanese do not take up these jobs due to the perception that such jobs pay low wages and have poor working conditions. Thus the unemployed in Bhutan are largely youth, with some level of education, who are not willing to work in the construction or agriculture sector at the prevailing wage rate and under the present working conditions.

Unemployment, especially among the youth, in the country is attributed to the mismatch between job seekers expectations and skills and the kind of jobs available in the economy. A thrust on attaining full employment is clearly not a solution to this unemployment challenge. Rather the objective of the EDP must be to provide gainful employment. This requires policy interventions that seek to improve labor productivity (to sustain higher wages) and diversify employment opportunities. The government must also align skills training and human resource development policies to the pattern of economic growth.

4. On Linking Goals, Objective and Strategies

A policy document must have clear and logical linkages between the goals, objectives and strategies. Typically a policy seeks to meet policy goals by building on comparative and competitive advantages and addressing systemic and structural constraints. The EDP highlights both the opportunities and constraints in the introductory chapter. For example it states that:

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

In addition, the other constraints are:

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

The Policy recognizes that unless these constraints are systematically removed, the capacity of the private sector as the engine of growth cannot be enhanced.”

The strategies are elaborated in Section 5.B and read as follows:

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

From the strategies elaborated above, the linkages between constraints and strategies are tenuous at best. For example four of the ten constraints point to a lack of trained human resources by stating, “ *6) Lack of management skills; 7) Shortage of professionals; 8) Low productivity of labour; 9) Absence of R&D capability.*” However, the section on strategies does not elaborate how the aspects related to human resource constraint will be addressed. Similarly the strategies do not address macro-economic issues related to balance of payments, fiscal deficit, convertible currency, etc.

A critical strategy that is missing in the document is the imperative to enhance labor productivity. It is well known that job opportunities exist in Bhutan but have few takers due to low wages and the difficult nature of construction work. If Bhutan seeks to overcome this challenge and provide well paid jobs to our youth, the only avenue that can sustain higher wage jobs is through enhanced productivity. This requires concerted efforts to foster education, market related skills development, technological innovation and application. Thus it is recommended that strategies outlined for EDP be better aligned to the challenges it seeks to meet.

5. On Fiscal Incentives.

A major section of the EDP is devoted to providing fiscal incentives such as tax holidays, import duty waivers, etc., to enterprises (Full list in Annexure II). The reasons outlined in the EDP for providing incentives are to promote growth and increase employment opportunities.

International literature shows that the main reason for providing incentives is to correct for the failure of markets to capture wider benefits from externalities of production. Such externalities may be the result of economies of scale, the diffusion of knowledge or the upgrading of skills.³ It goes beyond the basic goal of stimulating growth and employment.

It must be noted that the incentive packages, while beneficial to the entrepreneur, pose an opportunity cost to the government and society in terms of revenues foregone. Similar fiscal incentives were granted during the Ninth Five Year Plan and the impact fell short of expectations. Most of the industries established during this period included industries (such as Palm oil plants) that were set up to exploit the tax differential between Bhutan and India and the comparatively cheaper energy cost in Bhutan. It is common knowledge that the contribution of these industries to industrial development, employment and growth has also been negligible.

From an economic point of view, there is a question whether incentives are suited for all conditions. Incentives such as tax exemptions can have counterproductive effects. This is because incentives change relative prices, distort price signals and alter the efficient allocation of resources in the economy. Firms and individuals alter their behavior in ways so as to pay the least amount of taxes possible and maximize their own welfare. So when certain activities or sectors of the economy are exempted from taxes by way of tax holidays and others are not, there is a tendency among firms to allocate resources towards such activities or sectors, which might not always be the best productive use of such scarce resources. This not only affects the efficient allocation of scarce resources in the economy in the long run, but it is also inequitable as those in similar conditions and earning similar income are not treated similarly.

A detailed review of Tax Holidays conducted by the International Monetary Fund in 2005 also showed that in a range of developing countries tax incentives eroded the tax revenue base and did not have substantive effects on investment decisions.⁴ Another study by UNCTAD, as reported in the World Investment Report 1999 states that: *“once a decision to invest has been made, other things being equal (which they seldom are), incentives could influence investment decisions tilting the balance in favor of the country providing incentives.”*

³ UNCTAD, World Investment Report 2003, FDI Policies for Development: National and International Perspectives, 2003, p. 124

⁴ Teresa Guin-Sui, Maria (2005) “Tax Holidays” International Monetary Fund, Washington DC.

Economic Affairs Committee, National Council

Incentives could tip the balance when two countries or regions offer broadly similar conditions; however, they cannot compensate for such things as unreliable and weak infrastructure, lack of trained manpower, or lack of other enabling conditions. Therefore, it is not surprising that the tax incentives in the Ninth Plan did not spur growth in rural areas, despite tax holidays for rural areas, apart from investments in some hotels for which tax holidays would not have been the major determining factor in any case. Fostering rural enterprises needs more than just tax incentives. They require transfer of business ideas, skills, and capital as well as marketing support.

In view of the above, the National Council recommends the government undertake a thorough review of the impact of fiscal incentives on private sector development and employment generation during the Ninth Plan. The Council also recommends the government attach certain conditions (linked to employment generation, skills development and up-gradation, domestic linkages and economic diversification) to companies that enjoy tax incentives.

6. On Monitoring Implementation

Section 10 of the EDP mandates the Gross National Happiness Commission to review the implementation and monitor performance of the EDP. In this context, it would be vital to develop a clear road map for implementation, set accountability on institutions, publish indicators and targets to monitor and to assess EDP implementation. An important initiative would be to revise the goals and objectives of the EDP and set SMART (Specific, Measurable, Achievable, Relevant and Time-bound) targets.

Furthermore, considering that the target year 2020 is beyond the term of the government (at least from the election cycle point of view), for purposes of monitoring implementation it would be more meaningful to set short/midterm goals that the government seeks to attain by 2013.

Considering the important role of the government in creating an enabling environment for private sector development, the Council recommends the government consider improving Bhutan's ranking in the "Ease of Doing Business" survey conducted by the World Bank as one of the indicators of the EDP (See annexure III). It may be noted that currently Bhutan ranks only 126 out of 183 countries.

Some of the general policy reforms highlighted in section 7.1 of the EDP are progressive and commendable and will contribute to ease of doing business. These include sections: 7.1.2 on license exemption of small and cottage service sector enterprises; 7.1.3. on setting a cutoff date for approval or denial of projects; 7.1.4 on reducing burden of compliance,

A high ranking on the ease of doing business index means the regulatory environment is conducive to the operation of business. The advantages of using this indicator are: it will not cost the government extra resources to conduct such a study; it has suitable indicators on the enabling environment for enterprises; and it makes possible comparisons across time and between countries.

7. On Gross National Happiness

Bhutan is recognized globally for pioneering and championing the idea of GNH. Therefore, it is important to analyze if a document such as the EDP is indeed consonant with our aspirations for a GNH society.

A cursory glance shows that the EDP makes some mention of GNH in the following statements: The PMs Foreword states that the *“EDP has been designed fully in consonance with the principles of GNH.”* Similarly the Vision seeks: *“To promote a green and self reliant economy sustained by an IT enabled knowledge society guided by the philosophy of GNH.”* The Purpose of the document states that: *“the EDP shall...ensure that growth takes place in consonance with the principles of GNH.”*

The common denominator in the statements above is the adherence to the principles or philosophy of GNH. However, it is not clear what kind of a society Bhutan seeks to move towards by adhering to the principles of GNH. We are aware of the four pillars of GNH. These pillars serve as useful guiding principles for decision making and may be useful in providing a framework for government planning. While important, the four pillars are not sufficient to provide an understanding of the attributes, values and vision of a GNH state.

While this articulating a vision of a GNH state is beyond the scope of the EDP document, as a GNH aspiring country, it is nonetheless important that we consider how consistent the EDP is with the overall national aspiration.

To assess this it becomes important to first establish a national vision and understanding of what kind of a society Bhutan aspires to be. This requires us to envision and articulate the values and attributes of a GNH society. We can then outline the strategies to attain the vision and in doing so also delineate roles and functions for the public sector and the private sector. The EDP could then elaborate and define the role of the government in regulating and/or aiding the private sector in moving towards the national vision of a GNH Society.

Setting a clear vision for a GNH Society and articulating a clear role for the EDP in moving towards such a society is vital in this era of economic liberalization and globalization. Ultimately, a document such as the EDP has to address how the relationship between the government and the private sector can be managed in the country’s quest for higher growth, better and greater employment prospects, increased productivity, etc., while at the same time ensuring that Bhutan is able to manage externalities and does not fall victim to unbridled capitalism, environmental destruction, cultural dilution etc., thereby leading to a GNH Society.

8. On Alternative Ideas and Institutions

This section highlights some of the ideas and institutions that could be considered in the EDP.

8.a. Role of CSOs in CSME Promotion

Historical experiences of developed and developing countries show that cottage and small and medium enterprises (CSMEs) play an important role in employment creation, rural income generation and poverty alleviation. Current statistics (NSB, 2008) show that 98 percent of the 17,642 industries registered in Bhutan fall into the cottage and small category underscoring the importance of this segment in self-employment and income generation, especially in rural areas.

The EDP provides some incentives to promote these industries through tax holidays and other support. However, small enterprises and business start ups require more than just tax incentives. They need additional support in terms of business ideas that are suited for specific locations and niche areas. Civil Society Organizations are vital agents of change at the grassroots level and especially in remote and rural areas in providing innovative business ideas and small grants. Local CSOs such as the Tarayana Foundation and Loden Foundation have attained some success on this front. Therefore, the EDP must recognize a role for the CSOs as agents of change and enterprise and explore avenues to support them as well.

8.b. Role of Micro Finance

Access to finance is a major constraint on any business in Bhutan. However, the financial and monetary policy reforms stated in the EDP, such as inter-corporate borrowing, external loans, debt and capital markets, though important, only favor large businesses. There is no mention about enhancing access to micro-finance and loans for small businesses.

8.c. Role of DHI

The other important institution that is missing is a role for Druk Holding and Investments (DHI) Ltd. As per its mandate, the DHI has an important role, which is to make investments by optimal usage of resources or raising funds and to lead, complement and spearhead the growth of a dynamic private sector. As a government owned holding company, it has a vital role in providing an interface between government and the private sector to meet national policy priorities.

8.d Role of Development Partners

Bhutan's excellent relationship with the donor countries could transcend traditional donor-recipient model and be used to develop the private sector. For example, development assistance can be used as leverage for business partnerships and increasing the flow of FDI. For this it will be vital to expand the policy dialogue beyond the traditional Government-to-Government approach, so as to include private sector agents from both countries. Existing models of such partnerships

Economic Affairs Committee, National Council

include the Danida supported “G4S Security Services (Bhutan) Private Limited” established in 2005 between the Bhutanese Partner: Chhundu Enterprises and the Danish Partner: Group 4 Holding. Similarly in 2006, Swedefund International AB provided a soft loan to Bhutan Dairy and Agro products Limited. Swedefund also brought together commercial entities like Tetra Pak and Tetra Laval Credit into the partnership.

Development agencies potentially have a wide selection of ODA instruments at their disposal to promote private investments in developing countries. This includes the direct supply of goods or services, free-standing technical co-operation, grants, concessional loans, partnerships, alliances, equity acquisitions and guarantees.

Examples of such partnerships with multilateral agencies include the UNDP led “Growing Sustainable Business (GSB) initiative” World Bank led IFC and SEDF facilities. These initiatives help to stimulate private sector development through transfer of capital, skills, technology and access to markets.

9. On Areas of Concern

This section highlights two areas of concern drawn from the EDP and the accompanying note on Private Public Initiatives.

9.a. Ensuring Global Responsibility

Section 7.12.4 states that: “*The Royal Government shall conduct feasibility Study to develop Bhutan into an International Offshore Financial Center and Financial Hub for the region within the 10th Plan.*” It is common knowledge that an Offshore Financial Center is a euphemism for a tax haven. OFCs are typically defined as “low-tax jurisdiction specializing in providing the corporate and commercial services to non-residents in the form of offshore companies and the investment of offshore funds.” OFCs are also associated with money laundering and other illicit activities. This could have negative ramifications for Bhutan’s overall relationship with India in general and impact negatively on the current monetary arrangement with India which has so far served Bhutan favorably.

Considering the high level of ethical standards that GNH aspires to set for Bhutan and in view of Bhutan’s global social and ethical responsibility, the plan to establish OFCs (that will invariably support tax evasion by foreign individuals and corporations) should not be considered.

9.b. Ensuring Good Governance

The Framework for Private Participation in Infrastructure aspires to set and meet basic principles of good governance by seeking to ensure transparency in invitation, selection and award of projects, establishing uniform procedures and ensuring fair and equal access for award of projects.

However, this good intention is clearly undermined in both letter and spirit by Section 11, which provides exceptions on a case by case basis. Major criticism in the past has been attributed to such approaches which are deemed arbitrary in nature and question the very heart of good governance, which is transparency. Considering that such exceptions could deeply undermine transparency and fair processes, the Council recommends the government revoke this clause.

9.c. Plugging a revenue loophole

The EDP Section 9.3.4.8 states that “*Foreign participants or attendees for MICE shall be exempt from daily tourist tariff/royalty.*” The acronym MICE stands for “Meetings, Incentives, Conferencing and Exhibitions.” Further the MOF Notification issued on 2nd April 2010 where Section 3.3.10 states “*Daily tourist tariffs/royalty shall be waived for foreign participants in meetings international conventions and exhibitions (MICE).*” The “I” stands for Incentives (not international) which are (essentially paid holiday) trips undertaken as a type of employee reward by a company for targets met or exceeded. Incentive tourism is usually conducted purely for entertainment rather than for professional or educational purposes. Providing tariff/royalty exemption for Incentives would prove to be a source of revenue leakage if not clarified and plugged immediately. This could have been an oversight in the policy.

10. Summary of Recommendations

Based on the review of the EDP, the National Council makes the following recommendations:

1. Clarify the purpose of the EDP: Is it an apex policy document for development of the country or a private sector development policy?
2. Expand the scope of the EDP: Make the policy more inclusive to include poverty alleviation as a goal and also focus on rural enterprise development and provision to facilities such as micro finance for development of small and cottage enterprises.
3. Set Meaningful Goals and Objectives: Goals and objectives must go beyond aggregate statistical measures such as GDP and full employment and elaborate on qualitative measures on how the EDP implementation will contribute to human development and happiness
4. Clarify Goals and Objectives: The document must be more precise and should not set out goals and objectives that are already met. It would be useful to have short term goals that the government seeks to attain by 2013 and not leave it to a future date such as 2020.
5. Clear Link between Goals and Strategies: the EDP must strive to link strategies to the goals set in the document
6. Review Fiscal Incentives: It is important to review how effective fiscal incentives have been in promoting enterprises during the Ninth Plan. Fiscal incentives should be linked to employment generation and creating of linkages in the economy
7. Monitor Implementation: A clear plan must be developed to monitor implementation along with targets and indicators that are SMART.
8. Use global Indicators: As a measure of improving the enabling environment for business, the EDP could focus on improving Bhutan's rank on "Ease of Doing Business" survey conducted by the World Bank.
9. Consider alternative Institutions and ideas : the role of alternative ideas and institutions such as DHI, CSOs, and development partners to help private sector development should be specified as well;
10. Reconsider the setting up of OFCs as this could be detrimental to the country;
11. Revoke Clause 11, in Framework for PPI that undermines transparency and good governance.
12. Plug the revenue loop hole: Adopt a clear definition of MICE as universally understood and cancel the fiscal incentives for "Incentive" related travel.

One of the most important issues that this review has brought to the fore is the need to articulate a national vision for a GNH society. Such a shared vision will help to frame policies, assess implementation and review performance of not only the EDP, but provide the basis for all other decisions and actions in both public and private sphere. The Council recommends the government to initiate discussions with all stakeholders to develop a vision for a GNH state so that socio-economic policies can be developed in line with such a national goal.

Annexure I: Adoption of New Policies and review/enactment of Acts
New Acts

Sl. No.	EDP Section	Name of Act	Proposed Enactment date
1.	7.3.1	Industries and Investment Act	Within 10FYP
2	7.3.1	Foreign Investment Act	Within 10FYP
3	7.4.3	Consumer Protection Act	By 2010

New Policies

Sl. No.	EDP Section	Name of policy	Proposed Enactment date
1.	7.1.1	Land use Policy	2011
2	7.1.4	Eliminating unnecessary and overlapping approvals	End 2010
3	7.1.5	Clear and comprehensive framework for approval of industrial projects	By 2010
4	7.1.12	Recognition and protection of intellectual rights	By 2011
5	7.1.13	FDI policy revised	First quarter of 2010
6	7.2.1	Electricity for all	2013
7	7.2.10	National Renewal policy	10th FYP
8	7.3.9	Special Economic Zones Policy	By 2010/11
9	7.4.C	Export promotion strategy developed	No time line
10	7.5.22	Hotel classification system	By 2010
11	7.6.1	Mining development Policy	By 2010
12	7.7.3	Develop strategies plan for capacity building of construction industries	By 2010
13	7.10.1	ICT infrastructure dev. Policy	End of 2010

Legislations to be reviewed as per EDP

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

Annexure II: Incentives

Sl. No.	Clause in EDP	Name of incentives
1.	9.1.1	Custom duty and sales tax exemption Exemption for manufacturing and industries
2	9.1.2	Sales tax exemption
3	9.1.3 & 9.1.4	Business income tax exemption
4	9.1.6	Reinvestment allowance
5	9.1.7	Tax deductible expenditure
6	9.1.8	Income tax rebate
7	9.1.9	Domestic preference
8	9.1.10	Cash subsidy
9	9.1.11	Exempt from custom duty and sale tax for financial institutes of software and hard wares
10	9.1.12	Exemption duty for purchase of electric cars
11	9.1.13	Long term land lease
12	9.1.14	Incentives
13	9.2.1	Rent free incubation
14	9.2.2.2	Entrepreneur training and extension
15	9.2.2.4 & 5	Tax holiday
16	9.2.2.6	Priority in HR development
17	9.2.2.8	Sales tax and custom duty for import of equipment and labor for individual artisans
18	9.3.2.1	Exempt sale tax and import duties for all farm machinery
19	9.3.2.2	Exempt sale tax and customs duties for all agriculture products
20	9.3.2.3	Income tax holiday for commercial farming
21	9.3.3.7	Sales tax reduction for film industries
22	9.3.3.8	Income tax exemption for film, documentaries and serials
23	9.3.4.1	Exemption of customs duty and sales tax for tour operators
24	9.3.4.2	Exemption of custom duty and sale tax on equipments for camping, trekking etc
25	9.3.4.10	Reinvestment allowances for up gradation of hotels
26	9.3.8.1	Exception of customs duties and sale tax for constructions
27	9.3.9.2	RGoB bearing 50% fee for trainees
28	9.3.10.1	Tax holiday for education services
29	9.3.11.1 & 2	Tax holiday for health services
30	9.3.12.2 to 6	Duty free and exemptions for foreign exchange
31	9.3.13.1 & 2	exemption of customs duty and sale tax for recycle plants
32	9.3.14	Sales tax and custom duty exemption for passengers busses

Annexure III: World Bank Ease of Doing Business index

World Bank Ease of Doing Business index is meant to measure regulations directly affecting businesses and does not directly measure more general conditions such as a nation's proximity to large markets, quality of [infrastructure](#), [inflation](#), or [crime](#). A nation's ranking on the index is based on the average of 10 subindices:

- Starting a business - Procedures, time, cost and minimum capital to open a new business
- Dealing with licenses - Procedures, time and cost of business inspections and licensing (construction industry)
- Hiring and firing workers - Difficulty of hiring index, rigidity of hours of index, difficulty of firing index, hiring cost and firing cost
- Registering property - Procedures, time and cost to register commercial real estate
- Getting credit - Strength of legal rights index, depth of credit information index
- Protecting investors - Indices on the extent of disclosure, extent of director liability and ease of shareholder suits
- Paying taxes - Number of taxes paid, hours per year spent preparing tax returns and total tax payable as share of gross profit
- Trading across borders - Number of documents, number of signatures and time necessary to export and import
- Enforcing contracts - Procedures, time and cost to enforce a debt contract
- Closing a business - Time and cost to close down a business, and recovery rate