



**FDI ANNUAL REPORT**

**2017**

Department of Industry  
Ministry of Economic Affairs

**Disclaimer**

The FDI Annual Report is produced to facilitate a better understanding of FDI developments in Bhutan. The findings, interpretations and analysis in the Report should be treated with care, as work on harmonizing and improving data quality is a work in progress. The FDI Division, Department of Industry has taken due diligence in the preparation of this publication. The report is prepared based on information compiled from the annual FDI survey that the Department conducts, the annual return submitted to the Department and other Government publications.

## Contents

EXECUTIVE SUMMARY .....	1
1 GLOBAL TREND OF FDI.....	2
2. REGIONAL TREND OF FDI.....	2
3. FDI IN BHUTAN.....	3
3.1 FDI Policy Reforms .....	3
3.2 Other Initiatives.....	4
3.3 FDI trend in Bhutan.....	4
3.4 Trend in the source countries .....	5
3.5 FDI Projects as of 2016 .....	7
3.6 Status of approved projects .....	8
3.7 FDI by location.....	8
3.8 FDI by type of investors .....	9
3.9 FDI projects by types of financing sources .....	10
3.10 FDI Projects by Land Status.....	10
4. FDI CONTRIBUTION .....	12
4.1 Capital Inflow .....	12
4.2 Employment.....	12
4.3 Training.....	14
4.4 Tax contribution .....	15
4.5 Product Diversification .....	16
6. ANNEXURES.....	17
Annex I: Operating FDI Projects .....	17
Annex II: FDI Projects under construction.....	18

## **EXECUTIVE SUMMARY**

Global foreign direct investment (FDI) inflows declined by 2 per cent overall in 2016 to \$1,746 billion, down from \$1,774 billion in 2015. Region wise, FDI to developed economies dominated the inflow with 59 percent share which is a marginal increase from the previous year. FDI flows to developing economies and structurally weak, vulnerable and small economies declined, but at different speeds. While FDI flow to Asia contracted by 15 percent, flow to South Asia in particular increased by 6 per cent.

In Bhutan, five projects were approved in the year 2016, adding up the total number of projects approved as of December 2016 to 54 projects. Of the 54 projects, 39 projects have started commercial operation and 15 projects are under construction.

In terms of sectoral share of FDI, 59 percent of the projects are in service sector and the remaining 41 percent in manufacturing sector. Hotel sector continued to attract maximum foreign investment accounting for 39 per cent of overall FDIs in the country.

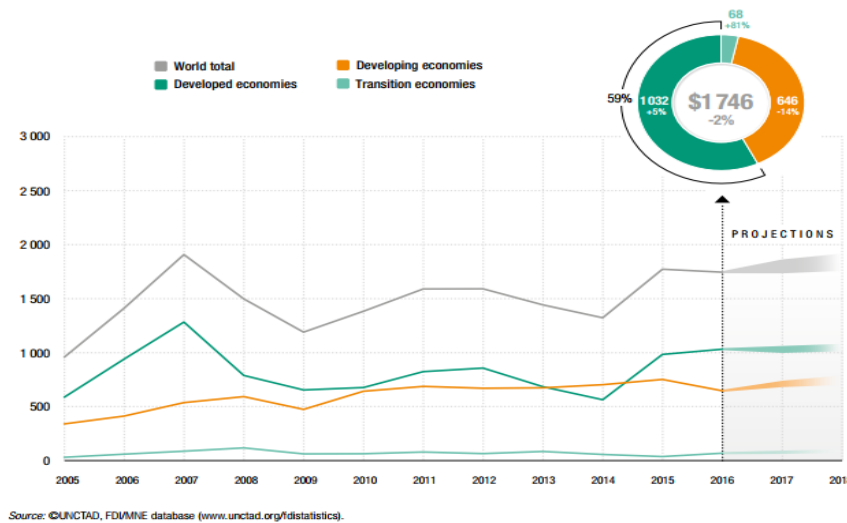
Location wise, FDI projects are mostly located in the western dzongkhags of Thimphu, Paro and Chukha, the former two in service sector and the latter in manufacturing. Investments are mostly made by Asian private companies with India leading as the origin of investment followed by Thailand and Singapore.

While the number of projects approved during the year remained stable, the equity inflow has increased significantly by 178 percent. FDI projects recorded an inflow of Nu. 600.53 million invested as equity during the year. In terms of employment generation for Bhutanese and tax contribution to the Government, both have increased marginally. The FDI companies employed a total of 3,798 Bhutanese as regular employees and 726 as casual employees. Foreign personnel employed by the companies stood at only 7 percent of the total employment. In terms of tax contribution, FDI projects contributed Nu. 1580.67 million, which is equal to 7.23 percent of the tax revenue for the year 2016.

## 1 GLOBAL TREND OF FDI

Global foreign direct investment (FDI) inflows declined by 2 percent overall in 2016 to \$1,746 billion, down from \$1,774 billion in 2015, but with variance among country groups and regions. The fall in inflows to developing economies was partly offset by modest growth in developed countries and a sizeable increase in transition economies. As a result, developed economies accounted for a growing share of global FDI inflows in 2016, absorbing 59 percent of the total (figure 1). A modest recovery in global FDI flows is however forecasted for 2017, although flows are expected to remain well below their peak of 2007 (WIR 2017).

**Figure I Global FDI Inflow by group of economies, 2005-2016 and Projections 2017-18 (billions of dollar and percent)**



Source: WIR, 2017

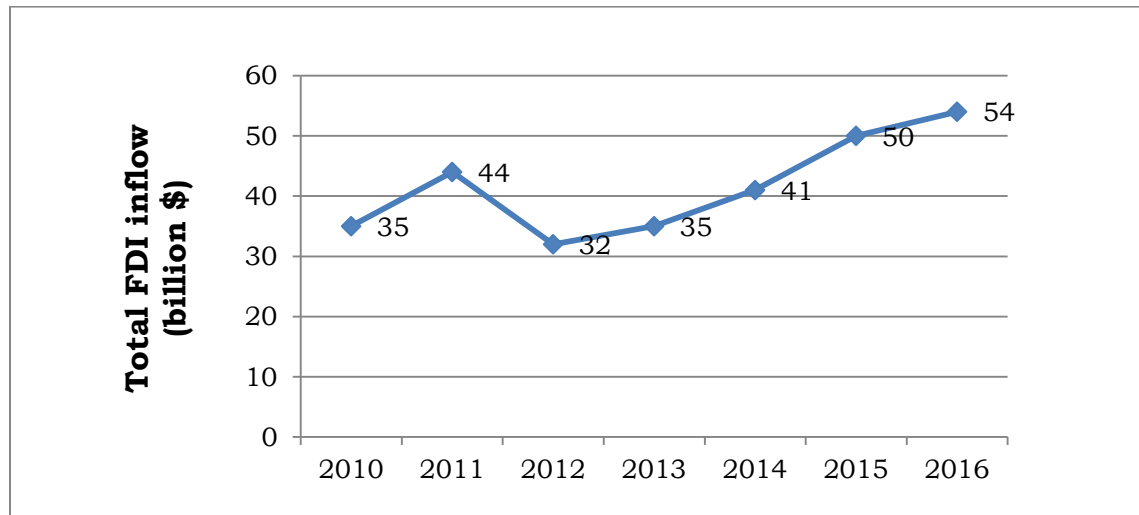
Flows to developing economies declined by 14 percent to \$646 billion. FDI flows to structurally weak, vulnerable and small economies declined, but at different rates: flows to least developed countries (LDCs) retreated strongly (by 13 percent to \$38 billion); flows to landlocked developing countries (LLDCs) fell only marginally (by 2 percent to \$24 billion), while flows to small island developing States (SIDS) shrank by 6 percent to \$3.5 billion (WIR 2017).

## 2. REGIONAL TREND OF FDI

While FDI flow to Asia contracted by 15 percent to \$ 443 billion in 2016, FDI to South Asia increased by 6 percent to \$ 54 billion. This increase is mainly due

to the increase in FDI inflow to Pakistan by 56 percent pulled by China's rising investment in infrastructure related to the One Belt One Road Initiative.

**Chart I Total FDI inflow in South Asia 2010-2016 (in billion \$)**



Source: WIR 2017

Within the South Asian region, India is the top destination for FDI with 88 percent share followed by Bangladesh with 5 percent. Share of FDI to other South Asian countries including Bhutan is very minimal.

### 3. FDI IN BHUTAN

#### 3.1 FDI Policy Reforms

FDI in Bhutan began with the formal opening of the economy through the adoption of FDI Policy, 2002 and its implementation in 2005. The policy was amended in 2010 to re-align to changing needs of the economy and changes in global investment environment. The FDI Policy 2010 takes a negative list approach wherein all activities other than those listed in the negative list are open for foreign investment. In 2014, this Policy was further amended with few changes geared towards enabling the environment for investors. Institutional foreign investors can now invest in Bhutan with a minimum stake of 10 percent and the ownership is permitted up to 100 percent in select sectors. Minimum investment levels have been reduced in most sectors. Land ownership by companies is now permitted and most foreign exchange restrictions around repatriation of dividend and operational needs have been liberalized.

### 3.2 Other Initiatives

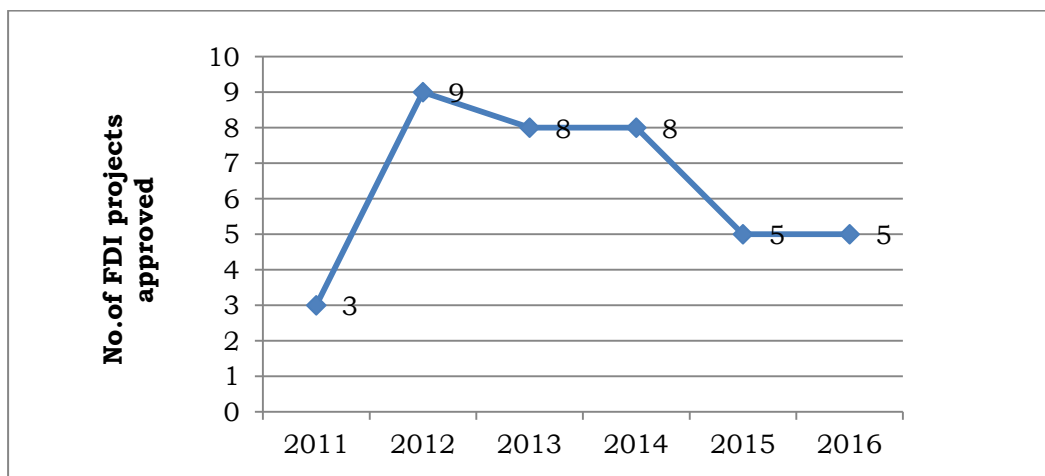
In addition to liberalizing the Policy regime, a number of other initiatives are also undertaken to improve the business climate such as:

- iGuide: An online version of the investment guide available in more than 100 languages has been launched in 2015 in collaboration with United Nations Conference on Trade and Development (UNCTAD). The web-based investment guide provides investors with up-to-date information on operating costs, wages, rents and taxes essential for an investor's business model, as well as laws, procedures and useful contacts.
- eRegulation: Under the same collaboration with UNCTAD, development of eRegulation that provides step-by-step information on rules and procedures applied to investment and other businesses, has been initiated and completed for 11 Dzongkhags.

### 3.3 FDI trend in Bhutan

FDI flows in Bhutan in terms of the number of projects have been stable during the year with a recorded number of 5 projects. The chart below shows the trend of annual FDI projects approval for the last six years.

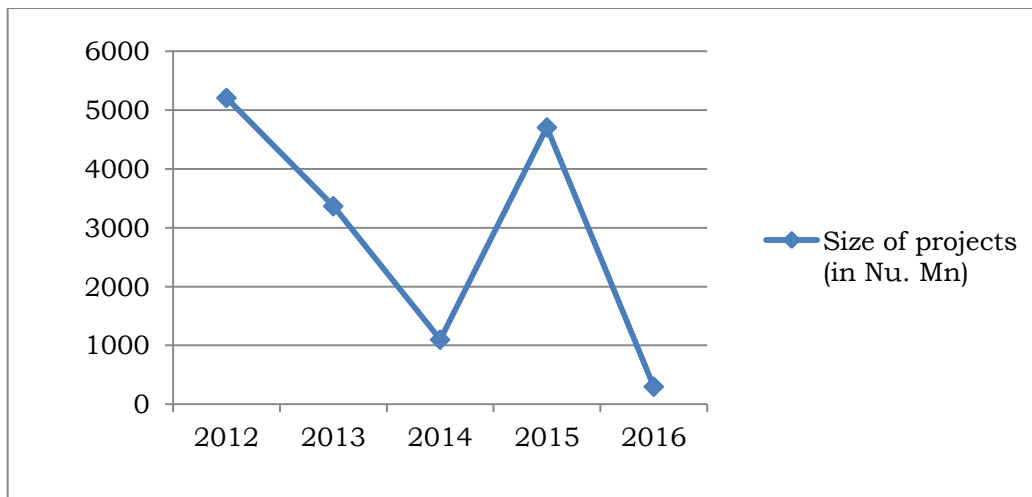
**Chart III Number of FDI Projects approved 2011-2016**



Whilst the number of projects approved has remained same as in the past year, there is a decline witnessed in terms of project size as submitted in the business plan. The chart below shows the decrease in project cost of FDI projects from Nu. 4,706 million in 2015 to Nu. 298.8 million in 2016, a

significant decrease owing to lower capital intensity of the projects approved in 2016. From the five projects approved during the year, two are in the IT/ITES where large investment is not required. The other three are in manufacturing sector; two in agro based and one in manufacturing of light weight concrete bricks.

**Chart IV** Trend in total FDI size as per the project cost:

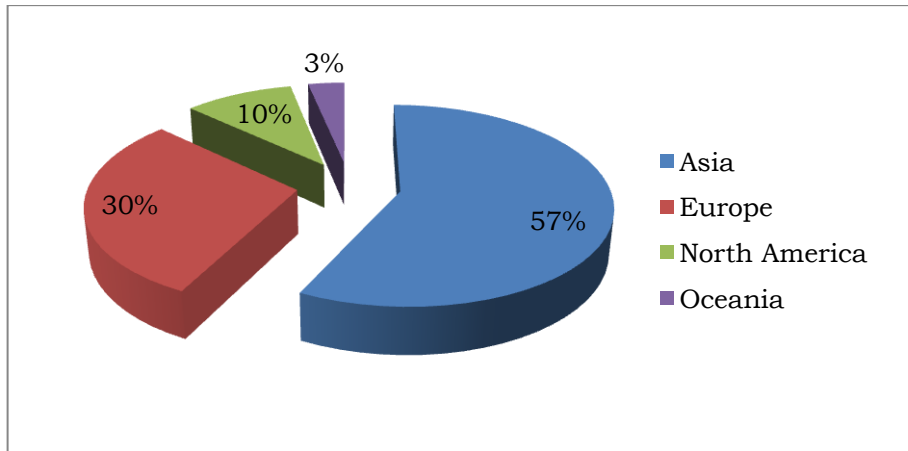


### 3.4 Trend in the source countries

As of 31<sup>st</sup>December 2016, about 57 percent of the total investments (i.e the total projects approved) were received from Asia followed by 30 percent from Europe and 10 percent from North America as shown in the chart below.

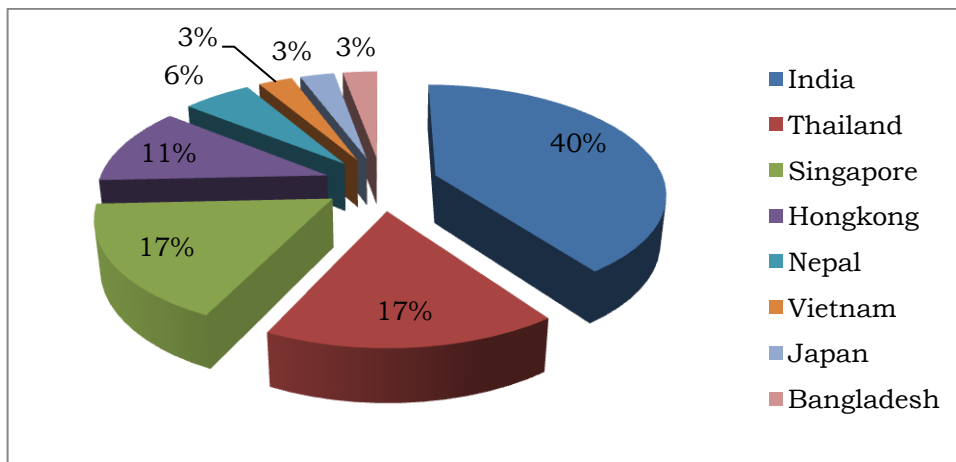


**Chart V Origin of Investors**

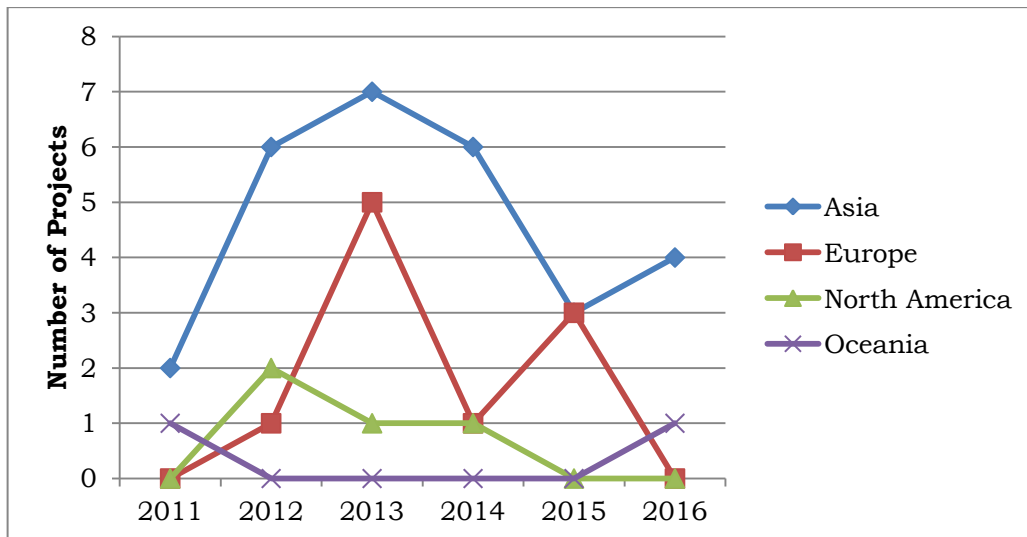


From within Asia, India is the major source of investment in Bhutan followed by Thailand and Singapore. About 70 percent of the investments from India are in manufacturing sector and are mostly established taking advantage of the cheap and reliable electricity available in the country. Investments from Singapore and Thailand are mostly in the hospitality sector aimed to cater to growing demand in the expanding tourism industry in the country.

**Chart VI Origin of investors from within Asia**



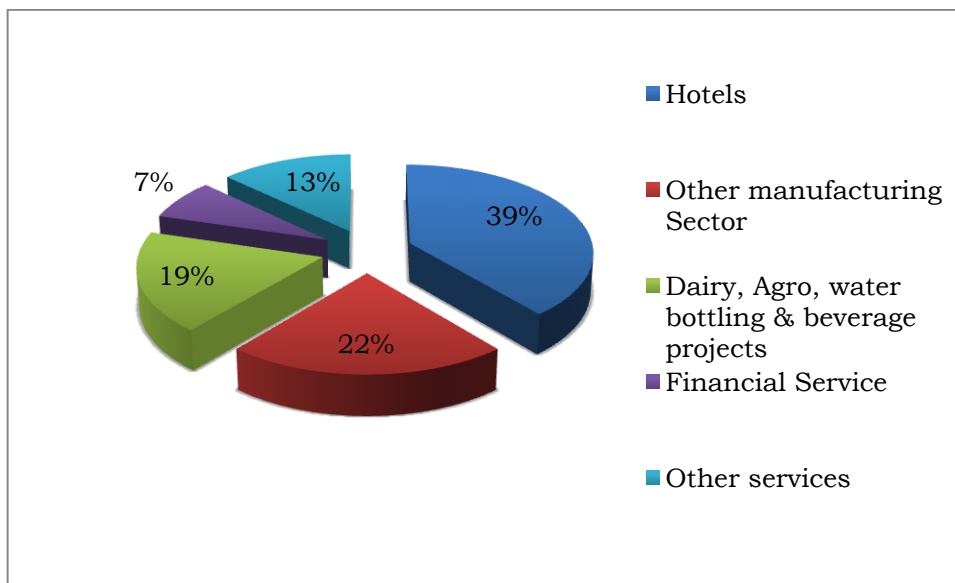
In 2016, there were five projects approved of which four were from Asian investors. The trend in the origin of investors shows that during the last five years, Bhutan received investments mostly from Asian countries. This could be due to the regional proximity and the economic integration existing within some of the main investors' countries and Bhutan.

**Chart VII Trend in source country of FDI**

### 3.5 FDI Projects as of 2016

As of December 2016, there were a total of 54 projects approved of which 32 projects were in service industry and the remaining 22 in manufacturing industry. In terms of percentage, 59 percent of the approved projects are in service industry and 41 percent are in the manufacturing.

The chart below shows the sectoral share of FDI in Bhutan. Unlike the global trend where FDI to structurally weak economies remains concentrated in extractive industries, FDI in Bhutan is mainly concentrated in Hotel industry with 39 percent share. Other sectors include “other manufacturing” such as power intensive industries (silicon, ferro alloys, etc), pharmaceuticals, and furniture production etc. constituting 22 percent of the total FDI projects.

**Chart VIII Sectoral share of FDI to Bhutan as of 2016**

FDI in the hotel industry has grown steadily from Nu. 2.45 Billion<sup>1</sup> in 2010 to Nu. 4.60 billion in 2016, an increase by 87.6 percent over a span of six years. This is further expected to grow as an increasing number of hotel projects are in the pipeline for approval.

### 3.6 Status of approved projects

Of the 54 active projects, 39 projects (72 percent) are under commercial operation and 15 (28 percent) projects are under construction.

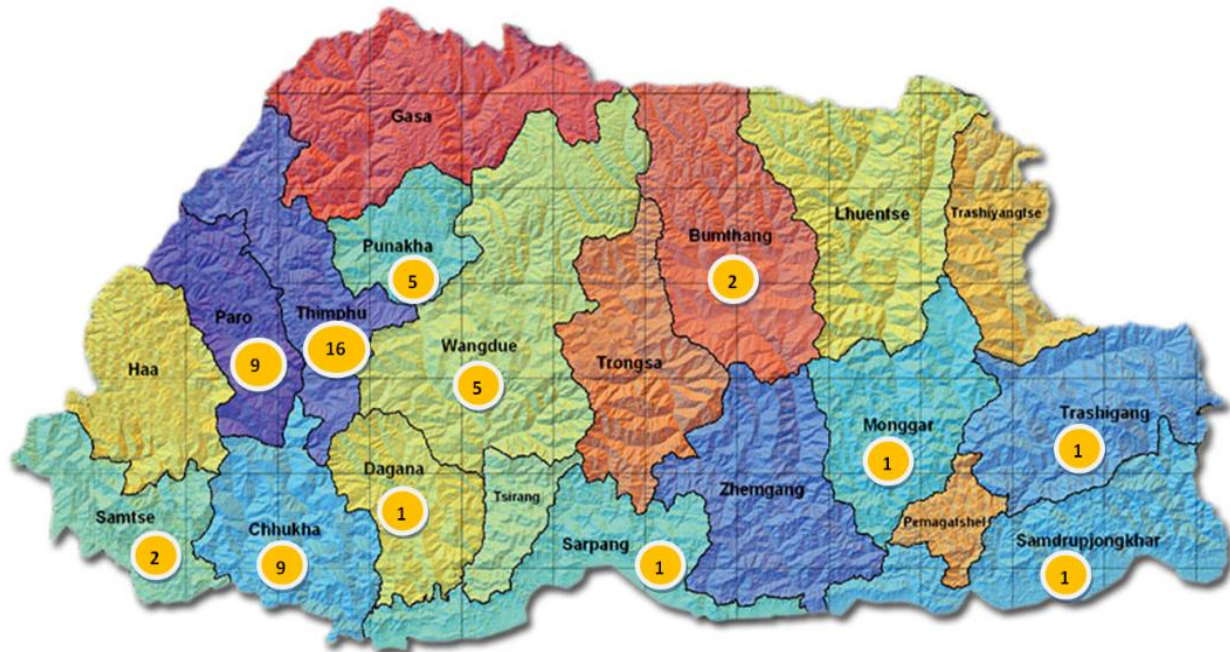
Details of the projects under each category are given in the Annexure.

### 3.7 FDI by location

Western part of the country particularly Thimphu, Paro and Chukha dzongkhags are the regions with the highest number of FDI projects, accounting for 67 percent of total FDI projects. The location of the projects is as shown below:

**Figure I Location of FDI Companies**

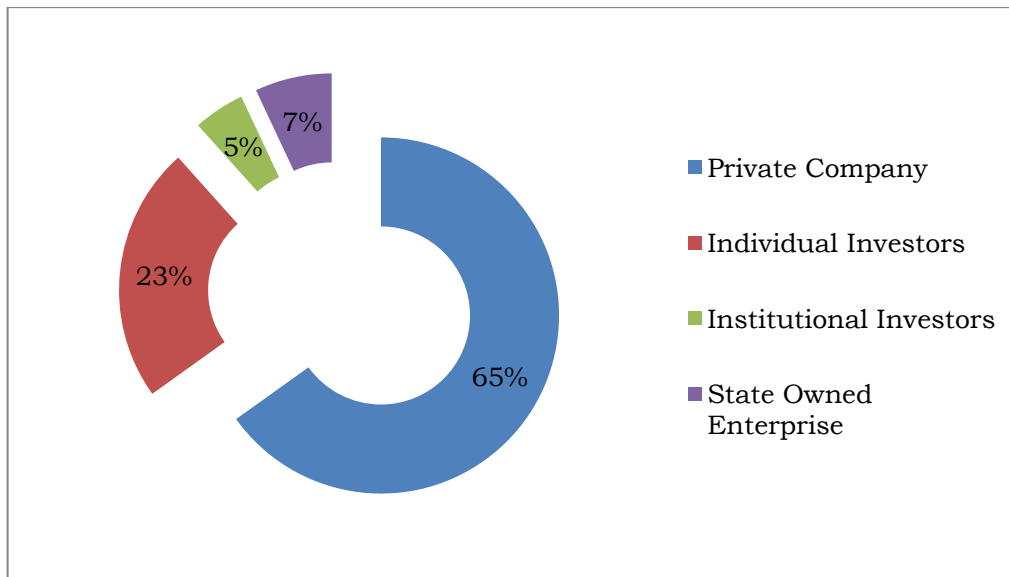
<sup>1</sup> Investment is considered as the project cost submitted in detailed business plan.



FDI projects in Thimphu, Paro and Punakha are mostly in the service industry such as hotels, IT/ITES and financial services. The projects established in the south are primarily in manufacturing sector.

### 3.8 FDI by type of investors

Of the total FDI projects, 65 percent are investments made by private companies, 23 percent by individual investors, 7 percent by State-owned enterprises (SOE) and 5 percent by institutional investor. Investment by the SOEs is in banking and reinsurance sector, all from Indian SOEs. Individual investors have mostly invested in the service sector with hotel sector being the top recipient.

**Chart IX FDI by types of investors**

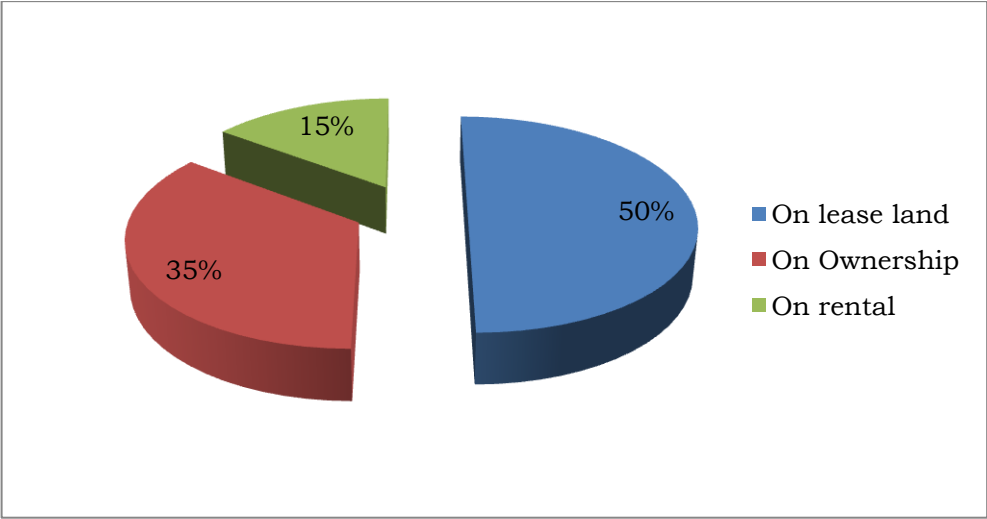
### 3.9 FDI projects by types of financing sources

FDI projects are allowed to invest in the country either through equity or debt, which can be, raised either from within the country or through the external commercial borrowings. About 20 projects are financed entirely on equity and the remaining is partially financed through debt, mostly being raised from the commercial banks within the country.

### 3.10 FDI Projects by Land Status

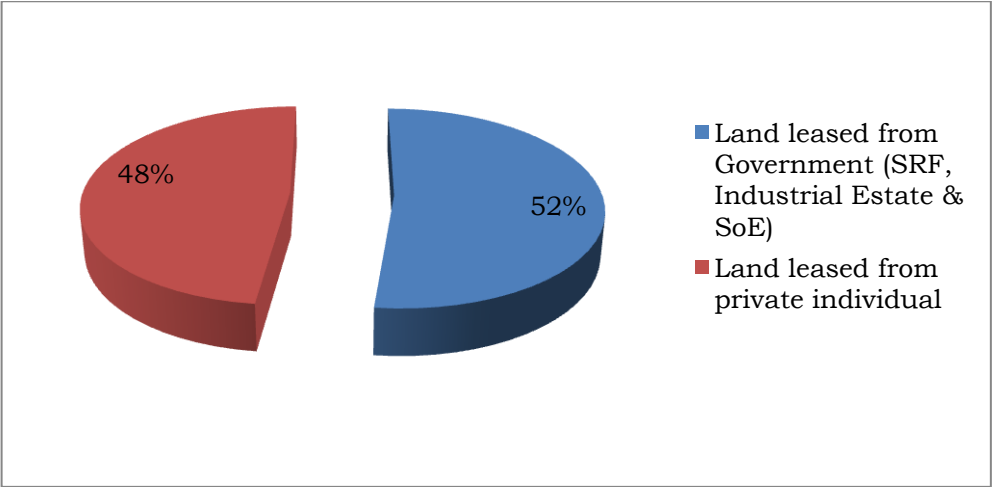
The FDI Policy allows FDI companies to own land in the name of the company. As such, local partners mostly contribute land as their share of equity. While this benefit is allowed to FDI companies, majority of projects approved as of 2016 have shown preference to leased land over owning a land. As shown in the chart below, 50 percent of FDIs are set up on leased land as against 35 percent of projects set up on owned land and 15 percent set up on rental space (private building & IT park). Projects, which are set up on land under ownership, are those having local investors who have pledged land as their share of equity.

**Chart X FDI projects by Land status**



Land on lease is mostly taken from private individuals including the local investors. From the total projects operated on leased land, 52 percent have leased land from Government, which includes State Reserved Forest and Industrial estate. The remaining 48 percent are leased from private individuals as shown in the chart below.

**Chart XI Types of leased land**



#### 4. FDI CONTRIBUTION

The Annual FDI survey conducted revealed some of the tangible impacts made by FDI as of December 2016. The contributions are:

##### 4.1 Capital Inflow

The capital inflow for the year 2016 totaled Nu. 600.53 million, of which Nu. 306.70 million was in Indian Rupee and the remaining in US\$ (\$4.45 million). The capital inflow during the year increased by 178 percent compared to the previous year. While the number of projects approved during the year remained the same as previous year, the increase in inflow of capital is driven by the inflow of additional capital in projects approved prior to 2016 particularly, inflow of additional capital in the Bank of Bhutan Limited. With access to credit being identified as one of the main constraints to doing business in Bhutan, the increase in the capital base of the bank is expected to trickle down the benefits across the whole spectrum of economy.

##### 4.2 Employment

One of the objectives of encouraging foreign direct investment is to generate employment for Bhutanese. As of December 2016, a total of 3,798 Bhutanese were directly employed as regular employees by the operating FDI projects. Including 726 Bhutanese employed as casual workers, a total of 4,524 Bhutanese were employed during the year. This is an increase by almost 10 percent from the previous year.

The table below shows the employment details by gender and nationality:

**Table II Employment provided by FDI companies**

	Regular				Casual			
	National		Foreign		National		Foreign	
	Male	Female	Male	Female	Male	Female	Male	Female
	2,142	1656	160	16	498	228	170	1
<b>Total</b>	<b>3,798</b>		<b>176</b>		<b>726</b>		<b>171</b>	
<b>Total Employment Created</b>	<b>4,871</b>							

Source: FDI Survey 2016

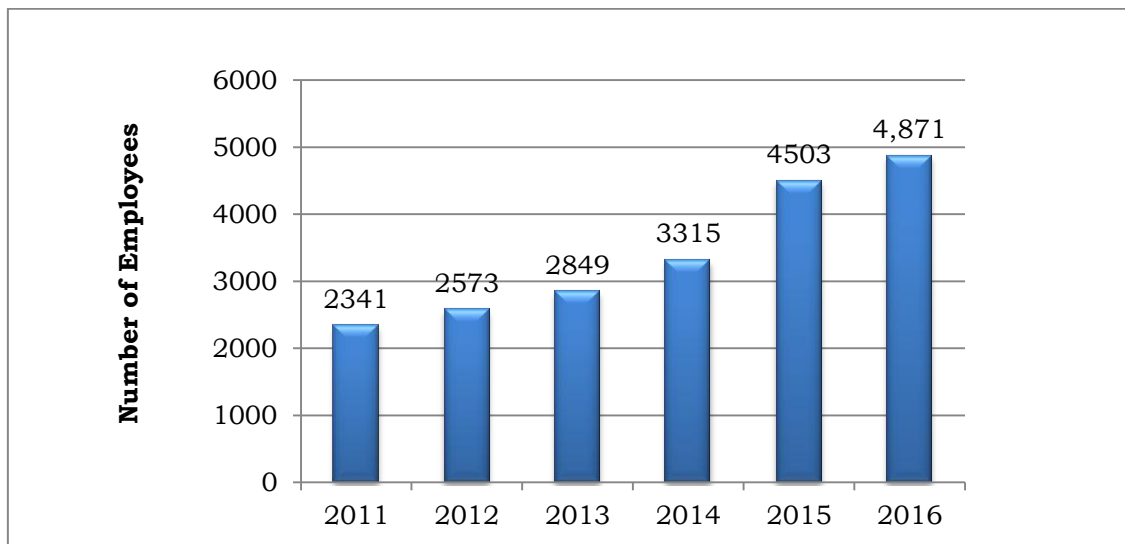
Mountain Hazelnut Private Limited has the highest number of employees followed by Bank of Bhutan Limited. The gender ratio of “male to female” FDI

regular Bhutanese employee stands at 1.3:1 as against 1.8:1 in the civil service (Civil Service Statistics, 2016). Given the employment gender ratio as above, FDI companies are employing an impressive number of female Bhutanese in the projects.

Where there were skills shortages, these companies have also employed foreign workers/expatriates. However, the foreign workers constitute only 7 per cent of the total employment. Viewed from the overall FDI employment scenario, for every expatriate employed in the FDI projects, there is an average of 13 Bhutanese employed, a ratio which far exceeds the minimum requirement of 5 Bhutanese to an expatriate as per the FDI Policy.

The total number of employees in the FDI companies<sup>2</sup> over the last five years has been compiled from their Annual Return filed with the Department. The number of employees increased from 4,503 in 2015 to 4,871 in 2016, an increase by 8 percent<sup>3</sup>. The bar graph below shows the growth in the number of employees over the past years.

**Chart XII Trend in the number of employment provided 2011-16**



<sup>2</sup> Companies under commercial operation only.

<sup>3</sup> This increase in employment would have been greater if one of the FDI projects, which employed about 200 employees, had not decided to convert to domestic project.



Almost 99 percent of the total employees are employed in six companies as listed in Table III below. Scan Café Private Limited and Bhutan National Bank Limited are the two FDI companies employing 100 percent Bhutanese.

**Table III Top six companies in terms of employment generation**

<b>Sl. No.</b>	<b>Companies</b>	<b>Total Employment</b>	<b>Bhutanese Employees</b>
1	Mountain Hazelnut Venture Pvt. Ltd	872	863
2	Bank of Bhutan Ltd.	664	662
3	Scan Café Pvt. Ltd.	530	530
4	Bhutan National Bank Ltd	459	459
5	Bhutan Resorts Pvt. Ltd	371	365
6	Bhutan Eco Ventures Pvt. Ltd	229	217
<b>Total</b>		<b>3,125</b>	<b>3,096</b>
<b>Percentage of Bhutanese to Total</b>			<b>99 %</b>

A sector-wise analysis shows that service sector contributes more in terms of generating employment opportunities. FDI companies employed a total of 3,017 Bhutanese, 2,992 in the projects under operation and 25 Bhutanese in projects under construction. On an average, a project under operation in the service sector employs 130 Bhutanese. On the contrary, manufacturing sector employ a total of 1540, out of which 1,535 are in projects under operation and 5 Bhutanese in projects under construction. On an average, a manufacturing project under operation employs 90 Bhutanese.

**Table IV Average employment generated**

<b>Sector</b>	<b>Average Employment Generated</b>
<b>Service Sector</b>	130
<b>Manufacturing Sector</b>	90

### **4.3 Training**

Of the 40 operating projects, 24 projects undertook skills development of Bhutanese employed. A total of 1,255 Bhutanese have been trained by these companies. FDI companies like Scan Café Private Limited, Bhutan Resorts Private Limited, Bhutan Eco Ventures Private Limited and Saint Gobain

Ceramic Materials Bhutan Private Limited have trained the highest number of employees during the year.

#### 4.4 Tax contribution

Tax contribution made by the FDI companies for the year 2016 as per the FDI Survey stands at Nu. 1580.67 million. This constituted 7.23 per cent of the tax revenue<sup>4</sup> and 5.3 per cent of the total revenue<sup>5</sup> of the government in 2016. Details of the tax contributed by these companies are in the following table:

**Table V Taxes contributed by FDI companies**

Sl. No.	Taxes	Nu (in million)
1	Corporate Income Tax	970.28
2	Salary Tax	102.92
3	Sales Tax	173.90
4	Customs Duty	21.25
5	TDS	44.75
6	Excise Duty	101.66
7	Health Contribution	11.98
8	Royalty	153.94
	<b>Total</b>	<b>1580.68</b>

Source: FDI Survey 2016

The details of top ten taxpayers from the FDI companies are provided in the table below:

<sup>4</sup> Tax revenue = Nu. 21,690.92 million (Revenue Report 2016-17)

<sup>5</sup> Total net revenue = Nu 29,713.600 million (Revenue Report 2016-17)

**Table VI Top ten tax payers from FDI companies**

<b>Sl. No.</b>	<b>Companies</b>	<b>CIT Paid (in Nu. Mn)</b>	<b>Total Taxes paid (in Nu. Mn)</b>
1	Bank of Bhutan Ltd	422.92	444.60
2	Bhutan National Bank Ltd	313.18	345.52
3	Bhutan Resorts Pvt. Ltd	54.63	190.31
4	Dagachhu Hydropower Corporation Ltd	60.25	175.86
5	Bhutan Concast Pvt. Ltd	0.00	91.09
6	Druk PNB Bank Ltd	79.16	86.21
7	Bhutan Eco Venture Pvt. Ltd	0.00	67.00
8	Saint Gobain Ceramic Materials Bhutan Pvt. Ltd.	32.44	41.24
9	Ice Beverages Pvt. Ltd	0.00	24.35
10	Manidheepa-Mohsin Hotel & Resorts Pvt. Ltd	0.00	22.24
<b>Total</b>			1488.42
<b>% share of total tax contributed</b>			<b>94.16</b>

Source: FDI Annual Survey

#### 4.5 Product Diversification

A review on the existing investment both FDI and domestic particularly in the medium and large scale shows that most investment in the manufacturing sector is made in the mineral based sector followed by agro based sector. In the service sector, investments are mostly made in hotel services. However, in the last couple of years, FDI has stimulated product diversification with investments being made in pharmaceuticals, hydropower service, infrastructure and IT/ITES.

## 6. ANNEXURES

### Annex I: Operating FDI Projects

SL. No.	Project Name	Activity
1	Bhutan Resorts Pvt. Ltd (Aman Thimphu)	Hotel Service
2	Bhutan Resorts Pvt. Ltd (Aman Paro)	Hotel Service
3	Bhutan Resorts Pvt. Ltd (Aman Punakha)	Hotel Service
4	Bhutan Resorts Pvt. Ltd (Aman Bumthang)	Hotel Service
5	Bhutan Resorts Pvt. Ltd (Aman Gangtey)	Hotel Service
6	Bhutan Eco Ventures Pvt. Ltd. (Uma Paro)	Hotel Service
7	Bhutan Eco Ventures Pvt. Ltd. (Uma Punakha)	Hotel Service
8	Haven Resorts Pvt. Ltd.	Hotel Service
9	Bhutan Hotels Pvt. Ltd (Le Méridien Thimphu)	Hotel Service
10	Manidheepa-Mohsin Hotel & Resorts Pvt. Ltd.(Le Méridien Paro, Riverfront)	Hotel Service
11	Himalayan Safaris Lodges Pvt. Ltd.	Hotel Service
12	RS Hospitality Pvt. Ltd. (Dhensa)	Hotel Service
13	Nak-Sel Boutique Hotel & Spa Pvt. Ltd.	Hotel Service
14	Bank of Bhutan Ltd.	Banking Service
15	Bhutan National Bank Ltd.	Banking Service
16	Druk PNB Bank Ltd	Banking Service
17	GIC-Bhutan Re Ltd.	General Reinsurance
18	Bhutan Hydropower Service Ltd.	Hydropower Service Center
19	Dagachhu Hydro Power Corporation Ltd.	Generation and Sale of Electricity
20	Scan Café Pvt. Ltd.	Scanning, Digitisation, Restoration, Designing and Editing of Photos and Videos
21	Southtech (Bhutan) Pvt. Ltd	Design, develop and maintenance of software
22	Secure Link Services Bhutan Pvt. Ltd	Software Development & BPO
23	Zoop KG Pvt. Ltd	Software development & BPO
24	MultiRational Pvt. Ltd	ITES
25	Mountain Hazelnut Venture Pvt. Ltd.	Plantation of Hazelnut
26	Zimdra Foods Pvt. Ltd.	Dairy & Agro Products
27	Nob Bhutan Pvt. Ltd.	Agro based production

28	Koufuku International Pvt. Ltd.	Dairy Products
29	Ice Beverage Pvt. Ltd	Non-alcoholic beverages
30	Ugen Ferro Alloys Pvt. Ltd.	Ferro silicon
31	Saint Gobain Ceramic Materials Bhutan Pvt. Ltd.	Silicon Carbide
32	Quality Gases Pvt. Ltd.	Liquid Nitrogen, Oxygen & Gaseous Oxygen
33	Bhutan Concast Pvt. Ltd.	MS Billet
34	Adruka Furniture & Interiors Pvt. Ltd.	Furniture production and Interior Designing
35	Veen Water Bhutan Pvt. Ltd.	Spring/ Mineral water bottling
36	Neethsel Pvt. Ltd.	Pharmaceutical Products
37	Druk Presidency Pvt. Ltd.	Plaster of Paris
38	Karma CP Systems Pvt. Ltd.	Granite slabs and tiles
39	SKW-Tashi Metals & Alloys Pvt. Ltd	Calcium Silicon & Calcium Silicon Cored Wire

#### Annex II: FDI Projects under construction

SL. No.	Project Name	Activity
1	East West Co. Pvt. Limited	Hotel Service
2	Bhutan Ventures Hospitality Pvt. Ltd, Paro	Hotel Service
3	Bhutan Ventures Hospitality Pvt. Ltd, Punakha	Hotel Service
4	Bhutan Ventures Hospitality Pvt. Ltd, Thimphu	Hotel Service
5	Bhutan Ventures Hospitality Pvt. Ltd, Wangdue	Hotel Service
6	Bhutan Ventures Hospitality Pvt. Ltd, Bumthang	Hotel Service
7	Dewa Spa & Wellness Resort Pvt. Ltd.	Hotel Service
8	Dragon Spirit Pvt. Ltd	Hotel Services
9	KCR Pvt. Ltd.	Multi-Level Car Parking
10	Mountain Hazelnut Venture Pvt. Ltd.	Processing of Hazelnut
11	Generic Pvt. Ltd	Synthetic Industrial Diamond & Polycrystalline Diamond Production
12	Bhutan Himalayan Beverages Pvt. Ltd	Beverage Production
13	Bhutan EcoLite Brix Pvt. Ltd.	Mfg of light weight concrete bricks
14	Sersang Kbhong Food Pvt. Ltd.	Instant Noodles
15	Bhutan H2O Pvt. Ltd.	Packaged Drinking Water