

# **STUDY ON THE IMPACT OF FISCAL INCENTIVES ON INDUSTRIES IN BHUTAN**

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## OVERVIEW

This report presents a comprehensive assessment of the impact and benefits of fiscal incentives on industries in Bhutan under the Fiscal Incentives Act of Bhutan 2021. The report is divided into two separate but interconnected studies conducted in different phases. **Part I: Fiscal Incentives – Impact Study on Bhutanese Industries** serves as the baseline assessment and focuses on evaluating the overall awareness, accessibility, utilisation, challenges, and broad economic impact of fiscal incentives across industries in Bhutan. It combines both primary survey findings from 122 industries and secondary data from the Department of Revenue and Customs (DRC) to provide a broader policy-level understanding of how fiscal incentives are being implemented and accessed.

**Part II: Study on the Benefits of Fiscal Incentives to Industries in Bhutan** is a follow-up study conducted to build upon the findings of Part I by examining the direct benefits of fiscal incentives among beneficiary industries. This section specifically focuses on measurable outcomes such as business expansion, productivity improvement, employment generation, revenue performance, export performance, and industry perceptions regarding the effectiveness and sustainability of fiscal incentives. The analysis is based on responses from 36 industries that had availed fiscal incentives and provides a more outcome-oriented assessment of how these incentives translate into operational and financial gains.

As both studies were conducted independently with different objectives, methodologies and sample sizes, the findings, recommendations, and conclusions presented in each part should be interpreted separately within their respective contexts. Part I provides the broader policy and implementation perspective, while Part II offers a deeper understanding of post-incentive business performance and beneficiary perceptions. Together, the two studies provide a more complete picture of the benefits and effectiveness of fiscal incentives on Bhutanese industries.





**PART I:**

**FISCAL INCENTIVES: IMPACT  
STUDY ON BHUTANESE  
INDUSTRIES**

**June 19, 2025**





# 1. General Overview

## 1.1 Background of the Fiscal Incentives Act of Bhutan

The Fiscal Incentives Act of Bhutan 2021 was introduced to promote private sector growth, attract investment, and support industrial development. It consolidates earlier incentive schemes and provides a legal framework for granting tax holidays, customs duty exemptions, and other fiscal benefits to the identified priority sectors.

The Act empowers the Ministry of Finance to implement and periodically review these incentives to align with Bhutan's economic goals and development plans. While the incentives have contributed to sectoral growth and investment promotion, their overall effectiveness and impact on Bhutanese industries require detailed assessment and remain an area of ongoing assessment, prompting the need for this study.

## 1.2 Purpose and scope of the Impact study

The purpose of this study is to evaluate the effectiveness and impact of the Fiscal Incentives Act of Bhutan 2021 on the industries of Bhutan. It seeks to identify how fiscal incentives, such as Tax Holidays (CIT/BIT Exemption), Investment Allowances, Concessionary Tax Rates, Sales Tax and Customs Duty Exemptions, and other incentives, have financially influenced business performance in terms of revenue growth, cost reduction, expansion opportunities, and employment generation.

## 1.3 Research Question

How have the fiscal incentives under the Fiscal Incentives Act of Bhutan 2021 benefited Bhutanese industries?

### Sub-questions:

- Which types of fiscal incentives are most availed by Bhutanese industries?
- How do different classifications/scales of industries respond to the incentives provided?
- What are the challenges industries face in accessing or utilising the fiscal incentives, and how can those challenges be addressed?





## 2. Methodology

### 2.1 Research Design

This study adopts a mixed-method approach, integrating both primary and secondary data sources to comprehensively evaluate the impact of fiscal incentives on industries in Bhutan. The research population includes all industries across the country's industrial sectors.

### 2.2 Sampling technique and sample size

Given the large population of industries, a simple random sampling technique was used for the study, ensuring every industry in the country has an equal probability of selection and minimising selection bias across sectors and regions. There was no pre-determined sample size since the total number of beneficiaries and operational industries is complex to identify.

### 2.3 Data collection methods

For the data collection, the primary data was gathered through an online Google survey form with structured, semi-structured, open-ended, and closed-ended questions. Secondary data was collected from the Department of Revenue and Customs (DRC) to supplement the primary findings.

### 2.4 Data Analysis

The collected data was systematically analysed using Microsoft Excel for quantitative analysis and thematic analysis for qualitative responses.





### 3. Results and Discussions from Primary Data (Survey)

#### 3.1 Demographics of the Respondents

This section provides the general demographics of the respondent industries. The study surveyed 122 industries in Bhutan, representing diverse business scales and classifications. The cottage and small industries constitute the largest proportion (40.2%), followed by large industries (31.1%) and medium industries (28.7%). In terms of classification, production and manufacturing dominated (73%), particularly in ferro alloys, agro-processing, construction materials, and pharmaceuticals. Service industries accounted for 24.6% (primarily hotels, IT firms, and training institutes), while construction represented a minimal 2.5%. This distribution reflects Bhutan's industrial composition and ensures the findings encompass diverse business scales and classifications.

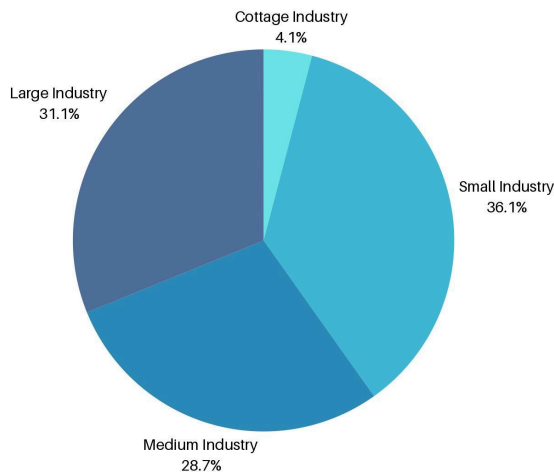


Figure 1: Industry by Scale

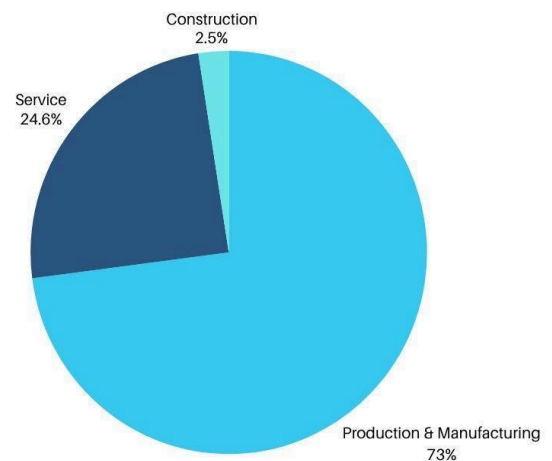


Figure 2: Industry by Classification

Geographically, most of the respondent industries are concentrated in Thimphu (40.98%), Samtse (22.13%), and Chukha (14.75%), reflecting the industrial and economic activity in these regions. Operational tenure data revealed 36.89% of the respondents were nascent industries (<3 years) while 27.87% were established firms with over a decade of operation. The remaining respondents fell into the 3-5 years





(15.57%) and 6-10 years (19.67%), indicating a balanced representation of emerging and maturing businesses in the sample.

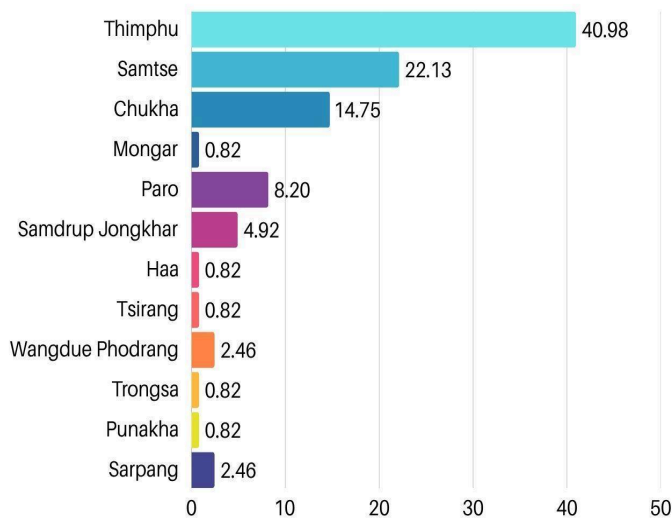


Figure 3: Geographical Distribution (Dzongkhag-Wise)

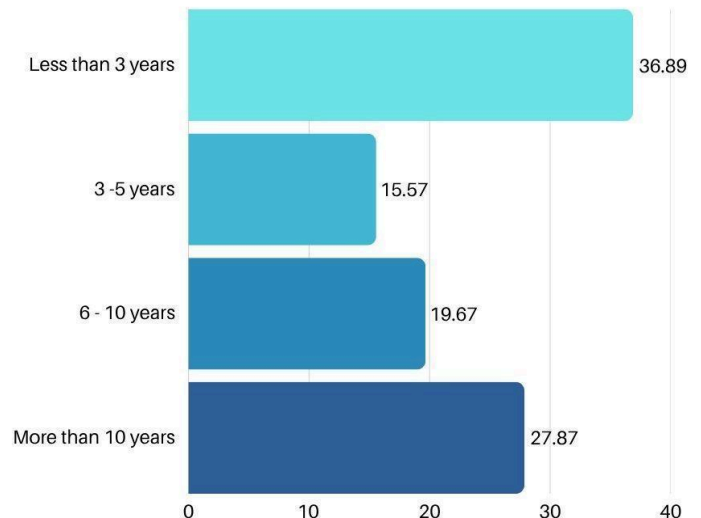
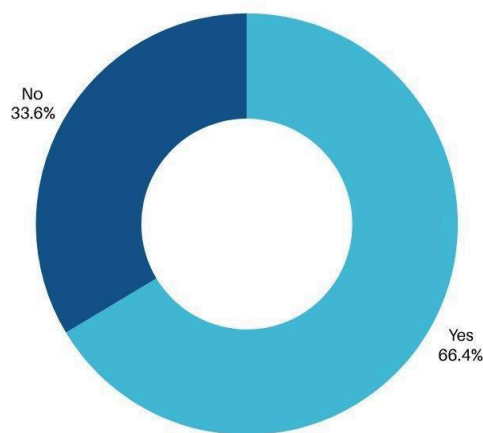


Figure 4: No. of Years in Operation

### 3.2 Awareness of Fiscal Incentives



The findings reveal that 66.4% of the respondents were aware of fiscal incentives, while 33.6% remained unaware.

Figure 5: Awareness of Fiscal Incentives

Sector-wise awareness varied, with the service sector (70%) demonstrating the highest awareness, followed by construction (67%) and production and manufacturing (65%). Conversely, 35% of production and manufacturing industries, 33% of the construction industry, and 30% of the service industry reported no awareness. When analysed by industry scale, large-scale industry represented near-universal awareness



(97%), whereas medium and cottage industry (60%) and small (45%) industries showed moderate awareness. This highlights that large-scale and service industries are best informed, while cottage and small industries need improved outreach.

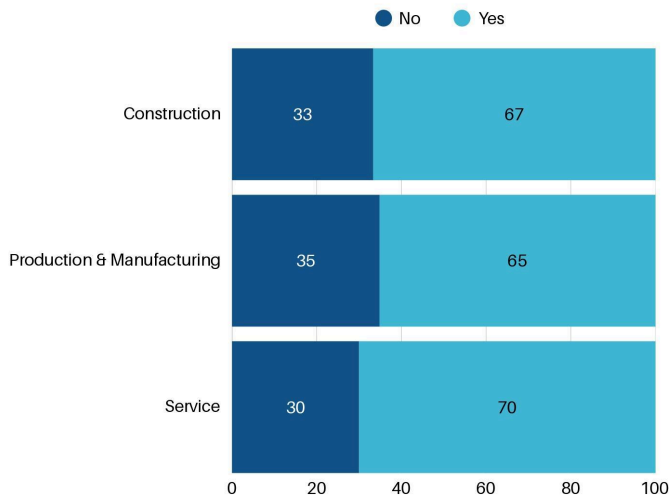


Figure 6: Awareness by Classification

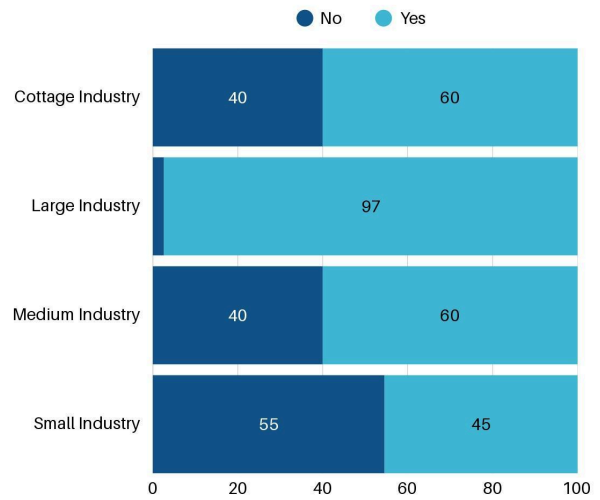


Figure 7: Awareness by scale

Regarding information sources, online government portals (28.46%) served as the primary channel, followed by government agencies (23.85%), media (19.23%), and word of mouth (16.15%). Workshops/training (9.23%) and other sources (3.08%) played a minor role.

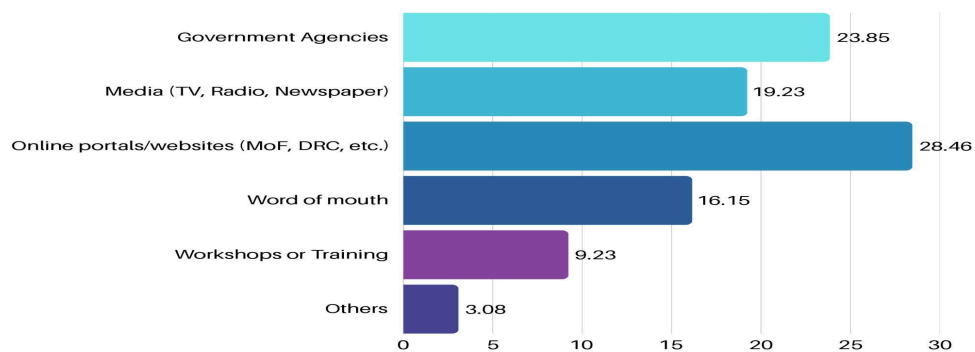


Figure 8: Source of awareness





### 3.3 Availment of Fiscal Incentives

Although the earlier findings show that 66.4% of the respondent industries were aware of fiscal incentives, the data reveal that only 35.25% of respondent industries had availed fiscal incentives, while a significant majority (64.75%) had not availed fiscal incentives. This indicates that while industries may be aware of fiscal incentives, some may not avail them owing to various circumstances (which will be highlighted below in the challenges section). Additionally, the production and manufacturing industry accounted for 72.09% of the incentive, significantly outnumbering the service industry (27.91%). By scale, large industries dominated incentive availment (58.14%), followed distantly by small (23.26%) and medium (18.60%). Notably, no cottage industries reported accessing these incentives.

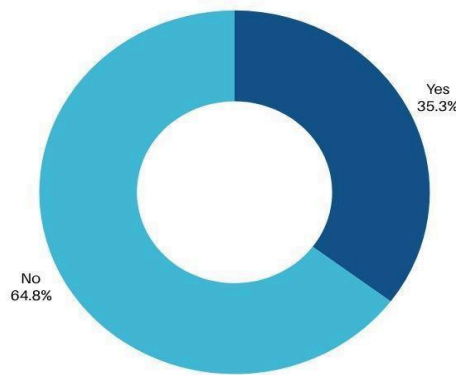


Figure 9: Availed Fiscal Incentives

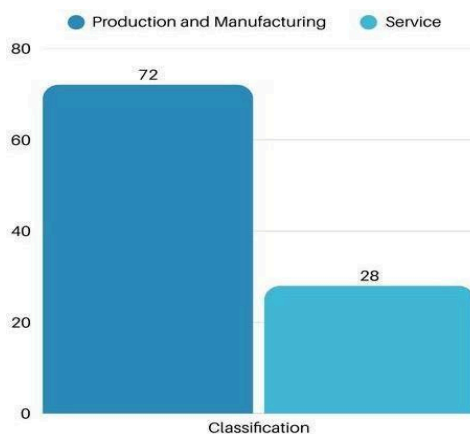


Figure 10: Availment by Classification

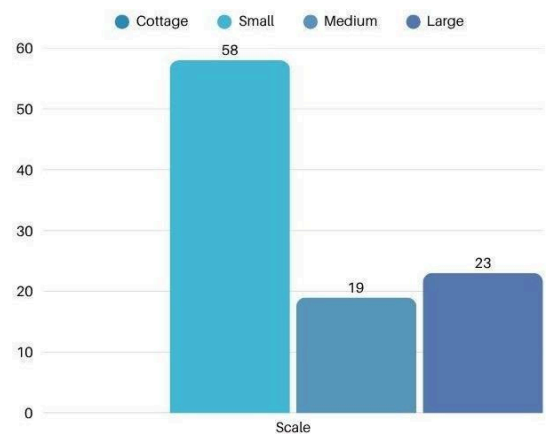


Figure 11: Availment by Scale





Among those who availed incentives, sales tax and customs duty exemptions on imports were the most commonly utilised at 41.89%, followed by tax holidays (CIT/BIT exemption) at 27.03%. Investment allowances accounted for 10.81% of availed incentives, while incentives for locally manufactured construction materials represented 16.22%. This distribution suggests that duty exemptions and tax holidays remain the primary fiscal incentives leveraged by the industries. The substantial proportion of non-availing respondents at 64.75% warrants further study into the underlying factors that may be hindering the effective utilisation of these fiscal incentives.

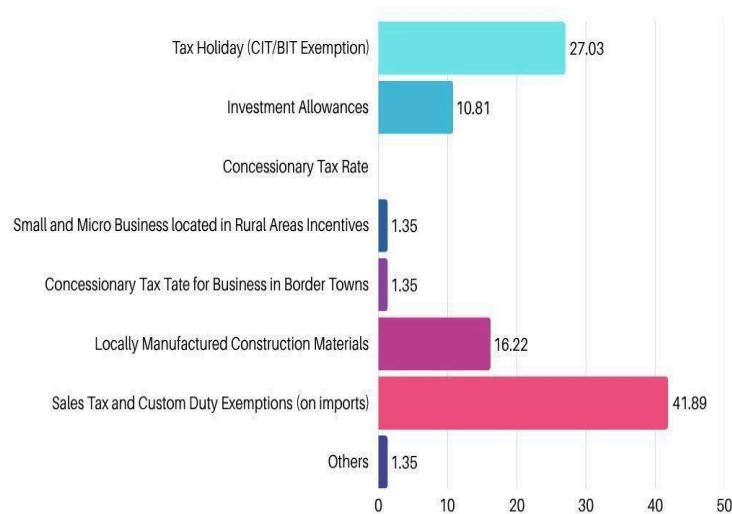


Figure 12: Types of Fiscal Incentives Availed

### 3.4 Benefits and Impact of Fiscal Incentives

The majority of respondents, at 83.72%, perceived fiscal incentives as financially beneficial, with 32.56% rating them as very beneficial and 51.16% as beneficial. Only 2.33% reported no benefits.

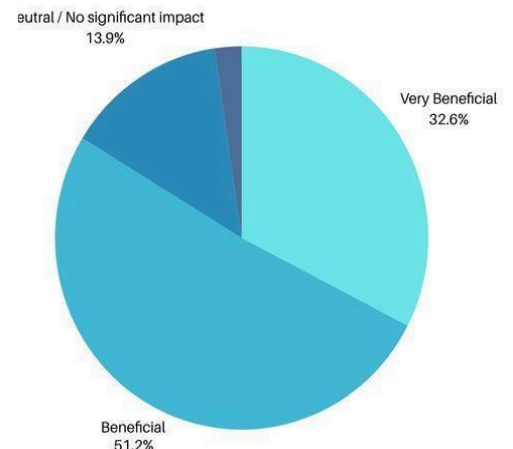


Figure 13: Financial Benefits of Fiscal Incentives





The fiscal incentives showed varying impacts across business dimensions: cost reduction saw the strongest positive effects (53.49% significant & positive impact), followed by expansion opportunities (39.54%), employment generation (39.53%), and revenue growth (27.91%).

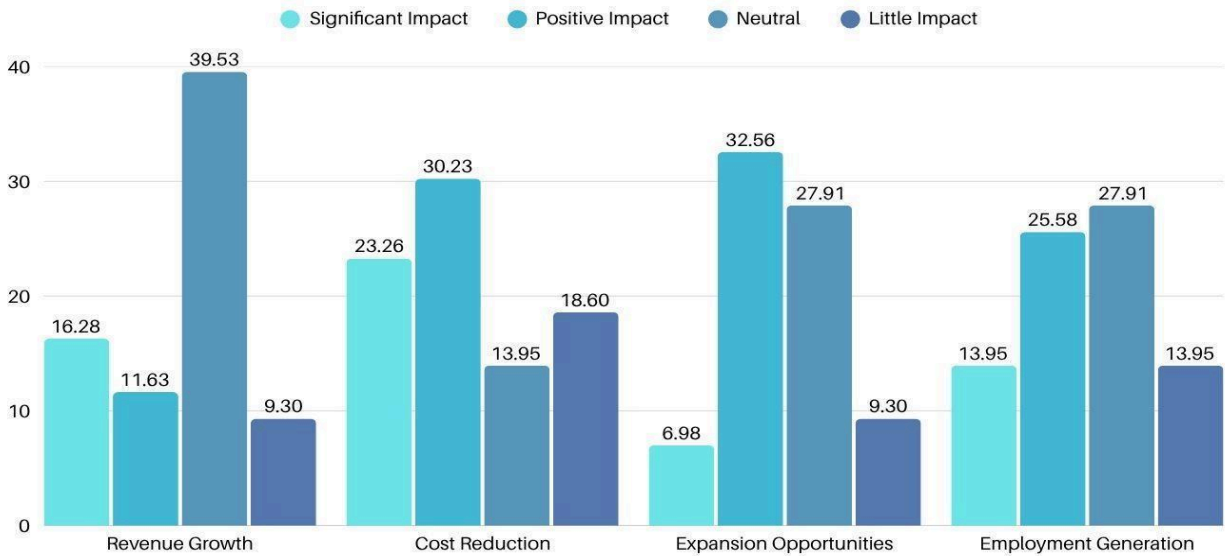


Figure 14: Impact across dimensions

Satisfaction with the fiscal incentive was moderately high, with 55.81% expressing satisfaction (41.86% satisfied, 13.95% very satisfied), while 30.23% remained neutral and 13.96% were dissatisfied.

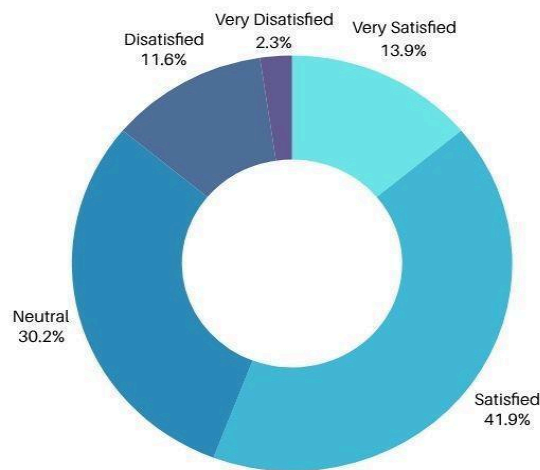


Figure 15: Satisfaction Levels





### 3.5 Challenges of availing fiscal incentives

Industries that had availed fiscal incentives reported several prominent challenges in the process. Foremost among these was a lack of clear information and guidance at 21.7%, followed by delays in approval and processing at 16.98%, and a complex and lengthy application process at 16.04%. Challenges related to eligibility were also significant, with 11.3% reporting difficulty in meeting the criteria, and another 11.3% highlighting poor coordination between government agencies. Furthermore, 9.4% noted limited assistance or support from relevant agencies, 7.5% faced difficulties submitting documents through online portals, and 5.7% felt that the available incentives were not aligned with their business models.

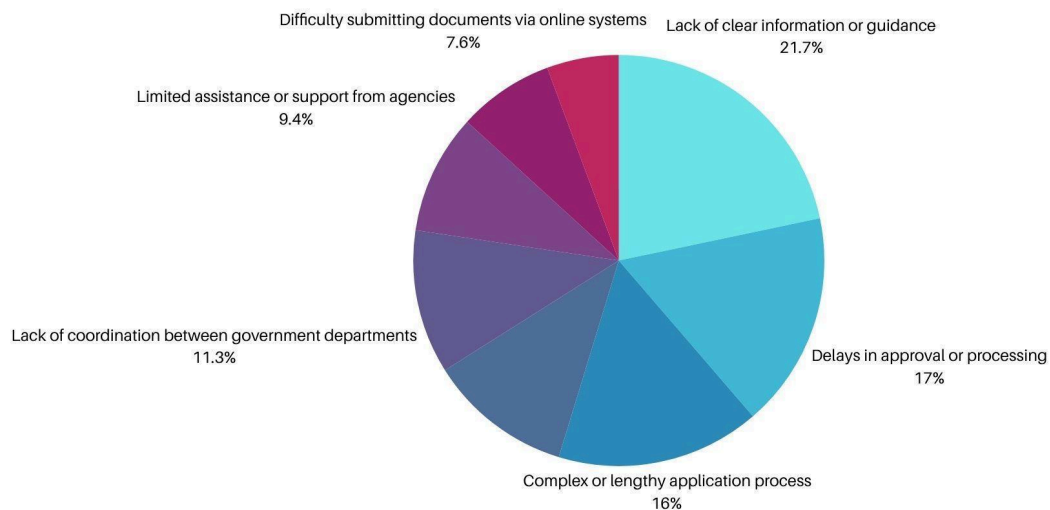


Figure 16: Challenges faced while availing Fiscal Incentives

The findings revealed several recurring challenges experienced by industries that availed fiscal incentives. These issues highlight both systemic and procedural bottlenecks that limit the effectiveness and accessibility of the fiscal support mechanisms.

#### *i. Lack of clear information and guidance*

This was the most frequently cited challenge. Many industries reported a lack of clarity and consistency in eligibility criteria and exemption lists. Several respondents were





unaware of critical procedural requirements, such as the need for annual applications or specific conditions tied to the incentives.

*ii. Complex and lengthy application process*

The application and approval process was described as bureaucratic, involving extensive paperwork and unclear procedures. Businesses expressed frustration over having to navigate multiple agencies and dealing with administrative inefficiencies.

*iii. Difficulty meeting eligibility criteria*

Some respondents found the eligibility criteria too stringent or poorly aligned with their business models. Furthermore, ambiguous guidelines led to inconsistent interpretations among officials, creating additional confusion and barriers.

*iv. Delays in approval or Processing*

Lengthy wait times for approval were commonly reported, with some businesses experiencing significant operational disruptions as a result of prolonged processing.

*v. Limited assistance or support from agencies*

Several industries noted insufficient support and coordination from government agencies. In some cases, agencies were reportedly unaware of specific fiscal incentive provisions, further complicating the process for applicants.

*vi. Inter-agency Coordination Problems*

A lack of synchronisation among government departments led to delays and inefficiencies. Businesses often had to liaise with multiple agencies for approvals and recommendations, which added to their administrative burden.

*vii. Incentives not aligned with business needs*

Some industries expressed concerns that the incentives were not designed to address their practical business requirements. In several cases, exemptions were limited or did not cover critical inputs or equipment, leading to a perception that the system prioritised revenue protection over industrial promotion.





### 3.6 Recommendations from the survey

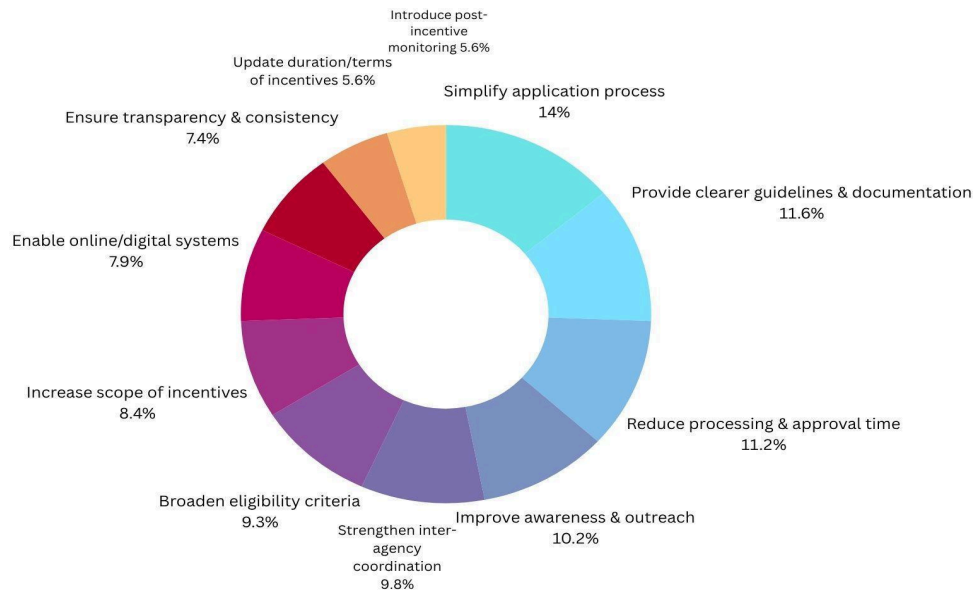


Figure 17: Recommendations

Some of the most frequently cited recommendations from industries focused on improving the accessibility and effectiveness of fiscal incentives. Specifically, 14% of respondents recommended simplifying the application process, while 11.6% called for clearer guidelines and documentation requirements. Additionally, 11.2% suggested reducing processing and approval times, and 10.2% emphasised the need for enhanced awareness and outreach efforts.

A further 9.8% recommended strengthening inter-agency coordination, while 9.3% proposed broadening the eligibility criteria. Expanding the scope of available incentives was suggested by 8.4% of respondents. To improve administrative efficiency, 7.9% advocated for the adoption of robust online and digital systems. Moreover, 7.4% highlighted the need for greater transparency and consistency in the implementation of incentives. Lastly, 5.6% of respondents requested extensions in the duration or terms of incentives, while another 5.6% recommended the establishment of post-incentive monitoring mechanisms to ensure continued compliance and impact evaluation.

The findings revealed the following suggestions and recommendations to improve the efficiency and impact of the fiscal incentives.





*i. Simplify the application process*

This was the most frequently suggested improvement. Industries emphasised the need to streamline procedures, minimise bureaucratic hurdles, and make the system more user-friendly.

*ii. Improve awareness and outreach*

A significant number of respondents reported limited understanding or confusion regarding the Fiscal Incentives Act and its associated rules.

*iii. Provide clearer guidelines and documentation*

Many industries cited unclear, ambiguous, or inconsistent documentation requirements across agencies. Clearer and more accessible information was strongly recommended.

*iv. Reduce processing and approval time*

Delays in the approval process were a major concern, often resulting in operational disruptions and uncertainty.

*v. Broaden the eligibility criteria*

Some respondents viewed the current criteria as overly restrictive or biased toward specific sectors, calling for a more inclusive approach.

*vi. Increase the range or scope of incentives*

Businesses suggested expanding the coverage of fiscal incentives to include a wider range of expenses, particularly those relevant to local production and existing enterprises.

*vii. Strengthen inter-agency coordination*

Many industries faced challenges dealing with multiple agencies that lacked alignment, resulting in delays and inconsistent information.





*viii. Enable online and transparent systems*

There was a suggestion for digitising the application and tracking process to enhance efficiency, reduce paperwork, and provide real-time updates.

*ix. Ensure transparency and consistency*

Industries stressed the need for fairness and predictability in the implementation of incentives, citing disparities in approvals.

*x. Introduce post-Incentive monitoring and support*

Respondents recommended establishing mechanisms to monitor the use of incentives and offer continued support to ensure sustained impact.

*xi. Extend duration and terms of Incentives*

Several businesses, particularly in the hospitality and post-COVID recovery sectors, requested extensions and more flexible incentive terms.

## **4. Results and Discussions from Secondary Data (DRC)**

Support was sought from the DRC to obtain the list of fiscal incentive beneficiaries from 2021 to 2024. Along with the data, DRC also provided insights into the implementation and impact of fiscal incentives on Bhutanese industries. Although the Fiscal Incentives Act and its accompanying Rules came into effect in 2021, limited awareness among industries resulted in low uptake of the available incentives. Many industries were unaware of the types of incentives offered, leading to a relatively small number of beneficiaries compared to the total number of active and operational industries in the country. The number of beneficiaries increased significantly in 2022, 2023, and 2024. This rise was largely attributed to former DRC officials who, after resigning, promoted the incentives by acting as private business consultants and advising eligible industries to avail these incentives. This highlights a positive correlation between the level of awareness and the number of beneficiaries of the fiscal incentives.





Between the two types of fiscal incentives (direct and indirect), indirect incentives concerning exemptions on imports, such as sales tax (ST) and customs duty (CD), had a broader reach. In addition to these incentives, the Bhutan Trade Classification and Tariff Schedule 2021 issued by the DRC includes the list of goods where ST or CD, and in some cases, both ST/CD are not applied. Moreover, indirect tax incentives can be claimed repeatedly whenever eligible entities import permitted goods like raw materials, packaging materials, or capital goods. Due to this recurring and expansive nature of the indirect incentives, it was concluded that data on indirect tax incentives would not be conclusive for this section of the study. Therefore, this primarily focuses on assessing the impact of direct tax incentives on Bhutanese industries.

Based on the list of direct-tax beneficiaries received from DRC, the following findings were observed.

### 4.1 Total beneficiaries over the years

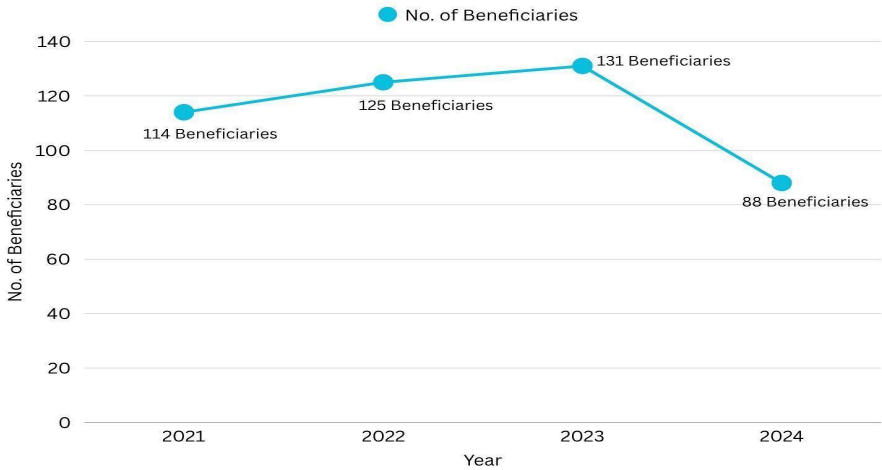


Figure 18: Total number of beneficiaries over the years

The data above presents the trend of beneficiaries availing direct tax incentives under the Fiscal Incentives Act and Rules. In 2021, a total of 114 beneficiaries were recorded, which increased to 125 in 2022 and 131 in 2023, before declining to 88 in 2024. Cumulatively, from 2021 to 2024, there were 458 instances of industries benefiting from indirect tax incentives. However, it is important to note that this cumulative total of 458 beneficiaries from 2021 to 2024 does not represent distinct industries, as some





industries benefited from multiple direct tax incentives within the same year. This also means that the data doesn't exclusively reflect new beneficiaries each year; in many cases, the same industries received benefits repeatedly over the years.

The rise in beneficiaries from 2021 to 2023 suggests improved awareness or facilitation of the fiscal incentives during that period, while the drop in 2024 warrants further investigation. Possible factors could include reduced outreach/awareness or administrative bottlenecks.

### 4.2 Beneficiaries by classification of industry

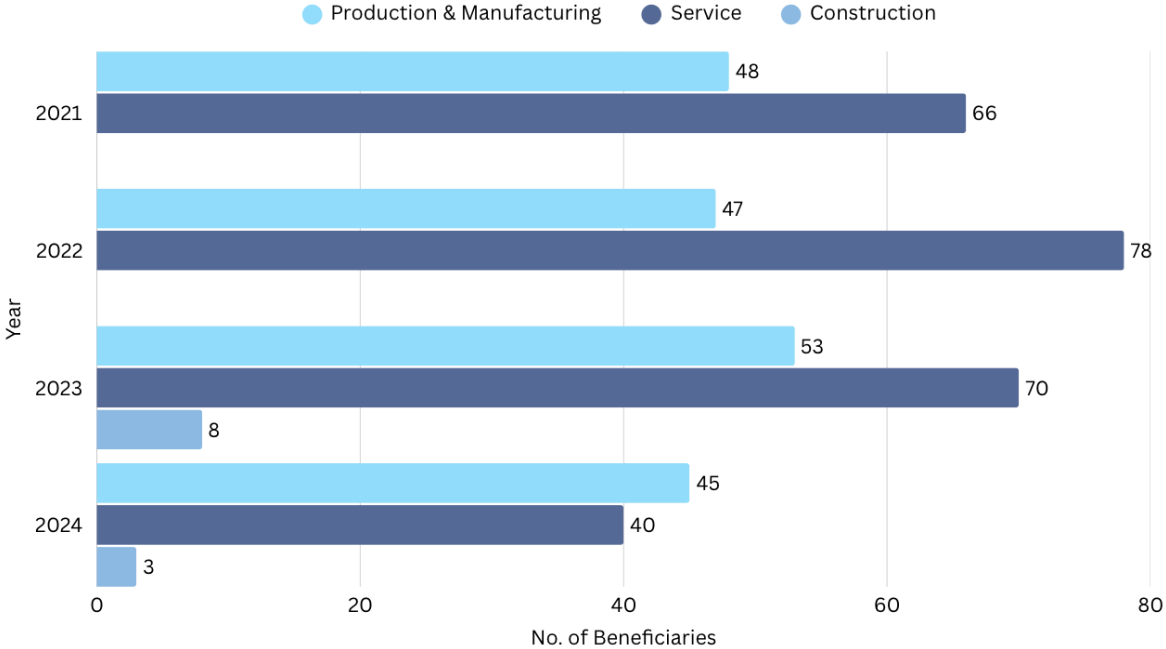


Figure 19: Beneficiaries by classification of industry

As illustrated in the graph above, the number of beneficiaries availing direct tax incentives has varied across sectors and years. In 2021, there were 48 beneficiaries from the production and manufacturing industry and 66 from the service industry. In 2022, the production and manufacturing industry saw 47 beneficiaries, while the service industry increased to 78. In 2023, the number of beneficiaries rose to 53 in manufacturing and 70 in services, with the construction industry appearing for the first time with 8 beneficiaries. By 2024, the numbers declined to 45 in manufacturing, 40 in service, and 3 in construction. The data reflects a relatively stable participation from





the manufacturing industry, with minor fluctuations suggesting consistent awareness and access to incentives. However, the service industry, despite a strong peak in 2022, experienced a significant decline by 2024, dropping almost 49% from its peak. The construction industry shows minimal participation, suggesting the need for clearer communication and more accessible processes for newer or less-established sectors. Overall, the declining trend in 2024 across all sectors signals a potential need for policy review, improved outreach, and process simplification to ensure broader and sustained utilisation of the fiscal incentives.

This contradicts the survey findings, as official records indicate that overall, the service sector benefited the most from the fiscal incentives, with 55.5% of beneficiaries from the service industry, 42.1% from manufacturing, and 2.4% from construction. In contrast, the survey results showed 72% of beneficiaries from the manufacturing sector and only 28% from the service sector. This discrepancy may be attributed to the sampling method and data timeline. As the survey employed simple random sampling and was open to voluntary participation from all industries, the data may not fully represent the actual distribution. On the other hand, the data from the Department of Revenue and Customs (DRC) are official government records, which carry greater credibility and accuracy.

### 4.3 Beneficiaries by scale of industry

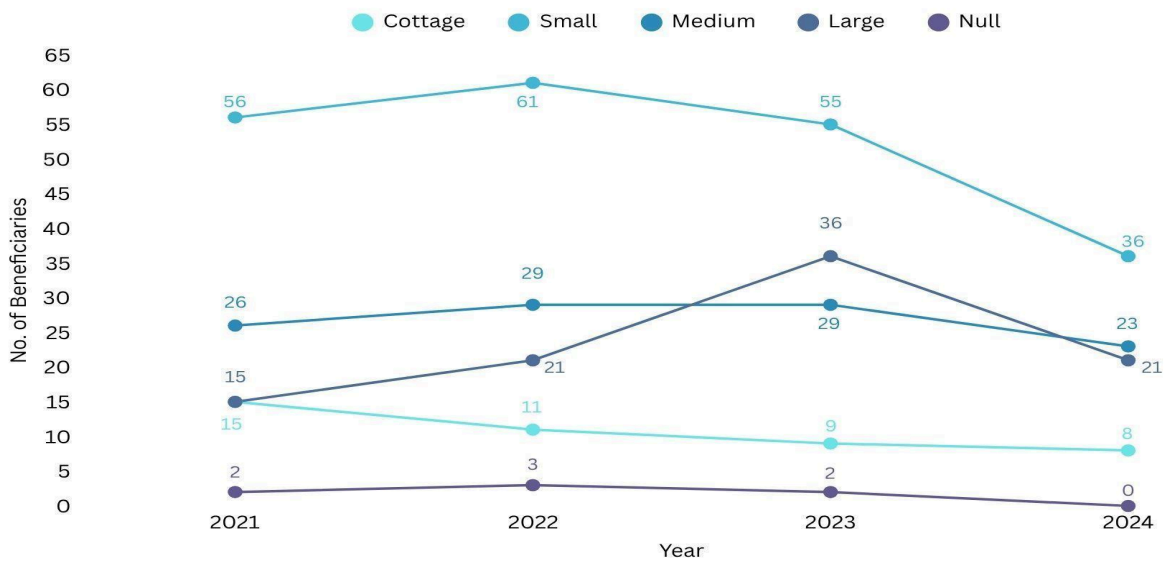


Figure 20: Beneficiaries by scale of industry





As shown in the graph above, small-scale industries consistently formed the largest share of beneficiaries over the four years, with 56, 61, 55, and 36 beneficiaries in 2021, 2022, 2023, and 2024, respectively. Medium-scale industries also maintained a relatively stable trend, with 26, 29, 29, and 23 beneficiaries over the same period. Large-scale industries, on the other hand, saw a gradual increase in uptake, from 15 in 2021 to 36 in 2023, before decreasing to 21 in 2024. Cottage industries exhibited a declining trend, from 15 beneficiaries in 2021 to only 8 in 2024. There were 2 for the null category in 2021, 3 in 2022, and 2 in 2023. The null category reflects entries where the scale of industry could not be determined due to incomplete or inaccurate data.

This contradicts the survey findings, as official data of DRC indicates that small-scale industries comprised the largest share of beneficiaries from 2021 to 2024, accounting for 45.4% of the total. This was followed by medium-scale industries at 23.4%, large-scale industries at 20.3%, cottage-scale industries at 9.4%, and a null category at 1.5%. In contrast, the survey results showed that large-scale industries dominated, representing 58.14% of respondents. This discrepancy may be attributed to the sampling method used. Since the survey employed simple random sampling and relied on voluntary participation, it is likely that a higher proportion of large-scale industries that had availed fiscal incentives chose to respond, thereby skewing the results. Consequently, the variation in findings may reflect the limited reach and representativeness of the survey sample.





## 4.4 Beneficiaries by the type of tax incentive

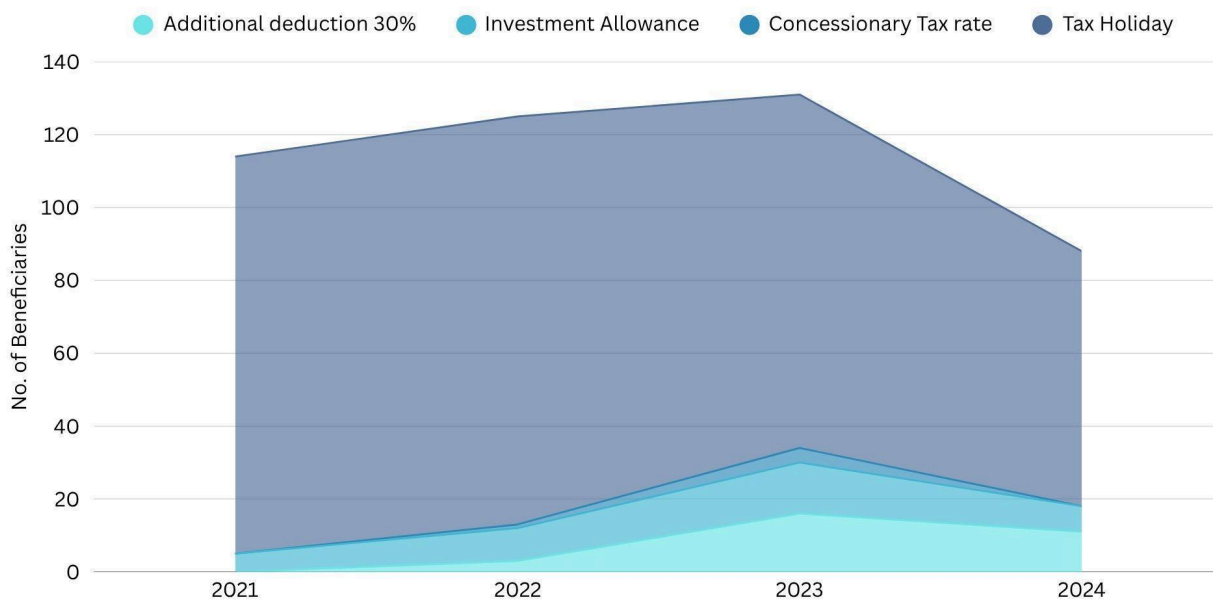


Figure 21: Beneficiaries by the type of tax incentives

The chart highlights the distribution of fiscal incentive beneficiaries in Bhutan, segmented by the type of tax incentive from 2021 to 2024. Tax holidays emerged as the most frequently availed incentive throughout the period, with beneficiary counts of 109 in 2021, 112 in 2022, before declining to 97 in 2023 and 70 in 2024.

Other incentives, including investment allowances, additional deductions (30% for using local construction and packaging materials), and concessionary tax rate incentives, witnessed a gradual rise in uptake until 2023, followed by a drop in 2024. Specifically, investment allowances were accessed by 5, 9, 14, and 7 beneficiaries across the four years, respectively. The 30% additional deductions were accessed by 3, 16, and 11 beneficiaries in 2022, 2023, and 2024, respectively, while the concessionary tax rates remained the least utilised, recorded only in 2022 and 2023, with 1 and 4 beneficiaries.





## 4.5 Beneficiaries by classification and type of tax incentive

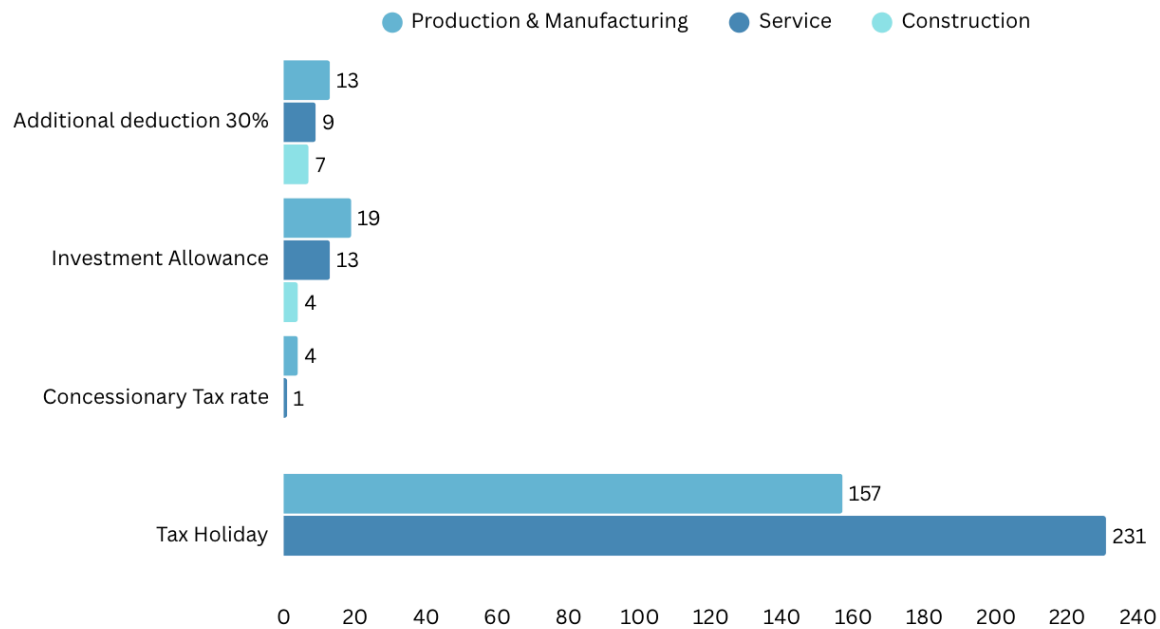


Figure 22: Beneficiaries by classification and type of tax incentives

As illustrated in the graph above, utilisation of fiscal incentives over the past four years varied across sectors and incentive types. The additional 30% deduction was availed by 13 beneficiaries from the manufacturing industry, 9 from the service industry, and 7 from the construction industry. The investment allowance was accessed by 19 manufacturing industries, 13 service industries, and 4 construction industries. In contrast, the concessionary tax rate was utilised by only 4 manufacturing industries and 1 service industry. The most widely availed incentive was the tax holiday, with 157 beneficiaries from the manufacturing sector and 231 from the service sector.

The data clearly shows that tax holidays are the most commonly accessed fiscal incentive, particularly by the service sector, which accounts for the highest number of beneficiaries. The additional 30% deduction and investment allowance were moderately utilised across all three sectors, indicating some awareness and applicability, though their uptake was significantly lower than that of tax holidays. The concessionary tax rate, by contrast, saw very limited usage. Overall, the trend suggests that while the fiscal incentives offer multiple benefits, businesses heavily rely on the





tax holiday provision, possibly due to its broader applicability. The lower uptake of other incentives points to a potential need for better communication, clearer criteria, and simplified access.

### 4.6 Beneficiaries by scale category and type of tax incentive

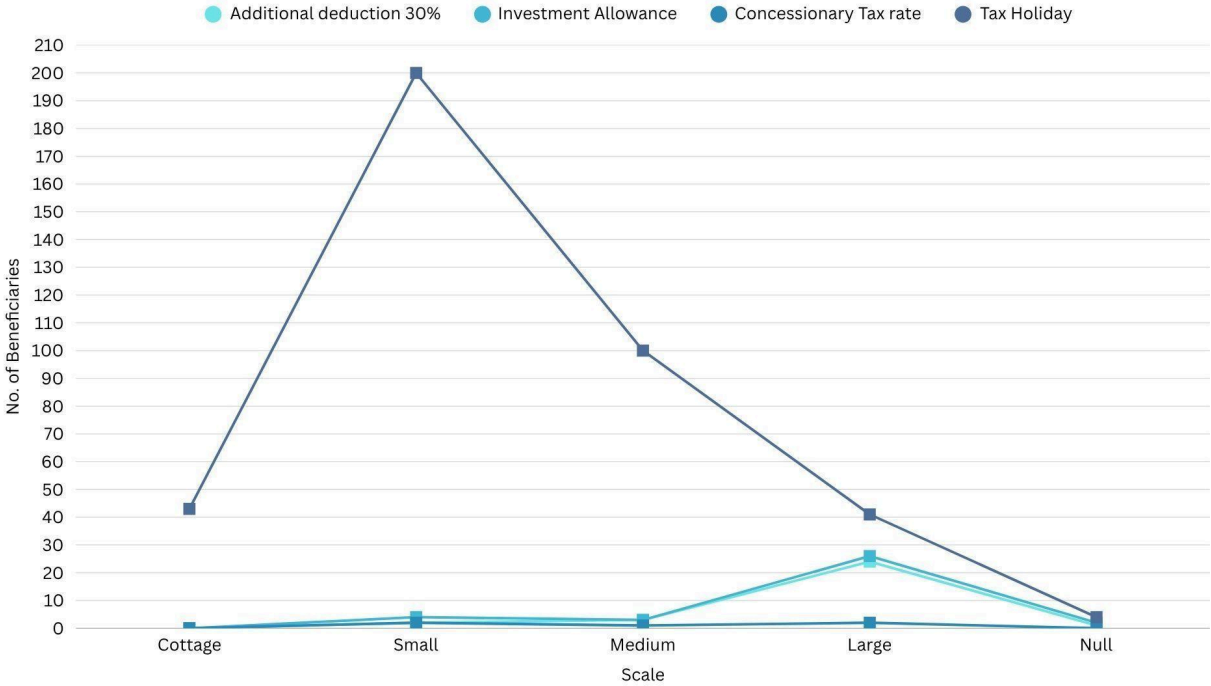


Figure 23: Beneficiaries by scale category and type of tax incentive

The distribution of fiscal incentive beneficiaries by industry scale from 2021 to 2024 reveals that tax holidays were the most widely utilised incentive across all categories. Small-scale industries accounted for the largest share, with a total of 200 beneficiaries availing tax holidays during the four-year period. This was followed by medium-scale industries with 100 beneficiaries, large-scale industries with 41, and cottage-scale industries with 43. Also, 4 cases were recorded under the null category, representing industries for which scale classification could not be determined due to incomplete or inaccurate data.

Other incentives were less widely accessed, but a breakdown by scale offers further insights. For the concessionary tax rate incentive, there were only 5 total beneficiaries, 2 from the small-scale category, 1 from the medium-scale category, and 2 from the large-scale category. On the contrary, investment allowances showed a stronger



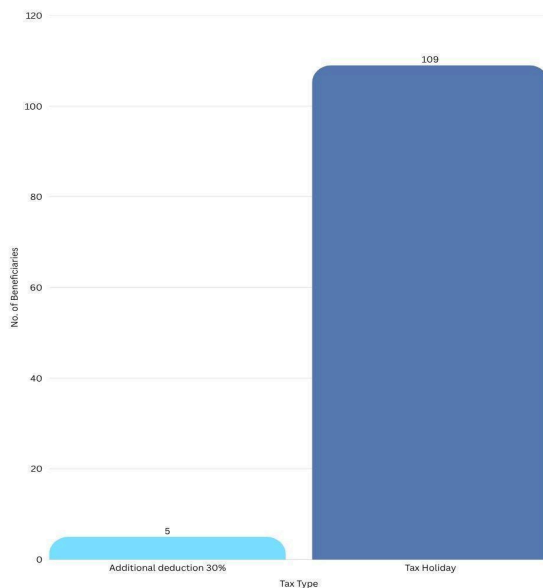


uptake among large-scale industries, with 26 beneficiaries, while only 4 small-scale, 3 medium-scale, and 2 from the null category availed the same. Likewise, the 30% additional deduction for using locally manufactured construction and packaging materials was most popular among large-scale industries, with 24 beneficiaries, compared to just 2 small-scale, 3 medium-scale, and 1 null category.

The data indicates large industries showing relatively higher uptake of diverse incentives such as additional deductions 30% and investment allowances, indicating better awareness, more robust administrative capacity, greater investment scale, and compliance readiness. In contrast, cottage-scale industries show limited participation across all incentive types, possibly reflecting limited awareness, eligibility, or application capacity.

## 4.7 Trends of Direct Tax Incentives

### 4.7.1 Trend of direct tax incentives in 2021



In 2021, a total of 114 beneficiaries were recorded under the direct tax incentives, with the majority availing the tax holiday incentive. Specifically, there were 5 beneficiaries for the investment allowance and 109 beneficiaries for the tax holiday incentive.

Figure 24: Trend of Direct Tax Incentives in the year 2021



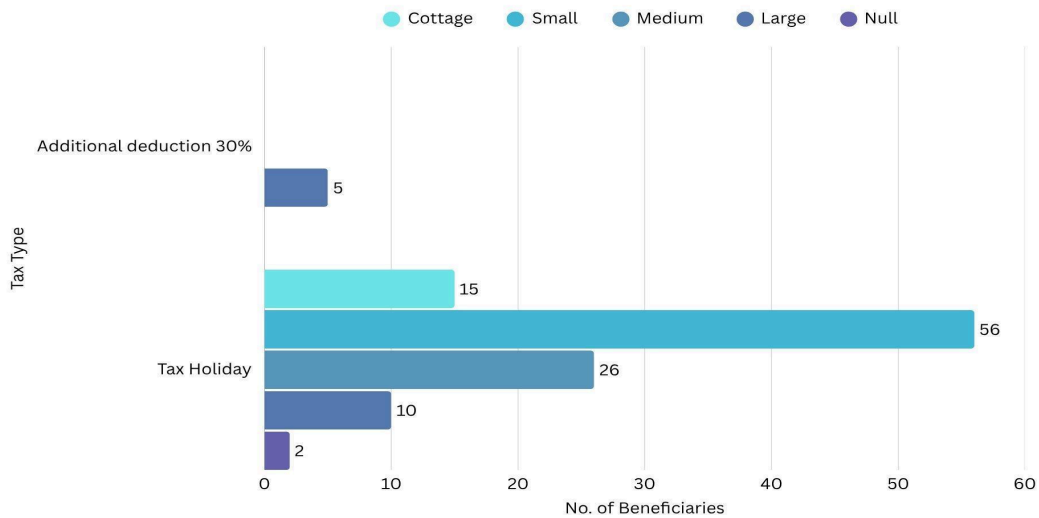


Figure 25: Trend of Direct Tax Incentives in the year 2021 by scale and tax type

A closer look at beneficiaries by the scale of industries reveals that investment allowance had 5 beneficiaries from the large-scale category, indicating that larger enterprises were more likely to make qualifying investments early. In 2021, 15 cottage-scale industries, 56 small-scale, 26 medium-scale, 10 large-scale, and 2 industries from the null category availed the tax holiday incentive. This distribution highlights the relatively higher uptake among small and medium industries, indicating that tax holidays were both accessible and relevant to a wide range of businesses, including newer or less formalised ones.

The 2021 data also suggests that the fiscal incentives were still in the early stages of adoption, with most industries favouring the more straightforward and widely applicable tax holiday incentive. The minimal uptake of more targeted incentives like investment allowances may reflect a lack of awareness or readiness among businesses to comply with the criteria required for these benefits. The early dominance of tax holidays could also imply that the government's initial communication and outreach were more successful in promoting general tax relief than in encouraging strategic investments or job creation through fiscal policy. Going forward, targeted awareness campaigns and streamlined application processes could help increase uptake of the lesser-utilised incentives, especially among cottage and small-scale industries.





## 4.7.2 Trend of direct tax incentives in 2022

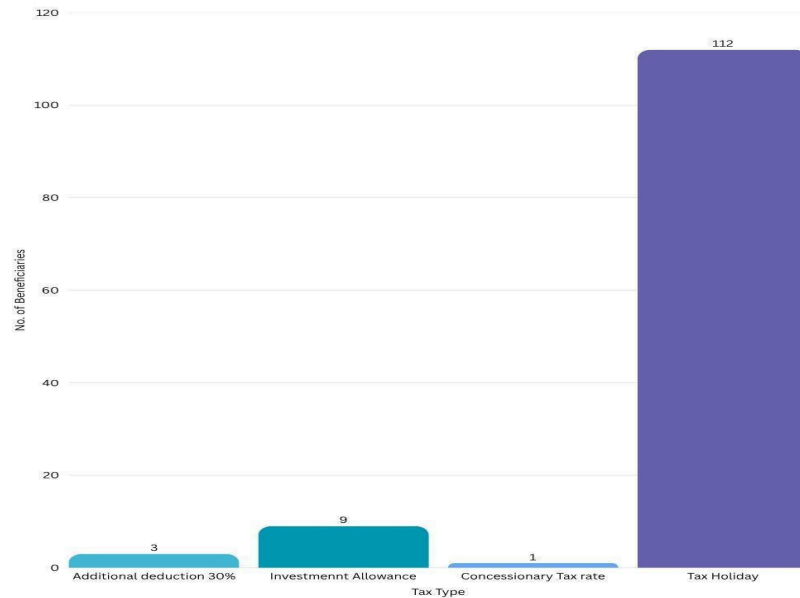


Figure 26: Trend of direct tax incentives in the year 2022

In 2022, a total of 125 beneficiaries availed various direct tax incentives, marking a slight increase from 2021. Among them, there were 3 beneficiaries for additional deduction of 30% for using locally manufactured construction and packaging materials, 9 beneficiaries for investment allowance, 1 for concessionary tax rate, and 112 beneficiaries for tax-holiday incentive.

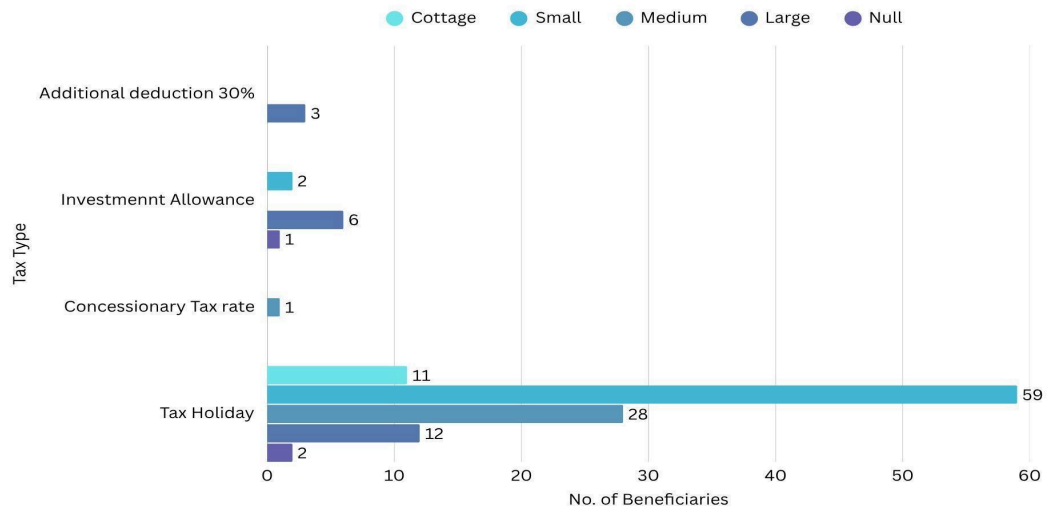


Figure 27: Trend of direct tax incentives in the year 2022 by scale and tax type





A deeper breakdown by industry scale shows that the additional 30% deduction was availed by 3 large-scale industries, suggesting limited awareness and outreach among the industries. The investment allowance incentive in 2022 saw a slightly more diverse uptake, with 2 small-scale, 6 large-scale, and 1 null-category industry benefiting. This spread indicates a growing awareness among small and large industries, though large-scale industries continued to dominate. The concessionary tax rate remained underutilised, with only 1 beneficiary from the medium-scale industry category, once again indicating poor awareness and outreach. On the contrary, tax holiday was availed by 11 cottage-scale, 59 small-scale, 28 medium-scale, 12 large-scale, and 2 null category industries.

### 4.7.3 Trend of direct tax incentives in 2023

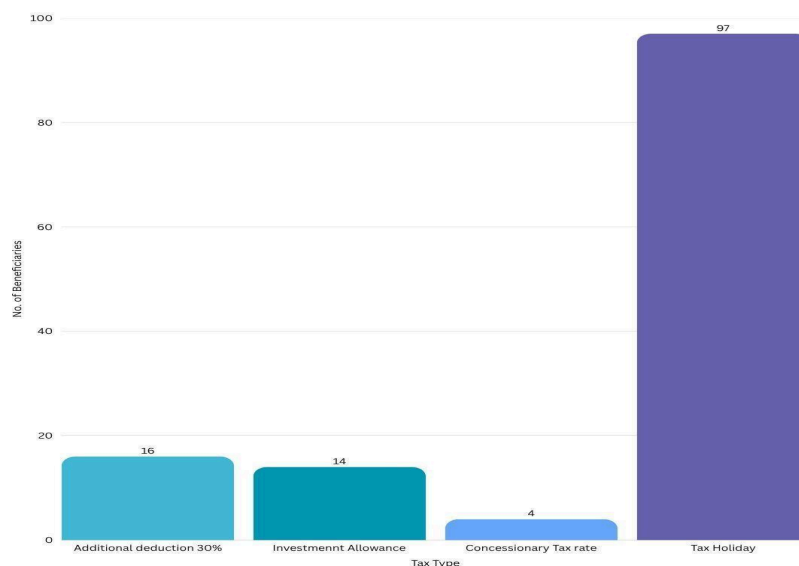


Figure 28: Trend of direct tax incentives in 2023

In 2023, the uptake of direct tax incentives showed continued diversification, with a total of 142 beneficiaries. Among them, 16 industries availed the additional 30% deduction for using locally manufactured construction and packaging materials, 14 benefited from investment allowances, 4 accessed concessionary tax rates, and 97 were granted tax holidays.



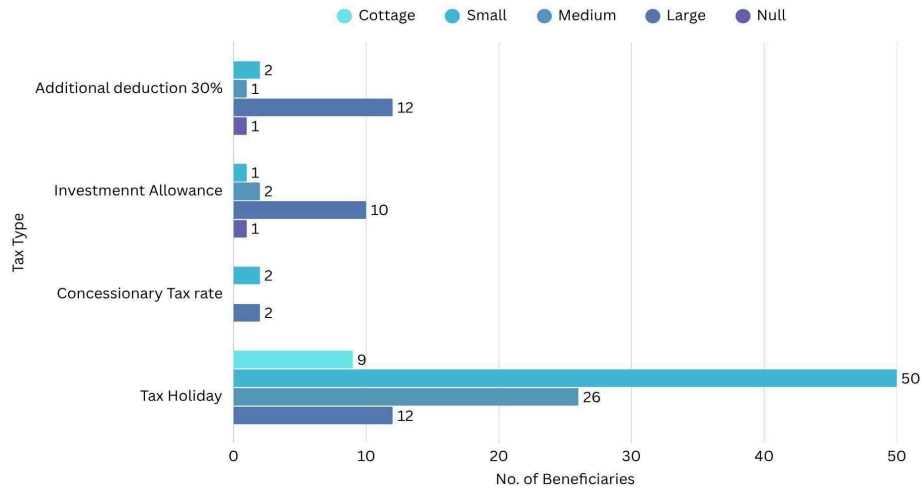


Figure 29: Trend of direct tax incentives in 2023 by scale and tax type

In 2023, the additional 30% deduction was availed by 2 small-scale, 1 medium-scale, 12 large-scale, and 1 null-category industry. Investment allowance beneficiaries included 1 small-scale, 2 medium-scale, 10 large-scale, and 1 null-category industry, again showing that large-scale industries continue to lead in leveraging this incentive. Likewise, the concessionary tax rate incentive was availed by 2 small-scale and 2 large-scale industries, reflecting a small distribution, which suggests that the overall uptake is minimal, pointing to persistent gaps in either awareness or practical accessibility.

Tax holidays remained the most popular incentive, as in previous years. In 2023, 97 industries availed this incentive, comprising 9 cottage-scale, 50 small-scale, 26 medium-scale, and 12 large-scale beneficiaries. The relatively balanced distribution across scales suggests that this incentive continues to offer broad appeal, particularly for small businesses.





#### 4.7.4 Trend of direct tax incentives in 2024

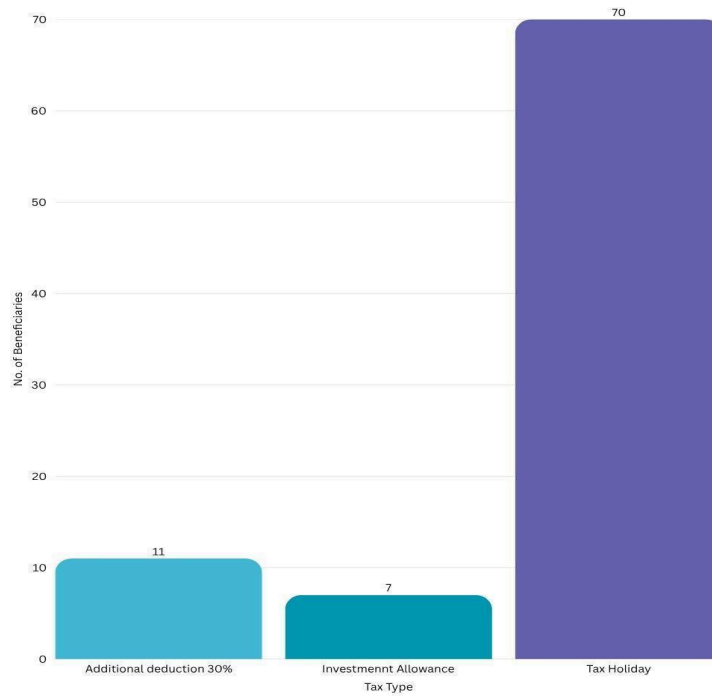


Figure 30: Trend of direct tax incentives in 2024

In 2024, a total of 11 industries benefited from the additional 30% deduction for using locally manufactured construction and packaging materials, while 7 industries availed investment allowance. Additionally, 70 industries received the tax holiday incentive.

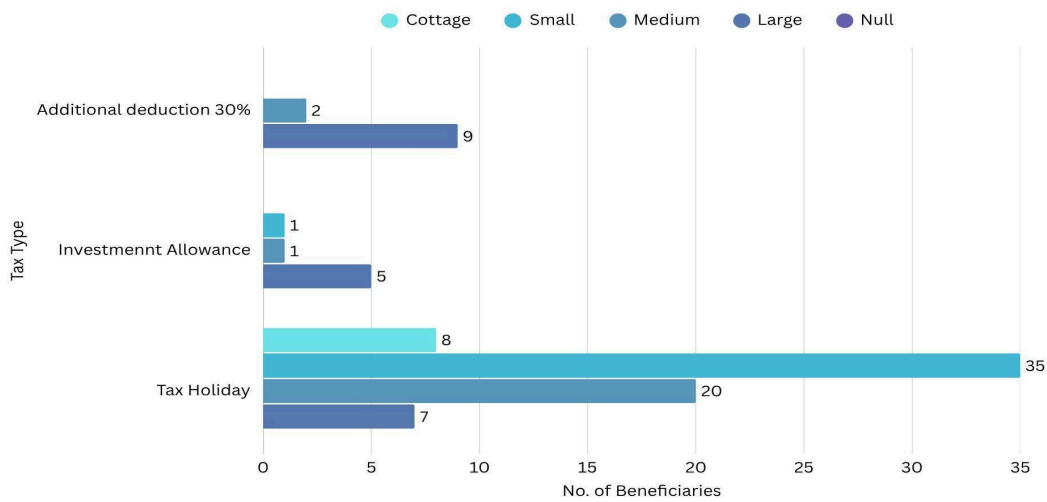


Figure 31: Trend of direct tax incentives in 2024 by scale and tax type





In 2023, the additional 30% deduction was availed by 11 industries, comprising 2 medium-scale and 9 large-scale industries. For the investment allowance incentive, there were 7 beneficiaries in total. These included 1 small-scale, 1 medium-scale, and 5 large-scale industries. On the other hand, the tax holiday incentive showed the widest reach, with 95 beneficiaries. This included 8 cottage-scale, 35 small-scale, 20 medium-scale, and 7 large-scale industries.

Overall, the data ranging from 2021-2024 indicates that large-scale industries are more likely to utilise deductions and allowances tied to investment and procurement, while tax holidays are more commonly used across smaller business scales, supporting their growth and sustainability.

### 4.8 Fiscal impact of the incentives

As per the data, the overall amount of fiscal incentives availed by industries between 2021 and 2024 totals over Nu 754 million. This also suggests that the government has experienced a revenue impact totalling Nu. 754.05 million due to the implementation of fiscal incentives. The largest portion of this impact stems from tax holidays, which account for Nu. 603.63 million, making up approximately 80% of the total. This reflects the central role of tax holidays as the most widely accessed and financially impactful component of the fiscal incentive framework. The investment allowance contributed to a revenue cost of Nu. 106.13 million. The additional 30% deduction resulted in Nu. 44.18 million in waived tax revenues, with usage rising steadily over time, from Nu. 3.67 million in 2022 to Nu. 27.63 million in 2024, thus indicating increasing awareness and uptake. In contrast, the concessionary tax rate had a minimal financial effect, contributing only Nu. 117,173.52 in 2023, suggesting limited adoption and usage.

While these incentives are essential tools for encouraging private sector growth and investment, the data underscores a substantial fiscal cost to the government.

The table below presents a comprehensive overview of the fiscal incentives availed by industries, categorised by incentive type, annual amounts in Nu., and a four-year total for each.





Table 1: Amount (in Nu) of Fiscal Incentives Availed by Industries between 2021-2024

Incentive Type	Amount in Nu				Total (Amount in Nu.)
	2021	2022	2023	2024	
<b>Tax Exemption/ Holiday</b>	64,111,976.82	207,642,537.29	223,564,853.38	108,306,133.06	<b>603,625,500.55</b>
<b>Investment Allowance</b>	14,773,975.31	21,204,779.12	58,727,116.45	11,421,739.12	<b>106,127,610.00</b>
<b>Additional Deduction 30%</b>	-	3,673,401.21	12,873,722.82	27,635,708.91	<b>44182832.94</b>
<b>Concessionary Tax Rate</b>	-	-	117,173.52	-	<b>117,173.52</b>
<b>Total</b>	<b>78,885,952.13</b>	<b>232,520,717.62</b>	<b>295,282,866.17</b>	<b>147,363,581.09</b>	<b>754,053,117.01</b>

## 5. Recommendation from the study

Based on the findings and observations, the study proposes the following key recommendations.

- **Improve awareness, outreach and clarity across all industry scales and regions**

While large-scale industries show high awareness (97%), small and cottage industries, which form a significant portion of Bhutan’s industrial base, remain underinformed. Targeted awareness programmes through the relevant agencies, such as the DRC, DoI and even local government, could help in bridging this knowledge gap and promote equitable access.

In addition to being unaware, businesses that are aware of incentives also struggle with ambiguous or inconsistent information regarding incentive eligibility. In order to reduce confusion and increase applicants, it is recommended to develop a standardised, regularly updated handbook or FAQ with case examples.

- **Simplify and digitise the application process**

The current application procedures are perceived as bureaucratic and time-consuming. Developing a centralised and fully digitised portal with





step-by-step guidance, status tracking, and document submission would improve efficiency and encourage participation.

- **Enhance inter-agency coordination and capacity**

Poor coordination among government departments results in delays and inconsistent implementation. Establishing a single-window facilitation unit and investing in cross-agency training will help reduce fragmentation and improve service delivery.

- **Align incentives with business needs and sector-specific realities**

Some industries find that existing incentives do not match their operational needs. A periodic review and customisation of incentive schemes, based on industry feedback and evolving market conditions, would improve their relevance and impact.

- **Institutionalise post-incentive monitoring and impact evaluation**

Introduce a monitoring mechanism to track the actual benefits accrued from fiscal incentives and ensure accountability. This will support future policy adjustments and ensure that incentives translate into tangible outcomes like job creation, revenue growth, and sectoral expansion.

- **Grievance redressal mechanisms**

There is a need to establish effective grievance redressal mechanisms to address challenges and concerns faced by beneficiaries. This will help build trust, ensure transparency, and improve the overall uptake and effectiveness of fiscal incentives.

- **Maintain and strengthen the fiscal incentives**

There is a clear need to maintain and strengthen the fiscal incentives, as the findings demonstrate that Bhutanese industries have benefited significantly, particularly through cost reduction, business expansion, revenue growth, and employment generation. This positive impact reinforces the role of fiscal incentives as a critical tool for industrial development. Furthermore, the draft Industrial Development Roadmap by MoICE also emphasises the importance of continuing these incentives to support sectoral growth. In light of these findings, the study recommends that fiscal incentives be sustained, with particular focus





on core incentives that have shown high utility, such as sales tax and customs duty (ST/CD) exemptions, which remain vital for enhancing industry competitiveness and stimulating private sector development.

## 6. Conclusion

This impact study provides a comprehensive evaluation of the effectiveness, utilisation, and challenges associated with fiscal incentives offered under the Fiscal Incentives Act of Bhutan 2021. Through a mixed-methods approach combining primary data (survey of 122 industries) and secondary data (official records from the Department of Revenue and Customs), the study assesses the level of awareness, accessibility, utilisation, and economic impact of the incentives across different industry scales, sectors, and regions, and how the fiscal incentives have impacted the Bhutanese industries.

The analysis reveals that while fiscal incentives are perceived as largely beneficial, especially in terms of cost reduction, business expansion, employment generation, and revenue growth, their actual uptake has been relatively limited. Only about 35% of surveyed industries availed fiscal incentives, despite 66% being aware of them. This observation is reinforced by DRC's official data, which records a total of 458 instances of fiscal incentive beneficiaries over the four-year period (2021–2024). However, this figure includes repeat beneficiaries and does not represent distinct industries, indicating a relatively low reach when compared to the total number of active industries (30739 active licenses) recorded by the Department of Industry as of 31st March, 2025.

The study also highlights a disproportionate reliance on tax holidays, which accounted for over 80% of the total incentives availed. Other incentives, such as investment allowances, additional 30% deductions, and concessionary tax rates, showed significantly lower utilisation, suggesting a need for better alignment with industry needs and greater awareness efforts.

Disparities in access were also evident across industry scales and geographic regions. Large and small-scale industries were the most active beneficiaries, while cottage industries reported the lowest participation, largely due to limited awareness, capacity





constraints, and procedural barriers. DRC's data further supports this observation, showing that small-scale industries consistently made up the largest share of beneficiaries, followed by medium-, large-, and cottage-scale industries. This trend, while encouraging in terms of small industry participation, also reflects persistent barriers for cottage-scale industries, which remain significantly underrepresented. Moreover, survey responses indicated a concentration of beneficiaries in Thimphu, Samtse, and Chhukha, highlighting geographic imbalances in outreach and access.

The study also highlighted the underutilization of the fiscal incentives. Over the four-year period from 2021 to 2024, fiscal incentives, particularly tax holiday incentives, have proven to be the most accessible and widely utilized incentive, accounting for approximately 84.7% of the total number of beneficiaries. However, uptake of more targeted incentives such as investment allowances and additional deductions remained limited, primarily among large-scale industries, possibly due to greater administrative and financial capacity. This indicates the dominance of a single type of incentive and the underutilization of the rest of the incentives.

The study highlighted some of the perceived challenges of availing the fiscal incentives. A major theme emerging from the survey responses is the systemic and procedural complexity involved in accessing fiscal incentives. Respondents cited bureaucratic application processes, unclear guidelines, inter-agency coordination challenges, and lack of digital systems as key impediments. These barriers not only discouraged potential beneficiaries but also led to the underutilization of the available incentives.

Despite these limitations, the incentives have demonstrated a substantial financial impact on industries that successfully accessed them. Over the four-year period (2021–2024), fiscal incentives contributed to Nu. 754 million in foregone government revenue, primarily through tax holidays. This forgone revenue can be viewed as a strategic investment toward stimulating private sector growth, given by the perceived gains in operational cost savings, business growth, and job creation as cited by the respondents.

The study further highlights a policy-practice gap. While the incentive framework exists on paper, it often fails to translate into tangible benefits for many potential





beneficiaries. To bridge this gap, the study puts forth a set of targeted recommendations such as enhancing awareness and outreach, digitising and simplifying application procedures, aligning incentives with sector-specific needs, strengthening inter-agency coordination, and institutionalising post-incentive monitoring. There is also a strong call to maintain and refine high-utility incentives like ST/CD exemptions and tax holidays, while boosting uptake of lesser-utilised options through tailored support mechanisms.

In conclusion, while Bhutan's fiscal incentive framework holds strong potential to drive industrial development and economic diversification, its full impact remains untapped. A more inclusive, transparent, and business-responsive system, supported by streamlined administration and proactive outreach, is essential to ensure that fiscal incentives truly catalyse private sector growth and national economic transformation.





**PART II:**

**STUDY ON THE BENEFITS OF  
FISCAL INCENTIVES TO  
INDUSTRIES IN BHUTAN**

**APRIL 27, 2026**





# 1. General Overview

## 1.1 Background

The study on the Benefits of Fiscal Incentives to Industries in Bhutan has been conducted as a follow-up to the initial study titled “Fiscal Incentives: Impact Study on Bhutanese Industries”. This follow-up study aims to assess the benefits of fiscal incentives on business expansion, productivity, employment generation, and revenue performance of industries in Bhutan. The study further examines industry perceptions of fiscal incentives and evaluates how effectively these measures translate into operational and economic gains. In accordance with the Fiscal Incentives Act of Bhutan 2021, key fiscal instruments considered include tax holidays (CIT/BIT exemptions), investment allowances, concessionary tax rates, and exemptions on sales tax and customs duties.

## 1.2. Methodology

### 1.2.1. Research Design

This follow-up study employs a quantitative approach to evaluate the benefits of fiscal incentives on industrial performance in Bhutan. The study builds upon previous baseline findings and focuses specifically on measurable outcomes such as expansion, productivity, employment, and financial performance.

### 1.2.2. Sampling Technique and Sample Size

Since this is a follow-up study, the survey questionnaire was circulated amongst the 43 respondents who reported that they had availed of fiscal incentives in the initial impact study. A simple random sampling technique was additionally adopted to ensure better coverage amongst the industries and to ensure that all industries had an equal probability of selection, thereby reducing selection bias and ensuring representativeness across sectors and regions.

The sample size was determined based on the availability of respondents and the diversity of industries availing fiscal incentives, ensuring adequate coverage for meaningful analysis.





### 1.2.3. Data Collection Methods

Data was collected through a structured online survey (Google Forms), which included a combination of closed-ended and open-ended questions designed to capture both quantitative indicators and qualitative perceptions.

### 1.2.4 Data Analysis

Quantitative data was analysed using Microsoft Excel to generate descriptive statistics and comparative summaries of key indicators such as revenue performance, employment trends, and expansion outcomes.

Qualitative responses were analysed using thematic analysis to identify recurring patterns related to industry perceptions, challenges in accessing incentives, and perceived effectiveness of fiscal support measures.

## 2. Findings and Discussions

### 2.1 Respondent Information

This section provides an overview of the respondent industries' profile based on business scale, classification, business activity, the year fiscal incentives were availed, and the types of fiscal incentives availed. A total of 36 respondent industries were included in the analysis.

#### 2.1.1 Distribution by Industry Scale

The majority of respondents fall under the large industry category (55.6%), followed by medium industries (30.6%), and small industries (13.9%). This indicates that fiscal incentive utilisation is predominantly concentrated among larger industries, with comparatively lower participation from small-scale industries.

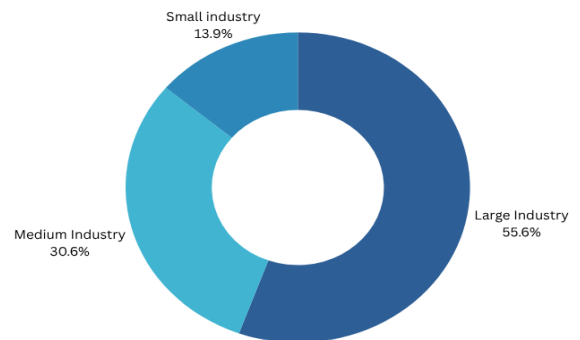


Figure 1. Respondent Industries by Scale





### 2.1.2 Classification of Industries

In terms of business classification, Production & Manufacturing accounts for 24 industries (66.7%), forming the majority of respondents, while service industries comprise 11 (30.6%), and contract-based activities constitute 1 (2.8%). This highlights a strong dominance of production-oriented industries in the sample, suggesting that fiscal incentives are primarily accessed by manufacturing-related sectors.

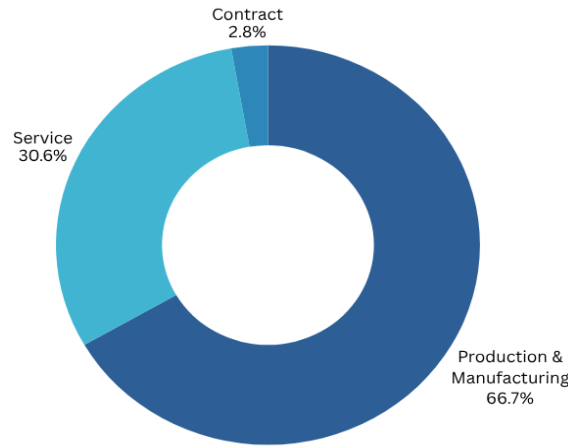


Figure 2. Respondent Industries by Classification

### 2.1.3 Sectoral Activity Distribution

The activity-wise distribution shows that other manufacturing activities (including beverages, construction materials, textiles, FRP, metal works, and general manufacturing) form the largest group at (36.1%). This is followed by hotels (25%), ferro industries (19.4%), and agriculture (11.1%). Smaller shares are observed in IT/ITES (5.6%) and construction (2.78%). This indicates a relatively diversified industrial base, though manufacturing and hospitality sectors are the primary beneficiaries.

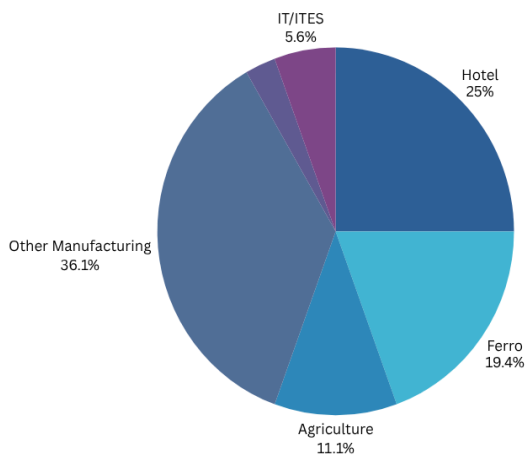


Figure 3. Respondent Industries by Activity





### 2.1.4 Period Fiscal Incentives were Availed

The analysis of the period during which fiscal incentives were availed shows a distinct pattern of increasing uptake in recent years, particularly from 2023 onwards. The data indicates that the highest proportion of respondents falls under the 2025–2026 period (33.33%), followed by 2023–2024 (27.78%). A smaller proportion of industries availed incentives in the pre-2020 period (19.44%), while 16.67% are categorised as ongoing or unspecified. The least proportion is observed in 2020–2022 (2.78%), reflecting relatively limited activity, possibly influenced by broader economic disruptions during the time.

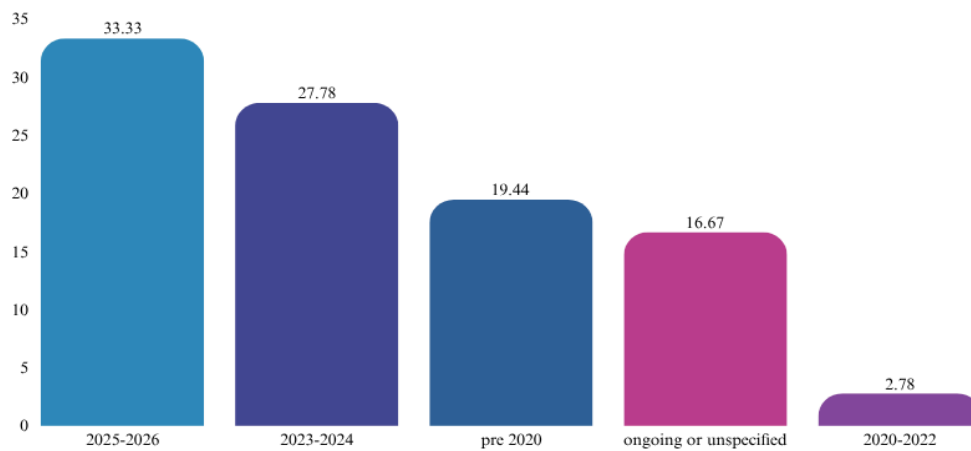


Figure 4. Period Fiscal Incentives were Availed

### 2.1.5 Type of Fiscal Incentives Availed

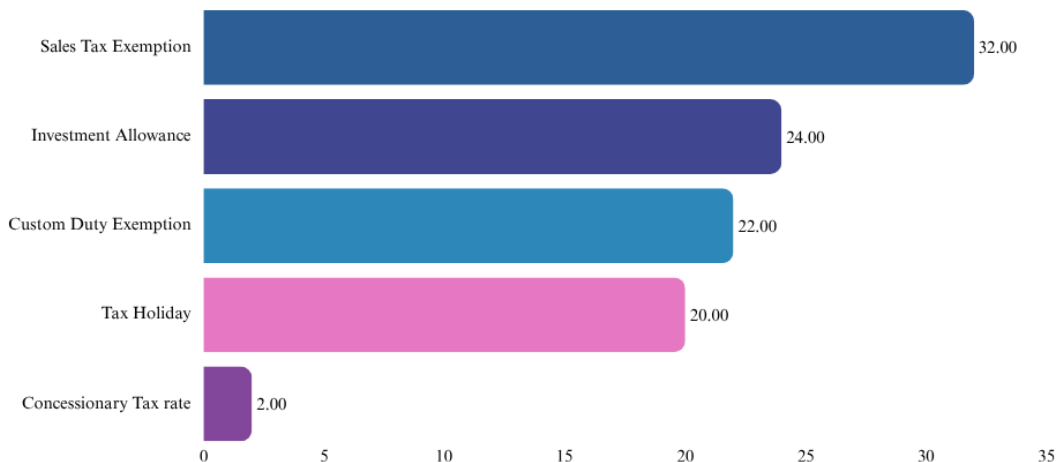


Figure 5. Types of Fiscal Incentives Availed



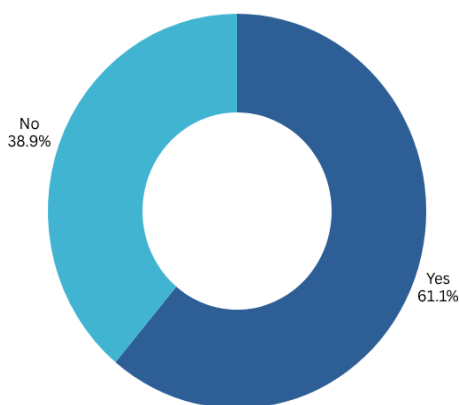


A total of 50 instances of fiscal incentives were reported, indicating that some industries availed multiple benefits. The most commonly accessed incentive was sales tax exemption (32%), which is applicable on imports from India, followed by investment allowance (24%) and custom duty exemption (22%). Tax holidays accounted for 20%, predominantly in the hospitality sector. Concessionary tax rates were the least utilised (2%). This distribution suggests that indirect tax-related incentives are more frequently utilised.

## 2.2 Business Expansion and Productivity

This section assesses the impact of fiscal incentives on business expansion, investment behaviour, and technological modernisation among respondent industries.

### 2.2.1 Business Expansion Since Availing Fiscal Incentives



The findings indicate that fiscal incentives have contributed positively to business expansion among respondent industries. Out of 36 industries, 61.1% (22 industries) reported expansion of operations after availing incentives, while 38.9% (14 industries) reported no expansion.

Figure 6. Business Expansion Since Availing Fiscal Incentives

Sector-wise, expansion was most pronounced in the production and manufacturing sector, where 72.72% of industries expanded, followed by the service sector at 27.27%, while the contract sector showed no expansion. This suggests that fiscal incentives have had a stronger impact on production-oriented industries compared to service-based or contract activities.

Table 1. Expansion Status by Classification

Classification	No	Yes	Grand Total
Contract	1		1
Production & Manufacturing	8	16	24
Service	5	6	11
<b>Grand Total</b>	<b>14</b>	<b>22</b>	<b>36</b>





### 2.2.2 Type of Expansion Occurred

The data indicates that expansion has been driven primarily by increased production capacity, accounting for 41.03% of all activities. This is followed by the introduction of new product lines (17.95%) and expansion into domestic markets (12.82%), suggesting a focus on scaling operations and diversifying offerings within the local economy. Establishment of new branches or units (10.26%) and entry into export markets (10.26%) reflect moderate efforts toward geographic expansion both domestically and internationally. Meanwhile, minimal emphasis has been placed on mechanisation, employment generation, and other activities each at (2.56%). Overall, the data shows that fiscal incentives mainly encourage capacity enhancement rather than deep structural diversification or innovation-led transformation.

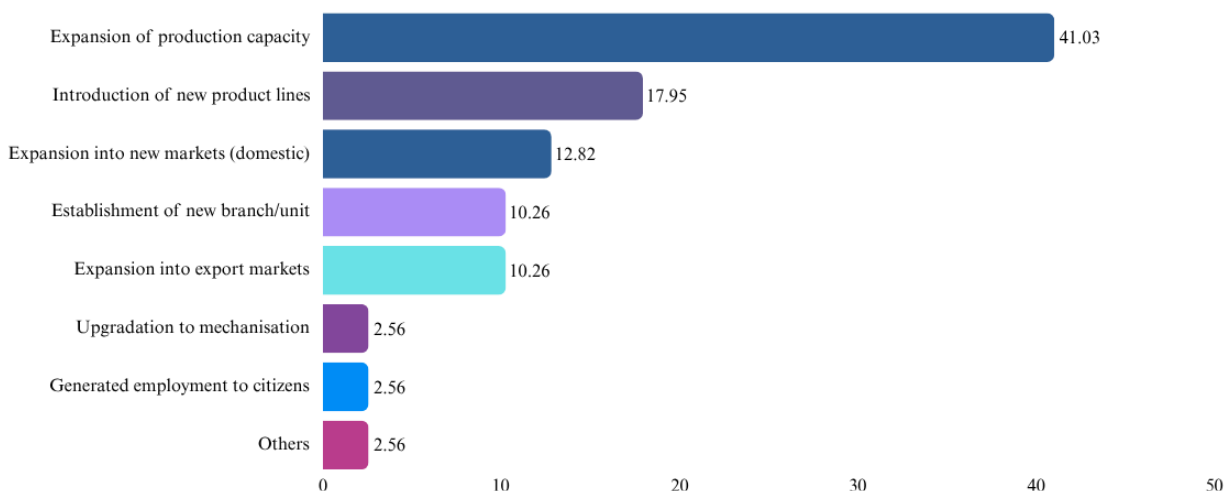


Figure 7. Type of Expansion Occurred

### 2.2.3 Investment Made After Availing Incentives

The investment pattern following the availing of incentives is relatively evenly distributed across categories. A notable share of firms falls at both ends of the spectrum, with 22.73% investing below Nu. 5 million and an equal proportion investing above Nu. 50 million, indicating the presence of both small-scale and large-scale investors. Similarly, 22.73% reported no additional investment, suggesting that incentives did not universally translate into further capital infusion. Mid-range investments are less prominent, with 18.18% in the Nu. 20–50 million range and





13.64% in the Nu. 5–20 million bracket. Overall, the data reflects a polarized investment response, with significant participation from both low and high investors alongside a considerable segment showing no follow-up investment.

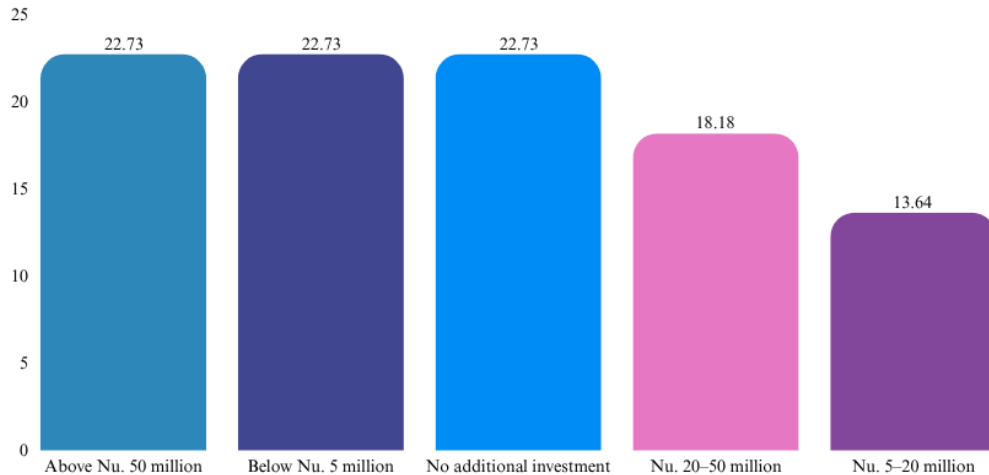


Figure 8.

*Investment Made After Availing Incentives*

### 2.2.4 Technological Upgradation or Modernization

The data shows that 61.1% of industries (22 out of 36) undertook technological upgrading or modernization following the availment of fiscal incentives, while 38.9% did not.



Figure 9. *Technological Upgradation*





Sectoral comparison reveals that 68.18% of manufacturing industries undertook technological upgradation or modernisation following the availment of fiscal incentives. This is followed by the service industries accounting for 31.81%.

Table 2. Technological Upgradation by Classification

Classification	No	Yes	Grand Total
Contract	1		1
Production & Manufacturing	9	15	24
Service	4	7	11
<b>Grand Total</b>	<b>14</b>	<b>22</b>	<b>36</b>

### 2.2.5 Areas of Technological Upgradation

The most common areas of improvement were machinery and equipment upgrades (26.79%), followed by production process improvements (21.67%) and workforce training and capacity building (20%), indicating a strong focus on enhancing efficiency and productivity. Moderate attention is given to quality certification (15%) and adoption of digital technologies or automation (13.33%). In contrast, minimal emphasis is placed on introducing new facilities or products and on marketing and branding each (1.67%), highlighting limited focus on expansion-oriented or market-facing innovations. Overall, the pattern reflects a priority on strengthening existing operations rather than pursuing outward growth or differentiation strategies.

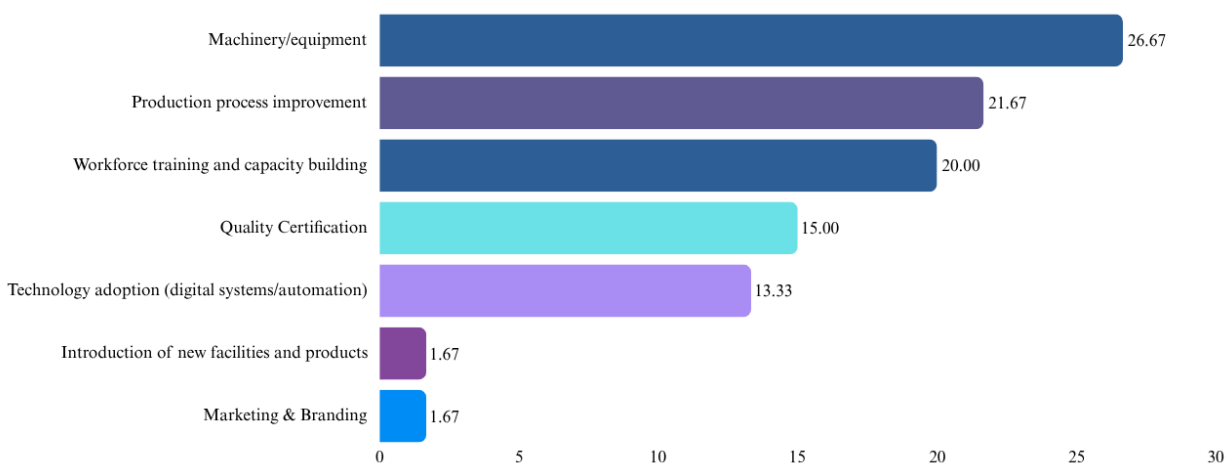


Figure 10. Areas of Technological Upgradation





## 2.2.6 Relationship Between Expansion and Technological Upgradation

The relationship between expansion and technological upgradation shows a strong positive association. Among firms that expanded, 81.1% also undertook technological upgrading, while only 18.18% expanded without modernisation efforts. In contrast, among industries that did not expand, a smaller proportion (28.57%) still reported technological improvements. This indicates that fiscal incentives tend to encourage a combined effect of both expansion and productivity enhancement, although the strength of this relationship varies across industries.

Table 3. Areas of Technological Upgradation

Since receiving fiscal incentives, has your business expanded operations?	Has your business undergone technological upgradation or modernization since availing incentives?		
	No	Yes	Grand Total
No	10	4	14
Yes	4	18	22
<b>Grand Total</b>	<b>14</b>	<b>22</b>	<b>36</b>

Overall, the findings demonstrate that fiscal incentives have played a significant role in promoting business expansion and moderate technological upgradation across industries. The impact is most evident in capacity expansion within manufacturing firms, with a secondary effect on diversification and modernisation.

## 2.3 Employment Impact

### 2.3.1 Benefit of fiscal incentives on employment generation

The survey results show mixed perceptions regarding the impact of fiscal incentives on employment generation among industries in Bhutan. Of the total respondents, 16 industries (45.7%) reported an increase in workforce after availing fiscal incentives, while 19 industries (54.3%) indicated no increase. This suggests that although fiscal incentives have supported employment growth for a considerable number of industries, the majority did not experience direct job creation.

The findings indicate that while fiscal incentives are beneficial for supporting industrial growth, their employment impact may be gradual rather than immediate, as





employment growth is also influenced by factors such as market demand, production scale, business maturity, and overall financial performance.

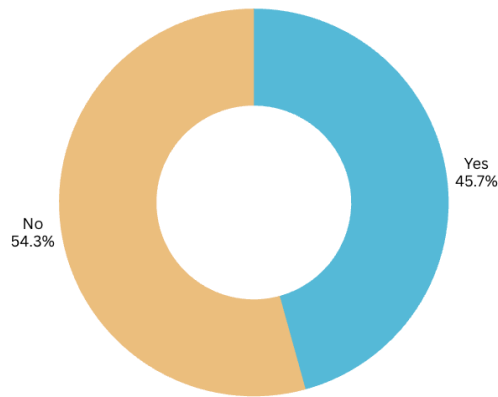


Figure 11. Benefit of Fiscal Incentives on Employment Generation

### 2.3.2 Employment Before and After availing Fiscal Incentives

The findings indicate a notable increase in total employment among industries after availing fiscal incentives. The total number of employees increased from 494 before receiving incentives to 1,290 after, reflecting a net increase of 796 employees and strong employment growth across the surveyed industries. However, it should be noted that the data is slightly skewed, as only 13 out of the 16 industries that reported workforce growth provided complete before-and-after employment figures.

This significant rise suggests that fiscal incentives have supported business expansion by reducing financial burdens through tax exemptions, duty concessions, and other benefits, allowing industries to reinvest, expand operations, and hire more workers. Overall, the findings indicate that fiscal incentives have had a positive and measurable impact on employment generation, particularly for industries with strong growth and expansion potential.

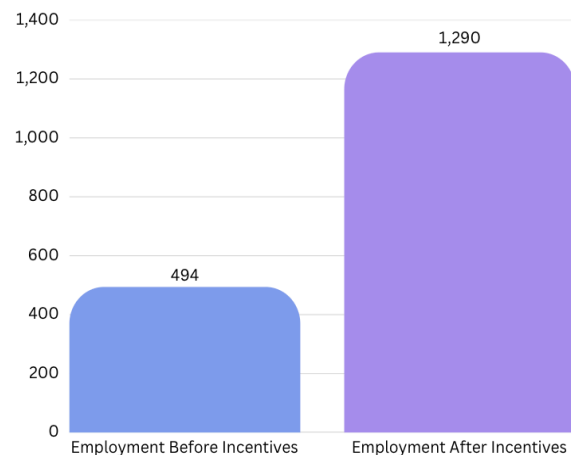


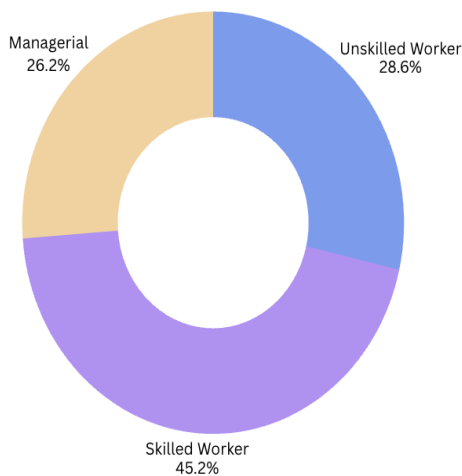
Figure 12. Employment Before and After availing Fiscal Incentives





### 2.3.3 Increase in type of employment

The findings show that fiscal incentives contributed to employment growth across all categories of workers, with the highest increase reported in skilled workers. Among the industries that reported workforce expansion, 19 industries (45.2%) indicated an increase in skilled workers, followed by 12 industries (28.6%) reporting growth in unskilled workers and 11 industries (26.2%) reporting an increase in managerial positions.



The higher growth in skilled employment suggests that industries mainly used fiscal incentives to strengthen technical capacity, improve productivity, and support operational efficiency, particularly in manufacturing and industrial sectors. At the same time, increases in unskilled and managerial positions reflect business expansion, production growth, and improved administrative capacity. Overall, fiscal incentives appear to support balanced employment generation, with the strongest impact seen in skilled workforce development.

Figure 13. Increase in Employment

## 2.4 Revenue and Financial Performance

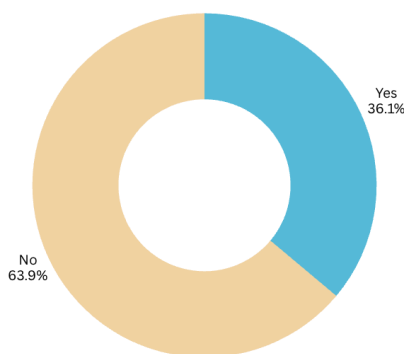
### 2.4.1 Benefit of Fiscal Incentives on Annual Turnover

The findings show mixed results regarding the impact of fiscal incentives on annual turnover and revenue performance. Of the total respondents, 13 industries (36.1%) reported an increase in annual turnover and revenue, while 23 industries (65.7%) indicated no increase. This suggests that although fiscal incentives supported revenue growth for some industries, the majority did not experience a direct improvement in turnover.





The results indicate that fiscal incentives alone may not generate immediate revenue growth, as turnover is also influenced by factors such as market demand, production capacity, pricing competitiveness, and access to raw materials. For some industries, incentives helped reduce operational costs and improve cash flow, enabling expansion and better efficiency. Overall, fiscal incentives play an important supporting role in business performance, but their impact on revenue growth is often indirect and gradual.



*Figure 14. Benefit of Fiscal Incentives on Annual Turnover*

#### 2.4.2 Annual Turnover Before and After availing Fiscal Incentives

Among the industries that reported an increase in annual turnover after receiving fiscal incentives, the combined annual turnover rose from Nu. 6,440.5 million before availing the incentives to Nu. 11272.4 million after receiving them, indicating substantial overall revenue growth. This suggests that fiscal incentives may have supported business expansion by reducing production costs, improving liquidity, and enabling reinvestment in operations, production capacity, and market competitiveness.

However, these figures may not represent a direct before-and-after impact solely attributable to fiscal incentives, as turnover growth is also influenced by factors such as market demand, business expansion, inflation, export performance, and overall economic conditions. Therefore, while the increase reflects positive financial growth among beneficiary industries, fiscal incentives should be viewed as a supporting factor rather than the sole driver of revenue improvement.



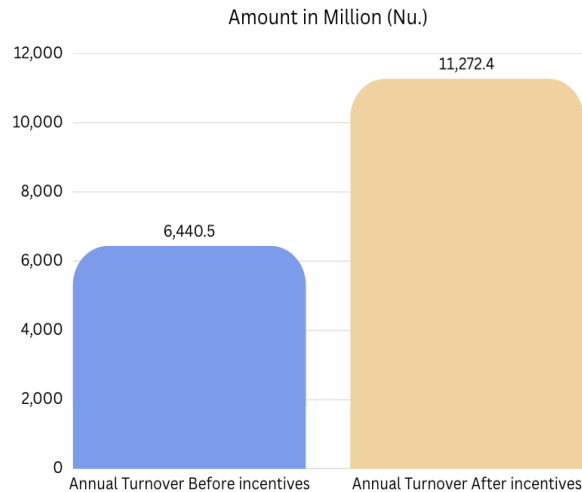


Figure 15. Annual Turnover Before and After availing Fiscal Incentives on Annual Turnover

### 2.4.3 Benefit of Fiscal Incentives on Export Revenue

The survey findings indicate that the impact of fiscal incentives on export revenue has been relatively limited for most industries. Of the total respondents, 12 industries (33.3%) reported an increase in export revenue after receiving fiscal incentives, while 24 industries (68.6%) indicated no increase. This suggests that although fiscal incentives supported export growth for some industries, the majority did not experience a direct improvement in export performance.

The results show that fiscal incentives alone may not be sufficient to drive export revenue, as exports are also influenced by factors such as international market demand, trade competitiveness, logistics costs, and access to foreign markets. For some industries, incentives helped reduce production costs and improve export capacity, while others remained focused on domestic markets or faced structural challenges that limited export growth.

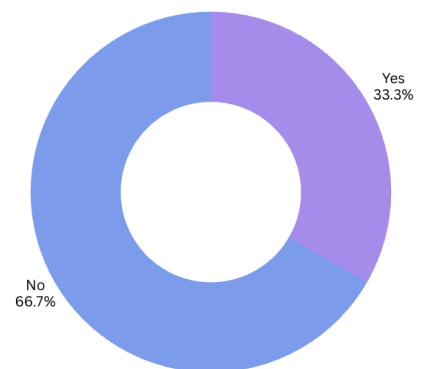


Figure 16. Benefit of Fiscal Incentives on Export Revenue





#### 2.4.4 Export Revenue Performance Before and After availing Fiscal Incentives

The responses on the estimated share of exports in total revenue before and after receiving fiscal incentives show mixed patterns across industries. Among the industries that reported improvement in export revenue, several respondents indicated a noticeable increase in the share of exports in their total revenue after availing fiscal incentives, while a few reported no change and even a decline. However, only 9 industries provided the export revenue before and after availing fiscal incentives.

Of the total responses received for this section, 4 industries reported strong improvements, such as export share increasing from 82% to 98%, 40% to 60%, 10% to 30%, and 17% to 68%, suggesting that fiscal incentives have helped improve export competitiveness. These increases may be linked to improved competitiveness due to reduced production costs, tax exemptions and improved operational efficiency that enhanced their ability to compete externally.

However, some industries reported no change, such as 100% to 100% and 0% to 0%, indicating that fiscal incentives may have helped sustain existing export performance rather than expand it. In contrast, a few respondents reported declines, such as 30% to 0%, 100% to 90%, and 100% to 50%, which may reflect market challenges, reduced international demand, supply chain disruptions, or a shift toward domestic market focus.

Overall, the findings suggest that fiscal incentives have supported export growth for some industries, particularly export-oriented firms, but the impact is not consistent across all respondents, thus highlighting that export performance depends not only on fiscal incentives but also on broader market access, international demand, logistics, and competitiveness factors.



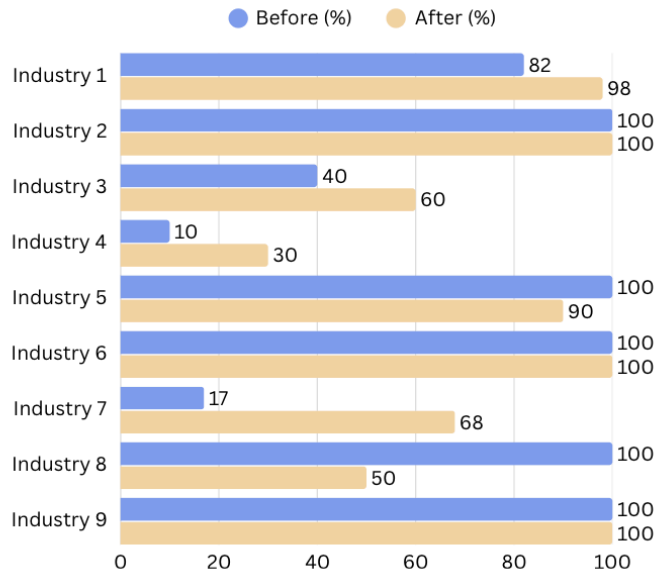


Figure 17. Export Revenue Performance Before and After availing Fiscal Incentives

## 2.5 Perception of Fiscal Incentives

This survey section aims to understand the respondents' perception of the role and effectiveness of fiscal incentives on industrial establishment, growth and sustainability.

### 2.5.1 Influence on business establishment

This question assesses whether fiscal incentives played a role in influencing respondents' decisions to establish their businesses.

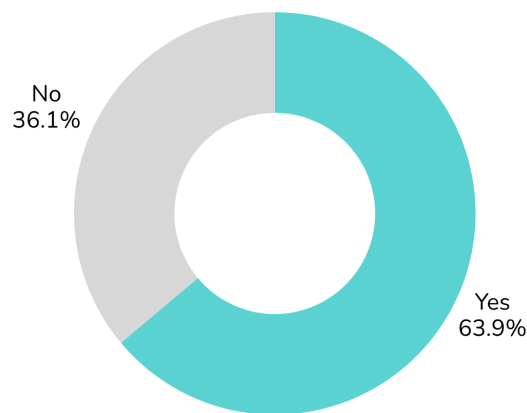


Figure 18. Influence on business establishment





Of the 36 respondents, a majority of 23 (63.9%) indicated that fiscal incentives influenced their decision to start their business. Meanwhile, 13 respondents (36.1%) reported that such incentives did not play a role in their decision-making process. The findings suggest that while fiscal incentives are a significant motivating factor for a considerable portion of industries, a notable number of respondents were not influenced by the incentives.

### 2.5.2 Attribution of growth to fiscal incentives

On the degree to which businesses attribute their growth to fiscal incentives, 44.4% of the respondents (16) reported that fiscal incentives contributed moderately to their business growth, followed by 25% (9) who attributed their growth largely to such incentives. A smaller proportion of respondents indicated minimal or no impact, with 13.9% (5) stating slightly and 8.3% (3) reporting not at all. Similarly, 8.3% (3) of respondents indicated that their business growth was entirely attributable to fiscal incentives.

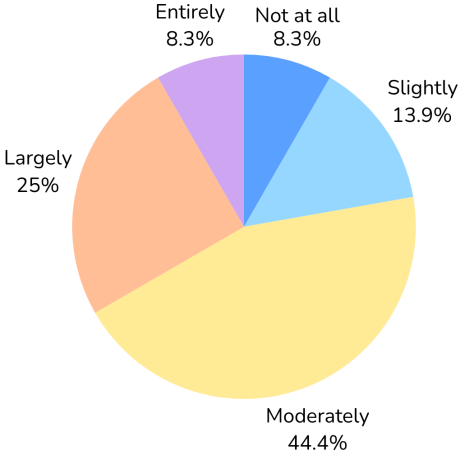
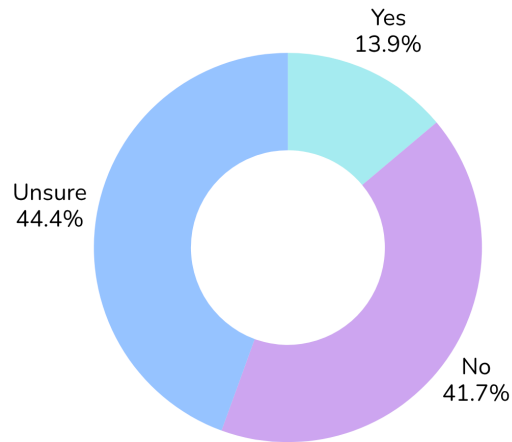


Figure 19. Degree to which the growth of business is attributed to fiscal incentives

### 2.5.3 Growth dependency on fiscal incentives.

This question aims to understand whether businesses believe they could have achieved similar levels of growth in the absence of fiscal incentives, providing insight into the perceived dependency of business performance on such incentives.



*Figure 20. Whether the business would have achieved the same growth without fiscal incentives*

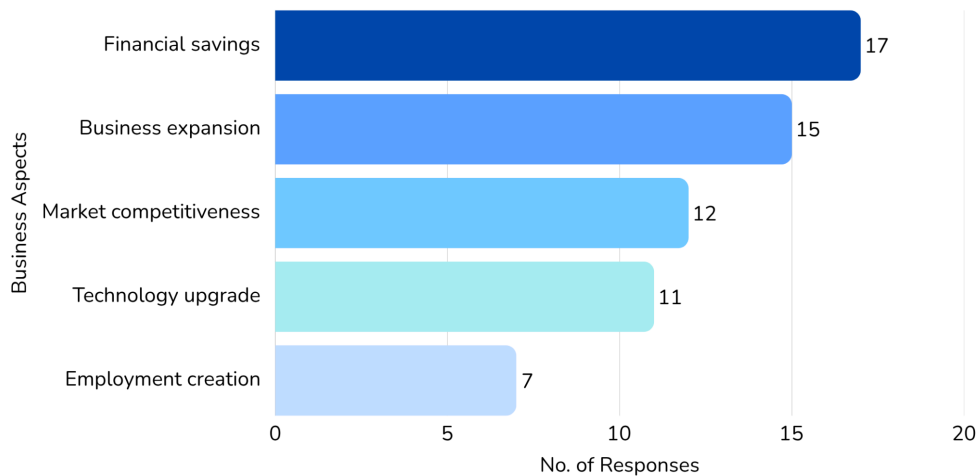
The responses indicate a considerable level of uncertainty and reliance on fiscal incentives. The largest proportion of respondents, at 16 responses (44.4%), reported being unsure whether their business would have achieved similar growth without fiscal incentives, suggesting difficulty in isolating the exact impact of these measures.

Meanwhile, 41.7% of respondents (15) stated no, indicating that they do not believe their businesses would have grown similarly without fiscal support. Only a small proportion of 13.9% (5) responded yes that their growth trajectory would have remained unchanged in the absence of incentives.

#### **2.5.4 Key business areas benefited by incentives**

To identify the specific areas in which businesses have benefited from fiscal incentives, this question captures the impact of fiscal incentives across various aspects of business operations. The respondents were allowed to select multiple options, if applicable.





*Figure 21. Business aspects that benefited the most from fiscal incentives*

The responses indicate that fiscal incentives have provided the greatest benefit in terms of financial savings, with 17 respondents identifying this as a key advantage. This suggests that cost reduction remains the most immediate and tangible impact of such incentives for businesses.

This is followed closely by business expansion (15 responses), highlighting the role of fiscal incentives in enabling firms to scale their operations. Other notable areas of benefit include market competitiveness (12 responses) and technology upgrade (11 responses), indicating that incentives also support improvements in efficiency and positioning within the market.

In comparison, employment creation was selected by fewer respondents (7), suggesting that while fiscal incentives may contribute to job creation, this effect is less direct or less pronounced relative to other benefits.

### **2.5.5 Continuation and expansion of fiscal incentives**

This question aimed to capture respondents' views on whether fiscal incentives should be continued or expanded in the future, providing insight into overall industry sentiment regarding the relevance and effectiveness of such policy measures.



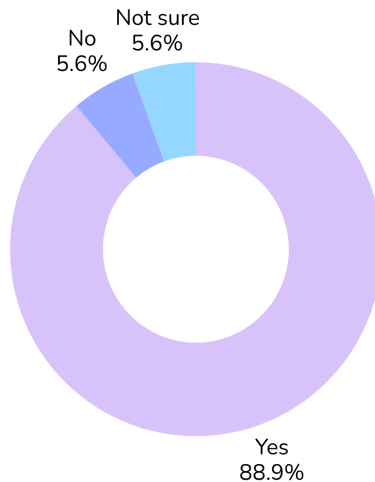


Figure 22. Whether fiscal incentives should be continued or expanded

The responses show a strong consensus in favour of continuing or expanding fiscal incentives. A significant majority of respondents (88.9% or 32 responses) answered yes, indicating broad support for the continuation or enhancement of these measures. Only a small proportion of respondents (5.6% or 2 responses) indicated no, while an equal percentage (5.66% or 2 responses) reported being not sure.

The findings suggest that fiscal incentives are widely perceived as beneficial and remain an important support mechanism for businesses. The overwhelming support for their continuation or expansion reflects their positive impact on business operations and growth, as experienced by the respondents.

### 2.5.6 Growth sustainability without continued fiscal incentives

On whether businesses believe their current growth is sustainable in the absence of continued fiscal incentives, the responses indicate a notable level of concern regarding the sustainability of business growth without continued fiscal incentives.

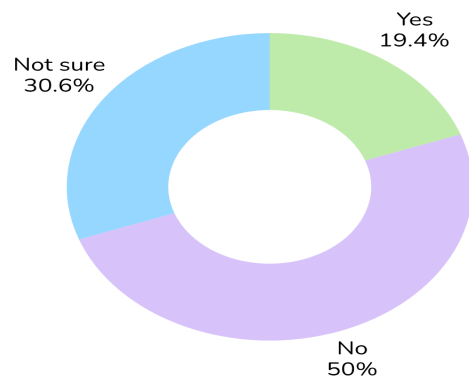


Figure 23. Whether business growth is sustainable without continued fiscal incentives





Half of the respondents (50% or 18 responses) indicated no, suggesting that they do not believe their growth would be sustainable without ongoing support. A further 30.6% (11) of respondents reported being not sure, reflecting uncertainty about their ability to maintain growth independently. However, 19.4% (7) responded yes, indicating confidence in sustaining business growth without continued incentives.

The findings suggest that a significant proportion of businesses remain reliant on fiscal incentives, and there may be challenges in maintaining growth and competitiveness if such support is withdrawn.

### **2.5.7 Thematic analysis on additional open-ended responses**

The qualitative responses reveal a range of perspectives on the benefits, limitations, and future direction of fiscal incentives in Bhutan. The overall thematic analysis indicates that fiscal incentives are widely perceived as a critical tool for promoting industrial growth in Bhutan. However, their effectiveness is currently constrained by implementation challenges, administrative complexity, and gaps in complementary support systems. Strengthening delivery mechanisms, simplifying processes, and aligning incentives with infrastructure and sectoral priorities will be essential to fully realise their intended impact.

Several key themes emerging from the additional responses are as follows:

#### **2.5.7.1 Financial relief and cost reduction**

A dominant theme across responses is that fiscal incentives significantly reduce the financial burden on businesses, particularly during the initial investment phase. Respondents highlighted benefits such as tax holidays, customs duty exemptions, and investment allowances, which help lower capital costs, improve cash flow, and shorten payback periods. This is especially critical in Bhutan, where high import dependency, financing costs, and small market size increase the cost of doing business.

#### **2.5.7.2 Support for business establishment and expansion**

Many respondents emphasised that fiscal incentives encourage business start-ups and expansion by providing confidence to invest, particularly in uncertain market





conditions. Incentives were seen as enabling firms to proceed with investments they might otherwise delay, thereby promoting industrial growth and sectoral development.

### ***2.5.7.3 Competitiveness of local industries***

A recurring concern is the need for fiscal incentives to enhance the competitiveness of Bhutanese industries, particularly against imported goods (especially from India). Respondents noted that without such support, higher production costs, especially following the withdrawal of certain incentives under the GST regime could disadvantage local manufacturers and risk market displacement.

### ***2.5.7.4 Sector-specific and targeted approach needed***

Several responses highlighted the need for more targeted, strategic, and sector-specific incentives. Rather than broad-based or small-scale support, respondents suggested focusing on high-potential sectors aligned with national priorities. There were also calls to refine eligibility criteria (e.g., certification-based incentives, value addition thresholds) to better support genuine domestic production and high-quality outputs.

### ***2.5.7.5 Implementation gaps and administrative barriers***

A strong and more nuanced theme emerging, reinforced by the additional response, is the gap between policy intent and ground-level implementation. While the design of fiscal incentives is generally appreciated, respondents highlighted several barriers:

- Complex administrative and documentation requirements
- Difficulty in availing benefits despite eligibility
- Uneven access, with larger firms better positioned to comply
- Low awareness or uptake among clients/end-users (e.g., contractors not utilising available deductions)

Specific mechanisms, such as the Value Addition Certificate (VAC), were noted as not fully achieving their intended purpose due to practical implementation challenges. Overall, respondents emphasised the need for simplified, transparent, and more accessible processes to ensure that incentives translate into real benefits.





#### ***2.5.7.6 Limited or delayed realisation of benefits***

Some respondents indicated that they have not yet realised the full benefits of fiscal incentives, particularly those who are newly established or not yet profitable. This suggests that the impact of incentives may take time to materialise, especially for capital-intensive industries with long gestation periods.

#### ***2.5.7.7 Sustainability concerns and dependency***

There is a notable concern that businesses may struggle to sustain growth without continued fiscal support. Several respondents indicated that incentives are essential for survival, particularly for startups and small industries facing structural constraints and strong competition.

#### ***2.5.7.8 External factors affecting outcomes***

Respondents acknowledged that business performance is influenced by external factors such as the COVID-19 pandemic, tourism policies, labour shortages, and market conditions. These factors complicate the assessment of the true impact of fiscal incentives.

#### ***2.5.7.9 Need for policy refinement and continuity***

Many respondents recommended the continuation and refinement of fiscal incentives, including:

- Extending tax holidays for sectors affected by disruptions
- Reintroducing or maintaining exemptions on raw materials and machinery
- Expanding eligibility across industry sizes (including medium and large firms for employment-related incentives)
- Periodic review and alignment with evolving economic conditions

There were also calls for stronger demand-side incentives to promote the use of local products.

#### ***2.5.7.10 Infrastructure and complementary support***





An important addition highlighted is that fiscal incentives alone are not sufficient. Respondents emphasised the need for supporting infrastructure, such as reliable road access and industrial facilities, to ensure that incentives translate into sustainable industrial development. Complementary programs (e.g., skills, financing, and initiatives like YELP) were also recognised as valuable.

#### ***2.5.7.11 Risks of misuse and inefficiencies***

A minority of responses raised concerns about potential misuse or manipulation of fiscal incentives, suggesting that some businesses may exploit these provisions. This underscores the need for improved monitoring, accountability, and awareness.

#### ***2.5.7.12 Broader economic impact***

Several respondents recognised the wider economic benefits of fiscal incentives, including:

- Industrial development and diversification
- Employment generation
- Increased long-term government revenue
- Regional development and improved utilisation of infrastructure

### **3. Observation and Recommendation**

#### **3.1 Observations**

##### ***3.1.1 Uneven Access and Utilization of Fiscal Incentives***

The findings of the study indicate that while fiscal incentives have played a significant role in supporting industrial development in Bhutan, their access and utilization remain uneven across industry categories. A majority of the beneficiaries are large and manufacturing-based industries, whereas participation from small-scale industries is comparatively low. This suggests that existing procedural requirements, awareness gaps, or capacity constraints may be limiting equitable access to fiscal incentives.

##### ***3.1.2 Strong Impact on Expansion, but Limited Depth of Transformation***





The study reveals that fiscal incentives have contributed positively to business expansion, with 60 percent of the respondent industries reporting some form of operational growth. However, the nature of this expansion is largely concentrated in the enhancement of production capacity rather than diversification, innovation, or entry into export markets. This indicates that while incentives are effective in supporting incremental growth, their role in driving structural transformation remains limited.

### ***3.1.2 Moderate Technological Upgradation Focused on Operations***

A moderate level of technological improvement is observed, with 60 percent of industries undertaking modernization after availing fiscal incentives. These improvements are primarily focused on machinery, equipment, and production processes, reflecting a strong orientation toward operational efficiency. However, limited attention has been given to digitalization, branding, and innovation, which are essential for long-term competitiveness.

### ***3.1.3 Mixed Employment Outcomes***

The impact of fiscal incentives on employment presents mixed results. Although aggregate employment increased significantly, less than half of the industries reported workforce expansion at the firm level. This suggests that employment generation is influenced by additional factors such as market demand and scale of operations. The observed increase in skilled employment highlights the role of incentives in strengthening technical capacity within industries.

### ***3.1.4 Limited Direct Impact on Revenue***

The effect of fiscal incentives on revenue generation is not uniformly positive. A majority of industries reported no direct increase in annual turnover after availing incentives, indicating that such measures primarily support cost reduction and financial stability rather than immediate revenue growth. External market conditions and competitiveness appear to play a more decisive role in determining financial outcomes.

### ***3.1.5 Limited Export Competitiveness and External Constraints***





The study indicates that the impact of fiscal incentives on export performance is relatively limited. Most industries did not experience an increase in export revenue, suggesting that fiscal incentives alone are insufficient to drive export growth. Structural challenges such as logistics constraints, compliance requirements, and limited market access continue to hinder export competitiveness.

### ***3.1.6 High Perceived Value but Moderate Attribution***

Despite mixed outcomes, fiscal incentives are widely perceived as beneficial, with a strong majority of respondents supporting their continuation or expansion. However, the degree to which businesses attribute their growth to fiscal incentives is moderate, indicating that these measures function more as supportive tools rather than primary growth drivers. At the same time, many industries expressed concerns about sustaining growth without continued fiscal support, reflecting a level of dependency.

### ***3.1.7 Implementation Gaps and Administrative Challenges***

A critical observation emerging from the study is the gap between policy intent and ground-level implementation. Respondents highlighted issues such as complex administrative procedures, difficulty in accessing benefits, and uneven access across firms. These challenges reduce the overall effectiveness of fiscal incentives, particularly for smaller industries that may lack the capacity to navigate regulatory processes.

### ***3.1.8 Need for Complementary Support Systems***

The findings emphasize that fiscal incentives alone are insufficient to drive sustainable industrial development. Industries highlighted the importance of complementary support systems, including infrastructure development, access to finance, skills training, and market linkages. Without these supporting elements, the full benefits of fiscal incentives cannot be realized.

## **3.2 Recommendations**

### ***3.2.1 Improving Accessibility and Inclusivity***





To enhance the effectiveness of fiscal incentives, it is essential to improve their accessibility, particularly for small and medium-sized industries. Simplifying procedures, reducing administrative burdens, and increasing awareness through targeted outreach programs would help ensure broader participation. The adoption of digital platforms can further streamline processes and improve transparency.

### ***3.2.2 Adopting a Targeted and Strategic Approach***

There is a need to shift from broad-based incentives to a more targeted and strategic framework aligned with national priorities. Incentives should be designed to support high-potential sectors and linked to measurable outcomes such as employment generation, export growth, and value addition.

### ***3.2.3 Promoting Innovation and Technological Advancement***

Fiscal incentives should place greater emphasis on encouraging innovation, digital transformation, and product development. Providing targeted support for research and development, automation, and branding will help industries move beyond basic capacity expansion toward long-term competitiveness.

### ***3.2.4 Strengthening Employment Outcomes***

To enhance the employment impact, fiscal incentives should incorporate provisions that directly encourage job creation and workforce development. This includes incentives linked to hiring, skills training, and capacity building, particularly for youth and skilled workers.

### ***3.2.5 Enhancing Export Promotion Efforts***

Fiscal incentives should be complemented by broader export promotion strategies, including improving trade logistics, facilitating access to international markets, and supporting compliance with global standards. This will enable industries to better leverage incentives for export growth.

### ***3.2.6 Addressing Implementation Gaps***





Efforts should be made to simplify administrative processes and improve coordination among implementing agencies. Ensuring transparency, consistency, and ease of access will help bridge the gap between policy intent and actual outcomes. Regular review of implementation mechanisms is also necessary.

### **3.2.7 Reducing Dependency and Ensuring Sustainability**

To address concerns of dependency, fiscal incentives should incorporate clear timelines and phased exit strategies. Supporting industries in transitioning toward self-sustained growth will enhance long-term resilience and reduce reliance on government support.

### **3.2.8 Strengthening Monitoring and Evaluation**

Robust monitoring and evaluation systems should be established to track the effectiveness of fiscal incentives. Periodic assessments will enable evidence-based policy adjustments and help address inefficiencies or misuse.

### **3.2.9 Enhancing Supporting Infrastructure and Ecosystem**

Investment in infrastructure, including transport, utilities, and industrial facilities, is essential to maximize the benefits of fiscal incentives. Strengthening complementary programs such as access to finance and skills development will further support industrial growth.

## **4. Conclusion**

The findings of this study confirm that fiscal incentives are a vital policy instrument for promoting industrial development in Bhutan. They have played a meaningful role in supporting business expansion, improving operational efficiency, and contributing to overall employment growth at the aggregate level. The strong support expressed by industries for the continuation of fiscal incentives further underscores their importance in the current economic landscape.

However, the impact of fiscal incentives is not uniform across all dimensions of industrial performance. While they are effective in reducing costs and facilitating expansion, their influence on revenue growth, export performance, and innovation





remains limited and often indirect. This suggests that fiscal incentives alone are not sufficient to drive comprehensive industrial transformation and must be complemented by broader policy and structural interventions.

The study also highlights a significant gap between policy design and implementation, which constrains the full realization of intended benefits. Administrative complexities, access barriers, and uneven distribution of benefits reduce the effectiveness of fiscal incentives, particularly for smaller industries. At the same time, concerns regarding sustainability and dependency indicate the need for a more balanced and forward-looking approach.

Going forward, the effectiveness of fiscal incentives can be enhanced by adopting a more strategic, targeted, and results-oriented framework. Improving implementation mechanisms, aligning incentives with national priorities, strengthening complementary support systems, and promoting innovation and competitiveness will be essential to maximizing their impact.

In conclusion, while fiscal incentives should continue to play a central role in Bhutan's industrial policy, their design and delivery must evolve to ensure that they contribute not only to short-term growth but also to long-term economic resilience and sustainable industrial development.

