# Cottage, Small & Medium Industry Development Strategy (2012-2020) & Action Plan (2012-2014)

Royal Government of Bhutan

དཔལ་ལྡན་འབྲུག་གཞུང་ བསྟན་རྒྱས་ལྷན་ཁག།

**MINISTRY OF ECONOMIC AFFAIRS**

**ROYAL GOVERNMENT OF BHUTAN**

**THIMPHU**

**JOINT SECRETARY**

October 2012

## Foreword

The Cottage, Small and Medium Industries (CSMI) are critical for sustainable economic growth and national prosperity. The Royal Government has long acknowledged the essential role that CSMIs play in creating employment and in fostering the entrepreneurial spirit and innovation. Equally important in our context, our CSMIs can help engender pro-poor growth with equity and inclusion; be environmentally sensitive; promote balanced regional development; and help strengthen our rich cultural heritage. In brief, the success of CSMIs will contribute meaningfully towards the realization of the noble goal of Gross National Happiness.

The Royal Government adopted the CSMI Policy 2012, with the intent to create an enabling and conducive policy environment for the promotion of CSMI development in Bhutan. This Policy identifies six strategic areas, viz. (i) strengthening the policy environment and institutional framework; (ii) strengthening the legislative framework and enterprise environment; (iii) facilitating access to finance and incentives; (iv) enhancing competitiveness and innovation; (v) improving access to market, and, (vi) enhancing employment and developing a culture of entrepreneurship.

The Ministry of Economic Affairs (MoEA) has the overall responsibility for the implementation of the CSMI Policy 2012 and, in order to do so, we have produced the CSMI Development Strategy (2012-2020) and Action Plan (2012-2014) documents.

This Development Strategy document sets out clear strategies on how to operationalize and achieve the policy objectives. It also sets out the implementation arrangements including coordination and monitoring and evaluation arrangements which are an essential part of an effective implementation tool.

The Action Plan document on the other hand outlines specific activities to achieve the policy objectives. This particular document represents the first of three such action plans to be prepared covering the period until 2020. The document prioritizes the actions that should be implemented within the three-year period; and determines the measures, responsibilities, timelines, costs, indicators, etc.

Tel # 00975-2-322407 / 321337 / 325862 (EPABX) & Fax # 321338: P.O. Box # 141, Thimphu, Bhutan
E-mail: spwangdi@druknet.bt : Website: www.moea.gov.bt

དཔལ་ལྡན་འབྲུག་གཞུང་ བསྟན་རྒྱས་ལྷན་ཁག།


**MINISTRY OF ECONOMIC AFFAIRS**

**ROYAL GOVERNMENT OF BHUTAN**

**THIMPHU**

**JOINT SECRETARY**


The action plans will be regularly monitored and independently evaluated. As the responsible institution on behalf of the RGoB, we are committed to the effective realization of the CSMI Policy, in cooperation with the private sector and other public sector institutions. On this note, we request and invite all stakeholders for partnership and cooperation

In conclusion, we extend our gratitude to the Asian Development Bank for this opportunity to partner them on this critical initiative and in particular, for the support in facilitating the preparation of these documents. Gratitude is also due to all stakeholders for their active engagement and valuable inputs that went into the formulation of these documents. We are optimistic that we will continue to receive the same level of cooperation from all in the years ahead.

With best wishes

(Sonam P Wangdi)


Tel # 00975-2-322407 / 321337 / 325862 (EPABX) & Fax # 321338: P.O. Box # 141, Thimphu, Bhutan
E-mail: spwangdi@druknet.bt : Website: www.moea.gov.bt

# Cottage, Small and Medium Industry Development Strategy (2012-2020)

Royal Government of Bhutan

# Table of Contents

## Abbreviations

| | |
|---|---|
| ADB | Asian Development Bank |
| AES | Annual Education Statistics |
| BDS | Business Development Services |
| BEE | Business Enabling Environment |
| BDBL | Bhutan Development Bank Limited |
| BCCI | Bhutan Chamber of Commerce and Industry |
| BNB | Bhutan National Bank |
| BoB | Bank of Bhutan |
| BSB | Bhutan Standards Bureau |
| BTN | Bhutanese Ngultrum |
| CAL | Commercial agricultural loan |
| CIB | Credit Information Bureau |
| CCRA | Commercial Credit Reference Agency |
| CGS | Credit Guarantee Scheme |
| CIB | Credit Information Bureau |
| CSI | Cottage and Small Industry |
| CSF | Cost Sharing Facility (see EDF) |
| CSMI | Cottage, Small and Medium Sized Industry |
| DHI | Druk Holding and Investments |
| DoI | Department of Industry |
| DoT | Department of Trade |
| DPT | Druk Phuensum Tshogpa |
| DRC | Department of Revenue and Customs |
| EDP | Entrepreneurship Development Programme |
| EPC | Entrepreneurship Promotion Centre |
| EU | European Union |
| FDI | Foreign Direct Investment |
| FI | Financial Institution |
| FIP | Financial Inclusion Policy |
| FYP | Five Year Plan |
| GNH | Gross National Happiness |
| GNHC | Gross National Happiness Commission |
| GNI | Gross National Income |
| GDP | Gross Domestic Product |
| HACCP | Hazard Analysis and Critical Control Points |
| HRD | Human Resource Development |
| IFC | International Finance Corporation |
| ICT | Information and Communications Technology |
| IFI | International Financial Institute |
| ISO | International Standards Organisation |

| | |
|---|---|
| IT | Information Technology |
| LFS | Labour Force Survey |
| LMS | Labour Market Survey |
| MAP | ‘Market Access for the Poor’ |
| MDGs | Millennium Development Goals |
| M&E | Monitoring and Evaluation |
| LPI | Logistics Performance Index |
| MFI | Micro Finance Institution |
| MoAF | Ministry of Agriculture and Forests |
| MoEA | Ministry of Economic Affairs |
| MoF | Ministry of Finance |
| MoLHR | Ministry of Labour and Human Resources |
| NMES | National Monitoring and Evaluation System |
| NBFI | Non- bank financial institution |
| NGO | Non-Government Organization |
| Nu. | Ngultrum |
| NSB | National Statistics Bureau of Bhutan |
| NWAB | National Women’s Association of Bhutan |
| OECD | Organisation for Economic Co-operation and Development |
| PPD | Policy & Planning Division |
| PPP | Public Private Partnerships |
| PSDC | Private Sector Development Committee |
| PLaMS | Planning and Monitoring System |
| RGoB | Royal Government of Bhutan |
| RIA | Regulatory Impact Assessment |
| RICBL | Royal Insurance Corporation of Bhutan Ltd. |
| RIM | Royal Institute of Management |
| RMA | Royal Monetary Authority |
| RRCO | Regional Revenue and Customs Office |
| RTIO | Regional Trade and Industry Office |
| RUB | Royal University of Bhutan |
| SAARC | South Asian Association for Regional Cooperation |
| SMI | Small and Medium Sized Industry |
| SWOT | Strengths, Weaknesses, Opportunities and Threats |
| SYB | Statistical Yearbook of Bhutan |
| TA | Technical Assistance |
| TNA | Training Needs Assessment |
| ToR | Terms of Reference |
| TTI | Technical Training Institute |
| TVET | Technical and Vocational Education Training |
| UNDP | United Nations Development Programme |
| VET | Vocational Educational Training |

# 1 Introduction

The Royal Government of Bhutan (RGoB) has given a commitment to produce three important documents for the establishment of an effective CSMI development approach: firstly, an CSMI Policy (see MoEA, 2012); secondly, an CSMI Development Strategy (this document); and lastly a related CSMI Action Plan (2012-2014, see MoEA, 2012). These are considered to be the fundamental building blocks necessary to strengthen and further develop the CSMI sector in Bhutan.

The development of the CSMI sector in Bhutan is considered by both the RGoB and the wider CSMI stakeholders as a high priority activity that will help promote sustainable and inclusive growth towards reducing poverty and enhancing employment.

However, CSMI development is a complex task that runs horizontally through the various governmental structures of RGoB. Effective CSMI development requires integration of the policies, strategies and plans of those ministries whose actions impact upon small business. Such integration can only effectively be brought about by inclusion of CSMI development as a cornerstone of overall national economic development planning.

The integration of CSMI development planning into national development planning needs to address such issues as how CSMI development impacts upon targets for: poverty reduction, skill up-gradation, job creation in both quality and quantity terms, increasing productivity and promoting business development, enhancing international competitiveness and exports, achieving balanced regional development, etc. These different aspects of CSMI development run across sectors and require an integrated approach to the preparation of a national CSMI development strategy and action plan.

Such an integrated overall approach has already been agreed in the form of the CSMI Policy 2012 . It takes as its starting point that: “The principal role of governments (with respect to supporting CSMI Development) is to provide an enabling policy, legal and regulatory environment for CSMI and Business Development Service (BDS) providers, as well as investing in public goods[1] such as basic infrastructure, education and information services[2]. Government has a role in correcting or compensating for market failures, but not in the direct provision of private goods[3] that can be more efficiently provided by the market”.

The CSMI Development Strategy, therefore, seeks to operationalise the CSMI Policy using the same time period, namely 2012-2020.

It begins by providing an overview of the CSMI sector in Bhutan, concentrating on the results of a representative enterprise survey carried out in 2011 and also presents a SWOT analysis of the CSMI sector by way of setting the context for the CSMI Development Strategy.

1 Goods (or services) are defined as public if the amount consumed by one individual or firm does not reduce the amount available for consumption by others. In other words, it is impossible to exclude others from consuming the good (or service); the benefits are not fully appropriable. The benefits that accrue to others are an “externality”.

2 Business Development Services for S mall Enterprises: Guiding Principles for Donor Intervention Committee of Donor Agencies for Small Enterprise Development, February 2001

3 Goods (or services) are defined as private if the benefits of consuming them are fully appropriable. For example, if the benefits of a business service accrue solely to the MSME purchasing that service, that business service is a private good.

Chapter two sets out the key policy and institutional context. The CSMI Development Strategy does not operate in a policy vacuum. There are a number of critical economic policies which comprise the framework within which the CSMI Development Strategy must operate, not least the Economic Development Policy (EDP, 2010) and Bhutan's Five Year Plans. Moreover, the CSMI Development Strategy must be implemented by the institutions charged with responsibilities that are directly or indirectly related to CSMI development, including the Ministry of Economic Affairs, Ministry of Agriculture and Forests, Ministry of Finance, etc. The functions of various government agencies and other relevant stakeholders are highlighted. The nature of the business associations, business development service providers and other institutional partners is highlighted.

Having set out the CSMI context, policies and institutions, Chapter three presents the crux of the CSMI Development Strategy, namely the vision, strategic objectives and targets for the operationalisation of the RGoB-approved CSMI Policy.

The last chapter presents the implementation arrangements for the CSMI Development Strategy, including the coordination, monitoring and evaluation mechanisms, which are part and parcel of an effective CSMI Development Strategy.

Thus, the CSMI Development Strategy takes the CSMI Policy 2012 as its starting point. The CSMI Development Strategy reviews the nature of the CSMI sector, the policy and institutional framework and proceeds to flesh out the vision, strategic objectives and targets to be attained by 2020, within the framework of the CSMI Policy. It also highlights how the policy and strategy are to be achieved in terms of coordination, resources, monitoring and evaluation.

Finally, the CSM Development Strategy will be made implementable through three-year Action Plans that will detail actions to be taken by all key Government ministries and agencies, as well as private sector stakeholders. The latter will include the provision of budget estimates for each action and a timetable for their implementation.

# 2 A Profile of the CSMI Sector

This chapter reviews three important contextual issues. Firstly, it presents the very limited data that is currently available on the nature of the CSMI sector. Secondly, it supplements the basic information available with the results of the Enterprise Survey (2011), which involved a statistically representative sample of CSMI to present an overview of the nature of the enterprise sector in Bhutan. Thirdly, the results of a detailed exercise involving a SWOT analysis of the CSMI sector are provided. These contextual analyses prepare the way for the presentation of the key elements of the CSMI Development Strategy in Chapter four.

## 2.1 Overview of Existing MSME Data

The Micro, Small and Medium Enterprise (MSME) sector is currently divided by the RGoB for statistical purposes into trade (or retail) enterprises and industrial enterprises. Industrial enterprises comprise three categories: i) Production and manufacturing; ii) Services; and iii) Contract (construction contractors).

99% of these enterprises fall within the CSMI segment and are privately owned. There has been a rapid growth in the number of these industries quadrupling from only 5,612 in 2003 to 21,008 in 2010 with growth most rapid among small industries. In terms of the industries type, over 91% are service industries. Table 2.1.1 shows the number of industrial enterprises licensed by the Ministry of Economic Affairs (excluding construction contractors).

**Table 2.1.1 Number of industrial enterprises excluding construction contractors**

| Size | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|
| Large | 43 | 47 | 57 | 72 | 85 | 91 | 103 | 114 |
| Medium | 36 | 43 | 62 | 78 | 112 | 128 | 156 | 201 |
| Small | 588 | 628 | 678 | 1660 | 1815 | 2,054 | 2,330 | 2,878 |
| Micro | 4945 | 5624 | 6941 | 12920* | 14165 | 15,359 | 16,883 | 17,815 |
| Total | 5,612 | 6,342 | 7738 | 14,730 | 16,177 | 17,632 | 19,472 | 21,008 |

*Source: SYB 2011, NSB 2011*

** Note: The massive increase in numbers in 2006 was caused by the decision to classify bars as industrial enterprises: they had previously been licensed under trade.*

Table 2.1.1 examines all industrial enterprises, excluding construction contractors.

**Table 2.1.2 Number of industrial enterprises (excluding construction contractors)**

| **Size** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
|---|---|---|---|---|---|---|---|---|
| **Production and manufacturing** | 800 | 874 | 985 | 1,133 | 1,254 | 1,389 | 1,565 | 1,777 |
| ***Agro-based*** | 155 | 162 | 181 | 199 | 207 | 217 | 252 | 287 |
| ***Forestry-based*** | 341 | 368 | 414 | 470 | 517 | 574 | 651 | 733 |
| ***Mineral-based*** | 55 | 66 | 80 | 91 | 110 | 144 | 163 | 178 |
| ***Others*** | 249 | 278 | 310 | 373 | 420 | 454 | 499 | 579 |
| **Service** | 4,812 | 5,468 | 6,753 | 13,597 | 14,923 | 16,253 | 17,907 | 19,231 |
| **Total** | **5,612** | **6,342** | **7,738** | **14,730** | **16,177** | **17,632** | **19,472** | **21,008** |
| *Source: SYB 2011, NSB 2011* | | | | | | | | |

Table 2.1.3 shows that 62% of all production and manufacturing industries and 52% of all services are highly concentrated in the four districts of Thimphu, Paro, Chukha and Sarpang.

**Table 2.1.3 CSMI by Dzongkhag (2010)**

| Dzongkhag | Medium | Small | Cottage | Total | |
|---|---|---|---|---|---|
| | | | | Services | Prod. & Manuf. |
| *Thimphu* | *63* | *940* | *6,296* | *6,729* | *228* |
| *Paro* | *23* | *112* | *1,352* | *1,298* | *163* |
| Haa | 0 | 41 | 233 | 225 | 47 |
| Punakha | 4 | 16 | 383 | 395 | 9 |
| Wangdue | 7 | 51 | 766 | 779 | 42 |
| Gasa | 0 | 0 | 76 | 74 | 2 |
| *Chukha* | *54* | *1,153* | *1,643* | *2,663* | *135* |
| Samtse | 12 | 356 | 397 | 681 | 76 |
| *Sarpang* | *7* | *51* | *1,253* | *1,216* | *88* |
| Tsirang | 0 | 10 | 330 | 320 | 20 |
| Dagana | 0 | 7 | 365 | 368 | 5 |
| Samdrup Jongkhar | 5 | 25 | 785 | 770 | 41 |
| Pema Gatshel | 6 | 12 | 488 | 454 | 52 |
| Zhemgang | 1 | 8 | 339 | 316 | 20 |
| Trongsa | 3 | 7 | 427 | 423 | 14 |
| Bumthang | 10 | 48 | 637 | 618 | 73 |
| Trashigang | 1 | 19 | 776 | 736 | 50 |
| Trashiyangtse | 0 | 5 | 224 | 180 | 48 |
| Mongar | 5 | 16 | 860 | 808 | 68 |
| Lhuntse | 0 | 1 | 185 | 178 | 8 |

*Source: SYB 2011, NSB 2011*

It should, however, be noted that these statistics are not entirely reliable. A survey undertaken in February 2010 as part of the process of preparing the strategy identified significant problems in available data:

- A significant number of licensed industries were found to be either non-existing or non-operational. In some instances licences had been issued four to five years previously but the enterprise was still not operational.
- The contact addresses of most licensed industries were incorrect making any form of inspection by the RTIOs impossible.
- Some licensed industries had changed their names since the date of issue of the licence but had not registered the change with the RTIOs.

It is clear that the current licensing system is not providing reliable statistical data on the CSMI sector.

The preceding discussions illustrate the reasons why the MoEA is planning to introduce a new Enterprise Registration Act, as well as a new CSMI definition. The new definition is needed, among other reasons, because the MoEA currently has two definitions, which renders policy making and data collection and analysis problematic. The following will be the new CSMI definition to be employed by the MoEA:

**Table 2.1.4 Definition of CSMI in Bhutan (MoEA)**

| | Employment | Investment |
|---|---|---|
| Large | 100+ | > Nu. 100 million |
| Medium | 20 to 99 | Nu. 10-100 million |
| Small | 5 to 19 | Nu. 1 – 10 million |
| Cottage | 1 to 4 | < Nu. 1 million |

Note: Employment and investment will apply; where there is a conflict, investment will take precedence

## 2.2 A Profile of the CSMI Sector

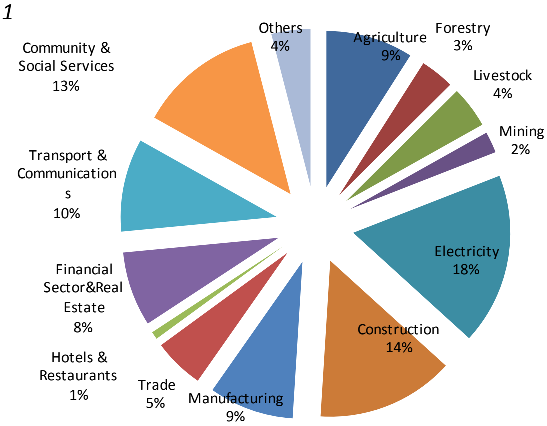
### *2.2.1 The CSMI Sector in the National Economy*

The private sector in Bhutan exhibits a distinctly dual structure as in many other less developed countries (LDCs). At one extreme there exist a few large modern capital-intensive industries that are export-oriented while, at the other end of the spectrum, there are CSMI that use simple and traditional technologies with low productivity, are relatively more labour intensive and essentially serve a small domestic market. There is also considerable room for improvement in the interaction and engagement between the two disparate entities of the private sector.

**CSMI Development Strategy (2012-2020)**

**Chart 2.2.1 GDP Compostion by Sector 2010**

*Source: National Accounts Statistics 2010, NSB 2011*




Since the last three decades, Bhutan's economic growth has been driven by hydropower, construction activities and the public sector. Chart 2.2.1 reflects the predominance of many sectors where the CSMI have little participation. Even for activities in the construction sector which includes large-scale infrastructure projects like hydropower construction, the participation of CSMI construction industries remains marginal. Likewise in the manufacturing sector, production is dominated by large scale industries and public or private corporations. Additionally even in the tourism sector where CSMI have grown quite rapidly over recent years, about half (47.5%) of the business volume is generated by thirteen of the large tourism industries while there are altogether 805 licensed tour operators as of March 2012 (TCB, 2012).

As such, the role of CSMI in the economy has been marginal with CSMI contributing to a relatively small share of GDP and national revenues. There is however significant scope for the CSMI sector to expand and play a more important role in the national economy in the future as in other countries. More importantly though, a key aspect of the GNH development paradigm is to view development in more holistic terms than just income or GDP dimensions and a premium is placed on engendering growth with equity and inclusion. To that extent the development of CSMI has a critical role to play in promoting pro-poor growth and reducing poverty, particularly in rural areas. The prevalence of both income and multidimensional poverty in rural Bhutan derives in large part due to its economic underdevelopment and, as such, the sustainable development of rural CSMI is viewed as a key strategy for poverty alleviation. While much has been done by the Royal Government for poverty alleviation through broad based development and income generation programmes and more recently, through specific targeted poverty interventions, much more can and remains to be done to boost the rural economy and upgrade its subsistence base of production through CSMI development.

Moreover, the CSMI sector can become a hugely strategic economic asset in terms of helping diversify the economic and export base, thereby providing a greater balance to the economy and help prevent the possible emergence of a jobless growth phenomenon. In particular, the CSMI sector contributes to employment significantly at present and is seen as a key driver of employment generation in the future.

Despite data gaps, an attempt is made to assess the contribution made by the CSMI sector to both national revenue and to employment generation. However, to better guide decision making on CSMI development in future, there is a need to enhance and improve data collection on a disaggregated basis for the CSMI sector including in terms of its contribution to GDP, national revenues, employment generation, manufacturing and exports. The dissemination of information about CSMI through annual reports, relevant publications and in the media would help raise public awareness and create a useful forum for more pro-active public and private engagement and dialogue.

### *2.2.2 Contribution of MSMEs[4] to National Revenue*

| Table 2.2.2 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| MSME Contribution to National Revenue in Million Nu. | 194.562 | 199.451 | 496.392 | 643.522 | 890.926 |
| MSME share of National Revenue (%) | 1.93% | 1.62% | 3.53% | 4.12% | 5.1% |

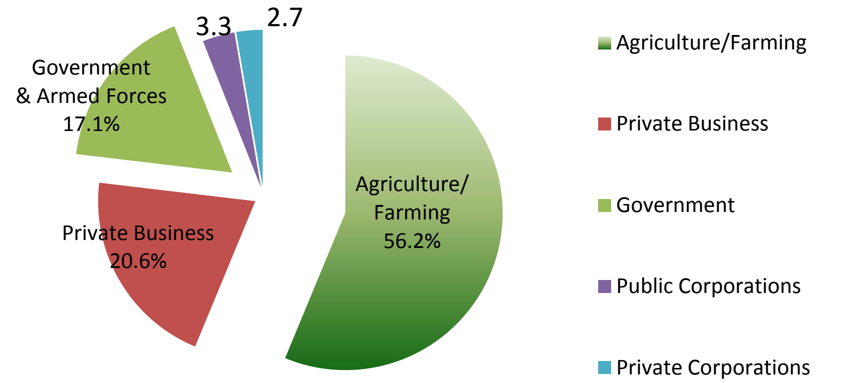
*Source: Department of Revenue and Customs, MoF*

4 MSME include trading sector where as CSMI exclude trading sector

The MSME sector contributed Nu. 194.6 million in 2006, which comprised 1.93% of the total national revenue. Its contribution to national revenue has grown strongly over the last five years and, in 2010, MSMEs contributed Nu. 890.9 million which was the equivalent of 5.1% of the total national revenue (DRC, 2012). The following table reflects the year-on-year contribution of the MSME sector to national revenues.

**Chart 2.2.3 Employment by Sector**

Source: LFS 2010




### *2.2.3 Employment in the MSME Sector*

While there are data gaps with regard to the number of workers employed in MSMEs, an assessment can be made through the use of the proxy indicator of numbers employed in the private business sector.[5] The usage of this term by the Labour Force Survey (LFS) may include few large enterprises and informal activities but excludes the large public and private corporations. The LFS 2010 reflects that the private business sector provides employment to 20.6% of the national labour force or 66,000 workers and is the second largest employer after agriculture/farming reflected in Chart 2.2.3[6]
.

That the MSME sector contributes to employment growth is strongly corroborated by the Investment Climate Assessment (ICA) 2010 study that maintains that private enterprises in Bhutan were growing rapidly, creating jobs and showed potential to become an engine of job growth. The study reported that between 2006 and 2008, the median firm reporting an increase of 25% in employment. More directly relevant to the MSME sector, the study also reflected that small and medium enterprises exhibited a median employment growth of 15 and 25% respectively. The Enterprise Survey 2011 also reported that on average CSMI employed 7.7 workers, which suggests a high level of employment generation.

In terms of gender and demographic distribution, females own about 29% of the industryies (according to Enterprise Survey 2011) and comprise about 52.9% of the private business work force (LFS, 2011) while youths also constitute around half of all (49.7%) of those employed in this sector. As such, the private business sector including CSMI has immense social relevance in terms of engendering empowerment through decent work for vulnerable groups such as women and youth.[7]

5 Used here in the context of the private sector other than the large public corporations that dominate the private sector but does include the large private enterprises.

6 Source is LFS 2010, Former labour survey was called NLFS.

7 The definition of youth in Bhutan used by the MoLHR in the LFS reports follows the UN's international definition of people aged 15-24 years.

Young people and women are also under-represented in the ownership of CSMI (Enterprise Survey, 2011) which needs to be addressed through specific interventions such as female entrepreneurship programmes and promoting greater access to Technical Training Institute (TTIs) for female youths.

Additionally, this becomes even more relevant given the prevailing high unemployment rates among young people (9.2%) and particularly female youths (8.2% for those aged 15-19 and 12.3% for those aged 20-24) (LFS, 2010). This issue is only likely to exacerbate given Bhutan's youthful demographic profile (51.7% of population below the age of 25 in 2011 with median age of population at 22.3 years (SYB, 2011) and the growing numbers of youth entering the labour market in search of jobs. The situation is further compounded by the fact that there is a rapid shift of labour away from traditional sectors like agriculture and livestock as the economy modernizes. The relevance of the CSMI sector for employment generation thus becomes even more critical given the situation that the fastest growing sectors like the hydropower sector are hugely capital intensive with very low employment elasticity. It is in view of these factors that a key strategy of the draft National Employment Policy focuses around the MSME sector.

## 2.3 Overview of the Enterprise Survey 2011

The primary objective of the Enterprise Survey 2011 ***is to provide information relevant to the preparation of the RGoB's CSMI policy, strategy (this document) and the related CSMI action plan***. This requires information on the distribution and activities of CSMI and the characteristics of enterprise owners and the identification of the key challenges faced by CSMI enterprises.

The survey included CSMI across a range of sectors across several districts selected to represent the diversity of operating environments in Bhutan. A sample of 512 enterprises across the country was considered to be the most effective means of obtaining a statistically robust picture of the CSMI sector, which given Bhutan's relatively small size provides a broadly representative picture. A summary of the key findings of the Enterprise Survey 2011 is highlighted in Box 2.2.4 and is elaborated on in the following.

A finding of the survey, one that is supported by a range of other surveys of economic activity in Bhutan, is the predominance of Cottage and small industries. On the basis of investment criteria, 51.6% of CSMI in the sample were cottage-, 38.9% were small industries and 9.6% medium industriess. Most of the CSMI captured in the survey were sole proprietorships (91%) and in terms of their sectoral distribution, 31% of the CSMI were engaged in agro-processing manufacturing,[8] 15% in green services,[9] 14% in construction, 11% in mineral based industries, 31.1% in agro processing, 10.7% in indigenous crafts, 18.9% in manufacturing, 25.6% in services and 13.7 in construction activities. 11% in crafts, 10% in trading and 8% in other manufacturing. As reflected earlier, most licensed CSMI are located in the four districts of Chukha, Thimphu, Paro and Sarpang.

Another pertinent finding of the ES 2011 was that there was a significant gender disparity in enterprise ownership with only 29% of owners/partners being female. In breaking down

8 Agro-processing manufacturing refers to the processing of agricultural and forestry raw materials and intermediate products and largely includes the sub-categories of food processing (bakery, edible oil, dairy products, pickles, non-wood forest products, etc.), and wood processing (particle board lamination, furniture, bamboo) industries.

9 Beauty Parlour, Eateries, Providers of personal services, Tailoring, Custom Apparel, Providers of Household Furnishing, business (Business Development Services providers), ICT (Internet cafes) and tourism services (Hotels and restaurants).

this, females owned 32% of cottage-industries, 24% of small industries and 17% of medium industries. In terms of labour participation though, there appears to be no major gender difference in the small and medium enterprise sector and was at par with males in cottage-industries. Women's labour participation was highest in the crafts sector (61% of employees) and green services[10] (47.9% of employees), and least in mineral based and construction sector.

**Box 2.2.4**

Some Key Findings from the ES 2011

The Enterprise Survey 2011 included in its sample CSMI across a wide range of sectors operating in diverse environments across the country. A broadly representative sample of 512 enterprises was deemed to be the most cost-effective means of obtaining a statistically robust picture of the CSMI sector. Some key findings from the survey are highlighted below:

- Predominance of micro-enterprises
- Gender Disparity in Enterprise ownership: women only own or partner in 29% of CSMI
- Highest level of female participation in micro-enterprises at par with that of males
- Young people underrepresented in the CSMI sector
- Weak educational attainment and business experience for most enterprise owners/managers
- High level of employment generation by CSMI at 7.7 employees per enterprise
- Microenterprises more efficient in generating income and more profitable
- Green services are the most profitable CSMI
- Service sector enterprises are generally more profitable than manufacturing
- Productivity is highest in Green Services (Tourism and BDS) and the manufacturing sector (furniture and saw milling)
- Access to finance rated the most critical obstacle for CSMI, followed by issues pertaining to hiring foreign workers, transportation and tax.

As the issue is highly relevant in the context of national gender mainstreaming policy, it is further explored under the sub-section on human resources in the following section on the key challenges and constraints of CSMI. The ES 2011 also reveals that young people too are underrepresented in the ownership of CSMI with the average age of 45 for the owners/manager of cottage-industries, 46 for small industries and 54 for medium industries. Two thirds of owners/managers of all CSMI were above the age of thirty and one third below thirty.

There appears to be considerable variation in terms of the educational and business background of enterprise owners. While .32% had no education, 17.2% had university level education, 25.5% had lower or middle secondary level education and 12.3% had primary level education. Similarly, while around 44% of the enterprise owners had no prior experience in business, 38% actually had up to ten years' experience in business.

In terms of employment, the ES 2011 found that on average CSMI employed 7.7 workers, with medium industries on average employing 43 workers per enterprise, small industries

10 *Beauty Parlour, Eateries, Providers of personal services, Tailoring, Custom Apparel, Providers of Household Furnishing, business (Business Development Services providers), ICT (Internet cafes) and tourism services (Hotels and restaurants).*

employing 7 workers and cottage industries employing 2. Two thirds of employees are hired by the cottage and small industries and the majority (71%) of all employees work on a full time basis in CSMI. While 97 and 80% of all cottage and small enterprise employees were full time workers respectively, medium industries only had a 50% share of full time employees, with the rest comprising part time (44%) and casual labour. The manufacturing and construction sectors were the largest employees accounting for 75% of the total employment while trading and green services CSMI only accounted for 13% of CSMI employment. The best paid employees on average worked for the construction, green services and other manufacturing sector.

Assessing CSMI in terms of their profitability and efficiency, cottage industries turned out to be the most profitable given their relatively low levels of investment and lowest cost in terms of employee compensation. From a sectoral perspective, green services were most profitable generating on average a profit of 34% of revenue, followed by agro-processing. The following chapter describes the major challenges and its impact on the CSMI Sector development.

According to the ES 2011, the major constraints experienced by CSMI pertained to access to finance; hiring of foreign workers; transport infrastructure; and HRD matters, such as the low education of the labour force. These constraints are reflected in Chart 2.2.5.

**Chart 2.2.5: Major or Severe Constraints Reported by Industries**

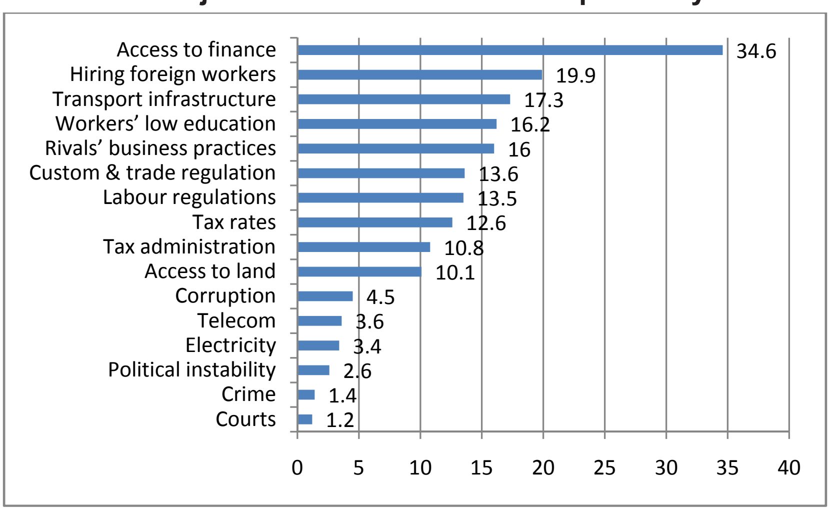



**Table 2.2.4: Major or Severe Constraints by Enterprise Size[11]**

| Constraints | Enterprise Size | | | |
|---|---|---|---|---|
| | Cottage | Small | Medium | CSMI |
| **Access to finance** | 39.6 | 28.4 | 23.9 | 34.6 |
| **Tax rates** | 10.9 | 14.8 | 16.2 | 12.6 |
| **Hiring foreign workers** | 14.4 | 15.3 | 30.6 | 19.9 |
| **Workers' low education** | 8.9 | 16.6 | 21.9 | 16.2 |
| **Transport infrastructure** | 17.8 | 16.9 | 21.8 | 17.3 |
| **Tax administration** | 9.1 | 11.1 | 14.6 | 10.8 |
| **Rivals' business practices** | 13.8 | 15.4 | 18.9 | 16.0 |

11 The percentages are average percentages weighted according to the number of observations in the sample for each particular constraint. This is not to be confused with the straight averages for the total (MSME).

| | | | | |
|---|---|---|---|---|
| **Custom & trade regulation** | 11.3 | 13.4 | 16.2 | 13.6 |
| **Labour regulations** | 13.1 | 12.9 | 14.6 | 13.5 |
| **Access to land** | 8.7 | 9.9 | 11.7 | 10.1 |
| **Electricity** | 1.5 | 4.5 | 6.5 | 3.4 |
| **Corruption** | 4.7 | 3.8 | 5.1 | 4.5 |
| **Telecom** | 3.5 | 4.5 | 2.8 | 3.6 |
| **Political instability** | 1.9 | 2.7 | 3.1 | 2.6 |
| **Crime** | 2.1 | 3.1 | 3.7 | 1.4 |
| **Courts** | 1.6 | 2.1 | 3.9 | 1.2 |

A more detailed analysis of all these challenges are provided in the following section clubbed under the broad headings of access to finance; human resources and business development services; access to markets; and access to land and infrastructure. In addition, gender issues as an important cross-sectoral consideration is also treated. The review also considers various other enterprise constraints not necessarily captured in the survey given that the ES qualifies that in many cases, businesses articulation of issues was limited to their immediate circumstances, without reference to the broader business environment.

## 2.4 Key Challenges and Constraints of the CSMI Sector

In a rapidly globalizing and trade liberalization environment, virtually all the countries in the region are instituting reforms to open their economies to greater international competition. Bhutan is also sandwiched between two of the world's potentially largest economies with mass production capabilities and competitiveness strengths that could potentially stunt the growth and development of local CSMI, particularly as the Bhutanese economy is an extremely open one. Additionally, the CSMI sector faces various other challenges and constraints that retard its fuller development and limits a more meaningful contribution to national goals. While at some level these may not be so different from those faced by the larger private sector except in terms of the degree or its extent, there nevertheless is a case to be made for a differentiated approach and tailored interventions that are more directly relevant to the CSMI. A one-size-fits-all approach may have outlived its purpose in view of the heterogeneity of the private sector and the fact that CSMI are diverse in the sectors they occupy, have considerably different characteristics and needs and are often confronted with different challenges and constraints too. The following section reviews these challenges and takes its starting point from and builds on some of the key issues identified under the Enterprise Survey 2011. Furthermore, this review of the challenges and constraints is complemented by a SWOT Analysis of the CSMI Sector at the end of the section.

### *2.4.1 Access to Finance*

Access to finance was by far the most frequently mentioned constraint for CSMI in Bhutan. Enterprises often see access to and the cost of financing as serious obstacles to their operations and growth, and this is largely true of many other countries too. This also explains the low rating and ranking at 126$^{th}$ for Bhutan in terms of the indicator assessing the ease of getting credit for businesses reported in the World Bank's Doing Business 2012 series, even as there has been a marked improvement up from a position of 176 in 2011.

More than 80% of the cottage and small enterprise in the ES 2011 reflected access to finance as a major constraint and these enterprises were largely in the agro-processing, trading and services and the crafts sectors. Data from the ES 2011 also revealed that industries less than two years old reported access to finance as a more severe constraint than older industries. That there are considerable constraints with regard to access for CSMI and the private sector in general is corroborated by various other surveys and studies. In particular, the Bhutan ICA 2010 Report conveys that access to finance is perceived to be particularly difficult for newer firms and small and medium firms. Small and medium industries in the trading sector apparently are the most severely affected by access to finance difficulties. Rural CSMI are also particularly constrained in their access to finance in view that most Financial Institutions (FIs), other than the Bhutan Development Band Limited, have a marginal presence away from urban centres and have a clear urban bias in their lending patterns.

Informal lending is a common source of additional finance for CSMI, particularly in developing countries where access to more formal sources of lending and finance are constrained. For younger CSMI and particularly start-ups that find themselves ineligible for conventional funding sources, this can be a much-needed financial resource. Informal borrowing was resorted to by about 30% of those industries surveyed, about half of which were mainly sourced from family and relatives and the rest from friends and associates and informal money lenders. While the central bank is now explicitly prohibiting money lending from sources other than the FIs to curb usury practices, this may further restrict access to finance for CSMI.

The ES 2011 revealed that about 70% of industries surveyed indicated they had not applied for loans and that the general perception was that credit facilities were largely inaccessible to cottage and small industries. However, from among those who had applied, 92% were successful and while this high loan acceptance ratio is encouraging it could also be indicative of a self-selecting bias where only those industries with the necessary collateral and were bankable applied in the first instance.

Notably, these firms whose loans were approved were required to provide collateral coverage to the extent of 218% of the loan amount. A primary reason for this high collateral coverage can be attributed to the undervaluation of the property mortgaged and the lack of timely and professional market appraisal of property values. Additionally, FIs also tend to provide a “reasonable” safety margin and discount anywhere between 15-20% in the value of a property, which scales up the collateral value required. The development of a uniform market appraisal of property valuation based on periodical surveys across the FIs would thus greatly help reduce the extent of collateral required and further lessen the time that FIs spend on assessing properties on a case-by-case basis. This would also help cut-down on associated valuation costs which are passed on to clients.

Among the main reasons cited for the difficulty in assessing credit pertained to the very high collateral requirements. Complex and cumbersome loan procedures, limited financial instruments and products, high interest rates and a restrictive policy and regulatory environment appear to be other reasons inhibiting access to credit and its cost. With regard to the latter, the stringent norms and restrictive regulations in terms of the high cash reserve ratio and statutory liquidity requirements required by the regulator are often given as reasons why interest rates are not as competitive in a rapidly growing economy with high demand for credit.

Additionally, cash flow lending and project based financing for CSMI is currently limited partly given the tendency of many enterprises do not maintain proper accounts and bookkeeping and the risk averse behaviour of banks and non bank Financial Institutions (FIs).[12] Credit scoring

12 *Even for corporations, project financing is often required to be backed by personal guarantees of the promoters or additional personal assets, as in the case of Tashi Cell consortium financing.*

mechanisms that could potentially raise the prospects for enhancing access to finance for CSMI have been developed in one or two of the FIs but largely remain unimplemented with collateral assessment evaluations the norm. The past experience of FIs with regard to the early failure of several rural micro-credit interventions,[13] the EDP Loan and the Ladies Plus schemes[14] may have also contributed to a conservative lending policy across all financial institutions even as these collectively constituted a small part of their loan portfolios.

The situation in terms of high collateral requirement is easing somewhat with FIs taking more realistic assessments of property valuation. At present 75% of the value of the collateral asset is being provided to clients with good record and up to 60% of the collateral value is available for normal or new clients[15]. The market valuation of properties is also being undertaken through periodical market surveys and increasingly reflects more realistic assessments than before. With increased competition among banks, high collateral coverage requirements may, in time, not be as severe a constraint and with the introduction of credit rating systems, the strengthening of risk management capacity, inception of innovative financing schemes such as factoring and leasing, and possibly the development of CSMI specific policies within the FIs would help improve access to credit. Additionally, the formulation and subsequent implementation of the Financial Inclusion Policy (RMA, 2012) could help address some of these concerns and slightly ease access to finance constraints for CSMI, particularly rural industries.

Debt financing, principally bank loans, are by far the main source of funding in Bhutan. Other potential sources for finance for CSMI such as Foreign Direct Investment (FDI) and equity finance, "angel finance," leasing and factoring and other innovative schemes and financial services such as Credit Guarantee Schemes targeting industries, are presently unavailable and need to be considered to ease access to finance constraints.

### *2.4.2 Human Resources and Business Development Services*

Over the last decade a chronic constraint reported by the private sector in general has been the shortage of skilled manpower and issues of access to labour. This is no different for and perhaps even more accentuated for CSMI. The ES 2010 reflects that 86% of all CSMI mentioned having human resource problems, primarily relating to recruiting employees and retention issues. In the ES 2011, hiring foreign workers specifically was rated the second largest constraint with around one fifth of all CSMI viewing this as a serious problem. The related issue of labour regulations was further identified as another constraint that emerged from the survey. Additionally, CSMI also viewed the low education of workers as yet another difficulty that industries faced. Across the different enterprises, medium sized enterprises in particular seemed to find human resource constraints most acute.

Many of the other relevant surveys and studies also strongly corroborate this aspect of the weak human resource base of the CSMI as a key challenge. Moreover, the issues of low productivity and the mismatch between what the market needs and what is available in terms of the skills and education base of job seekers has been highlighted frequently as a critical policy concern. Hence the RGoB's concerted efforts to expand vocational and technical

13 *Present trends in micro lending by the BDBL show considerable improvement in loan performance, though the high cost of servicing rural clients still prevails and commercial lending still subsidizes.*

14 *The Ladies Plus Loan Scheme was introduced by the Bank of Bhutan in 2008 to promote Bhutanese women entrepreneurs. The loans for up to Nu. 100,000 was discontinued after more than 200 loans were defaulted causing an estimated loss of Nu. 3.4 million as of December 2010.*

15 *For instance, a good client could get a loan of Nu. 7.5 million on a collateral value of Nu. 10 million while a new client would only get a loan of Nu. 6 million on a similar collateral value of Nu. 10 million*

training to address this key human resource challenge. The lack of specialized skills and the prevalence of a skills mismatch situation are further compounded by the strong preference for "white collar" jobs and aspirations for civil service placements where employment prospects are becoming increasingly limited. These areas are highlighted in Box 2.2.6.

| Table 2.2.6 Human Resource Challenges Faced by Private Sector in Bhutan | |
|---|---|
| **Lack of specialized skills** | **The education system produces graduates with general skills rather than those with specialized skills. As a result, fresh graduates have to be trained extensively when they join an organisation.** |
| **Skills mismatch** | **Curricula taught at universities are, at times, disoriented from the actual industry requirements. The theory-focused approach of imparting education results in little practical exposure to the students.** |
| **Insufficient "soft" skills** | **Graduates often lack important business skills like communication, leadership, problem solving, critical thinking and negotiation.** |
| **Preference for "white collar" jobs** | **Lack of respect for jobs that require physical labour. This results in employees changing jobs frequently and trying to settle for clerical, "white-collar" roles, even if they do not pay well.** |
| *Source: Bhutan LMS, Long-term manpower requirements in the country* | |

Even as CSMI require and need a better trained and skilled workforce which influences their productivity and competitiveness, very little is invested by industries into training and HRD activities. This could be influenced, to a certain extent, by the fact that most enterprise owners have little or no education and are inexperienced as reflected in the ES 2011. The survey indicated that 72% of CSMI did not conduct any training programmes for their employees. Apparently, the main reasons given pertained to the lack of financial resources, not understanding the importance of training and being ignorant about the training needs of their employees that could enhance productivity. With the situation that CSMI themselves are unlikely to invest in capacity building due to resource constraints, this remains an area of possible Government intervention.

This represents an unsatisfactory situation that is gravely exacerbated by the paucity of public resources being channelled for human resource development in CSMI, a sector that is expected to become the engine of employment growth and an important driver for poverty alleviation. The skilling of the workforce in tandem with the needs of the market, particularly for new labour entrants remains a key aspect of addressing the skills deficit situation in Bhutan. As such the RGoB's continued focus on strengthening the vocational and technical education through the Technical Training Institutes (TTIs) remains highly relevant even as the over or under supply of certain skills base and the needs of the market need to be carefully monitored.

In particular, there is the need to enhance access of females to TTIs in view of their relatively lower levels of enrolment which was at 32.5 females for every 100 males (AES[16], 2010). The strengthening of entrepreneurial education or integrating certain modules within the Vocational Educational Training VET curriculum would also be beneficial. Additionally, more effective linkages between the education system with the workplace need to be developed alongside the introduction of entrepreneurial education and pertinent business related curriculum in schools.

16 AES, 2010: The Annual Education Statistics Report 2010

The lack of a vibrant entrepreneurial culture in Bhutan is rightly viewed as an inherent weakness. Past and recent initiatives to strengthen entrepreneurship development activities such as through the various Entrepreneurship Development Programme, Small Business Resource Centre, Basic Skills Development, and Income Generation Support programmes, etc. need to be further strengthened and improved. Entrepreneurs have indicated the need for training in the specific areas of basic accounting, bookkeeping and financial management; salesmanship and marketing; project formulation and appraisal including economic viability assessment; IT and e-commerce; and accessing export markets. Additionally, there is a view among both entrepreneurial education practitioners and entrepreneurs themselves that the courses being provided are too short and are not nearly comprehensive enough. The quality of educational resource material provided to trainees has also been highlighted and could be an area for improvement. Furthermore, with the outsourcing of many of such training programmes to the private sector, there is a keen need to ensure adequate monitoring of the quality and standards of such training being imparted. The conduct of such entrepreneurial or management related training within the TTIs and in the Royal Institute of Management or a recognized institute with proper certification processes could also help motivate entrepreneurs to take up such courses. The integration of entrepreneurial education within the school and college curricula too remains essential to promoting and mainstreaming entrepreneurship.

Business Development Services (BDS) are useful in helping address many of the constraints faced by CSMI mentioned earlier, such as the weak skills and knowledge base and prevailing information, technology, financial and productivity gaps. However, these services are nascent and still underdeveloped in Bhutan and, where available, are highly concentrated in around Thimphu and to a lesser extent Phuentsholing and Paro. While BCCI and other business associations do reflect the provisioning of business advisory services and training as one of their functions, these are quite limited in view of these organisation's own capacity constraints.

The Bhutan BDS Supply and Demand Inventory 2011 (PCA, 2011) states that BDS products offered in the market by private service provides are very limited in terms of their numbers (29), 23 of which were focussed in just three areas of Information Technology (IT), finance and management. The report emphasises the need to enhance the capacity of the private service providers to match the expected demands in around 50 BDS areas of attention. Some of these key areas pertain to both training needs in both generic and hard skills such as basic bookkeeping and income tax filing, marketing and sales, management, technology know how (cable TV, construction), product quality and design, cooking and bakery auto repair and electronics, photo shop software and printing, sawmill operation and maintenance, computer hardware installation and repair, service management, etc.

While the ES 2010 suggests that few indsutries (15%) sought business advice and the main reason for obtaining it was that the enterprise either did not have the capacity to perform the task in-house or too complicated to manage without it. Less than one fifth of such external business provided was paid for and were mainly provided by private consultants and business associates or friends and, to a lesser extent, by business associations and the government. The business advisory services sought were mostly on account of production, quality control and technical aspects.

Given the latent demand and need for BDS, steps need to be taken to encourage the increased supply of all forms of such services in both urban and rural areas. Clearly, this will benefit CSMI and notably also strengthen private sector operations generally. Additionally, there is also a need to rationalise the provisioning of subsidized support services by the

Royal Government and its development partners by filling vital gaps where they exist with clear strategies for gradual exit as an emerging commercial market evolves and other stakeholders increasingly engage. The relatively recent engagement of various private sector BDS, NGOs and corporate entities, like DHI, in providing entrepreneurial support and training is encouraging.

### *2.4.3 Access to Markets*

Access to markets is a critical determinant of success for CSMI development. Much of this access to both domestic and external markets is dependent in large part on the quality and extent of infrastructure, such as an all-weather road network for transportation needs which is detailed in the section on transport infrastructure.

Bhutan's rugged and mountainous terrain and weak transport infrastructure incurs enormous cost to access markets. More than 75% of the rural communities still live less than half a day's walk from a road, making it extremely difficult to reach their produce to local or regional markets. The haulage of goods to markets further extracts a huge price that often exceeds the value of the good itself. The added risk of perishability and limited shelf life is exacerbated by the lack of adequate storage or packaging facilities and cold chain capacity. These constraints severely hinder the competitiveness of many rural CSMI, hence the concentration of most CSMI around regions with good transport connectivity.

In terms of access to export markets, despite the preferential access to regional and global markets, CSMI are constrained by the huge costs to trade in view of Bhutan's absence of rail connectivity to India and direct access to seaports due to its landlocked situation. The high trading costs considerably inflate import expenditures for various commodities, raw materials and goods, thereby raising production costs for CSMI and affecting their capacity to compete in domestic markets due to cheaper imports being available.

A major constraint for Bhutan's exporters has been the difficulty in meeting certain quantity and quality requirements of export markets. In particular, the standard of processing, grading, branding and certification capabilities has been an issue. Additionally, Bhutanese niche products are limited in number and variety, which require a collaborative effort from farm to market processes that will confer some economies of scale. For instance, the marketing of Bhutanese products and services under the broad umbrella "Brand Bhutan" will help absorb some of the advertisement costs.

The availability of relevant and timely market information has been a constraint for most CSMI in Bhutan who are thus disadvantaged. There are few sources of up-to-date and high quality information on products, technology, market prices, trends, etc. for CSMI within Bhutan, and relatively limited know how to address this information gap. Even as market information is available through the Internet, such information and ability to access it is constrained by low IT literacy levels and the limited ICT penetration outside the main urban areas. While BCCI and other business associations seek to facilitate market information flows, these are inadequate and do not reach most CSMI. Additionally, Bhutanese Embassies around the world are few and generally do not engage sufficiently in promoting business interests of enterprises. Thus, the wider propagation of business interest, accessing global market information and business networking must necessarily be effected through the increased participation of businesses in regional and international trade fairs and exhibitions. The increased use of E-Commerce for marketing will also facilitate the flow of goods and services for CSMI and to, an extent, help address certain market barriers.

Customs and trade regulations have been identified as the sixth most severe constraint affecting CSMI in the ES 2011. Moreover, the Doing Business 2012 Report conveys that Bhutan fares poorly on the ease of trading across borders indicators (global rank 169 out of 183 economies) taking 8 documents and 38 days to complete the export process at a cost of US 2,230 per container. Customs processes are being streamlined and are being facilitated by better use of ICT but, to a great extent, delays also have to do with the fact that external trade is conducted through a third country port. The establishment of a dry port and the alternative use of seaports in Bangladesh will ease this constraint in future.

#### *2.4.4 Access to Land and Infrastructure*

Evidence abounds that sustained investments in infrastructure development can lead to faster growth and productivity of enterprises and strengthen economies of scale and competitiveness. While Bhutan's economic infrastructure has improved vastly since the start of planned development, it remains underdeveloped and an impediment to business expansion and development.

Transport infrastructure difficulties, in particular, have long been a chronic challenge in Bhutan and the ES 2011 reflects this as the third most serious constraint faced by CSMI. Bhutan's landlocked situation and harsh mountainous terrain pose considerable ground transportation difficulties. As the Bhutan Private Sector 2002 Survey (World Bank 2002) aptly summarised the problem in articulating that: "... *the physical characteristics of the country pose such a considerable constraint on road transport that Bhutan is faced with a choice of either investing extremely heavily in roads (including widening existing roads and shortening roads where possible) or focusing on the development of industries that have a heavy transport component solely along the border areas. This would imply that only niche, less transport-reliant industries could be developed profitably in the centre of the country*". This situation still prevails today.

Moreover, the World Bank's Logistics Performance Index (LPI 2010), a measure of the extent of trade facilitation, rated Bhutan at 2.4 (on a scale of 1 to 5 with 5 reflecting highest performance) that ranked it at 128th in the world and the 5th in South Asia. This remains below the South Asian LPI average of 2.5 and at the same level (2.4) for countries in the low-income group. More relevantly, the weakest performance for Bhutan from among the various indices that comprise its LPI index was in the area of the quality of trade and transport infrastructure at 1.8 which again suffers in comparison to the regional and low income group ratings. Additionally, for landlocked LDCs, transport infrastructure deficits are known to work out to be even more costly than tariff barriers.

The highway and road network is being expanded and rail links to India are planned under the Nehru Golden Jubilee Rail Link. Of the three domestic airports planned for construction, the airports at Bumthang and Yongphula have recently become operational and the third in Gelephug will be completed by 2012. Stretches of the new Southern East-West and Eastern North-South highway have been built and works on these highways continue. Additionally, 187 kilometres of roads connecting hydropower projects and 305 kilometres of farm roads have also been completed. However, CSMI located at some distance from the Indian border and those in the interiors of the country face very high transport costs, and are likely to continue to do so for the foreseeable future. Road transport facilities remain expensive and unreliable. Freight costs are three times that of India and haulage costs for certain products often exceed the value of the product itself. Such high transport costs tend to completely offset the advantage of abundant natural resources for some industries and enterprises. These high transportation costs combined with the poor reliability of roads due to their vulnerability to landslides and adverse climatic conditions make it extremely difficult for local industries to compete efficiently. Transportation further adds considerably to inflate import expenditures for various commodities, raw materials and goods, thereby raising production costs. Additionally, the ES 2011 reports that around 40% of all firms and 70% of larger firms suffered losses due to transportation problems.

Access to land, lack of common facility centres, lack of storage capacity are some of the other constraints identified by CSMI in the ES 2011. The private sector has also repeatedly made requests to the Royal Government through BCCI and the PSDC for the establishment of more economic clusters such as developing industrial estates in each district, so as to ease land access and infrastructure development costs. Industrial estates and service centres had been established in the past but demand vastly exceeds the availability of space. Three Special Economic Zones (SEZs) are currently being developed at Dhandhum, Motanga and Jigmeling under DHI-Infra, a subsidiary of Druk Holding and Investments (DHI) that undertakes infrastructure development investments. Unlike in the past, these activities are being pursued through a public-private partnership (PPP) model in view of resource constraints. An industrial estate at Bondeyma is also being developed under the PPP model which will be specifically cater to CSMI.

The ES 2011 highlights access to electricity for CSMI as less of a constraint as an infrastructure issue. In terms of price per Kilowatt hour (KWhr), Bhutanese industries pay only a fraction of what industries in the region and in neighbouring Indian states pay. Additionally, electricity supply in Bhutan experiences comparatively much less disruptions, except in the winter months. However, it is still assessed by CSMI as the ninth most serious constraint in the ES 2011 which may be largely related to difficulties associated with getting access to electricity for new industries. Moreover, the Doing Business 2012 (World Bank and IFC, 2012) assessment on the ease of getting electricity for businesses rates Bhutan poorly for this indicator (global ranking at 145 out of 183 economies) and below the South Asian average (127). The rating is on the basis of the number of procedures required to obtain an electricity connection, time taken to complete the procedure and the costs involved. These World Bank calculations only took incorporated companies into consideration, rather than all enterprises.

All of the twenty districts are now connected to the national electricity grid and the recent completion of the East-West Grid interconnection should further ease access to electricity for businesses and will help the expansion and growth of rural industries. The capacity addition of several more hydropower projects by 2020 will also enhance the availability of electricity for businesses though there is a projected deficit of power supply in view of increased domestic consumption from 2010-2015 or up to the point in time that the Punatsangchhu I hydropower project is commissioned. However, the energy deficit in winter months due to seasonal variation in hydrology flows will continue to remain a key constraint.

Another infrastructural constraint identified under the ES 2011 pertains to telecommunications. While the constraint is not severe, the development of Information Communications Technology (ICT) is, nevertheless, critical in view of the fact that leveraging technology and the effective use of E-Commerce can help CSMI enhance their access to markets, improve productivity and overcome geophysical barriers.

Over the last decade, Bhutan's ICT sector has witnessed impressive technological changes and rapid growth. Tele-density has quadrupled from less than one telephone line per 100 persons or 1% in 1990 to 3.8% in 2010. There has been a similar marked growth in cellular mobile services increasing from 6.0% in 2005 to 56.7% in 2010 with all twenty districts and 200 of the 205 *Geogs* enjoying mobile connectivity. Internet usage too has increased from 0.8% to 13.6% with around 94,285 internet subscribers in 2010 (MoIC, 2010). The recent completion of the national broadband fibre optic backbone network, the opening of the second international gateway and significant reductions in bandwidth prices to maintain affordability allows Bhutan to be more competitive in the region. Additionally, the Royal Government's plans to complete the nationwide ICT infrastructure backbone and achieve last mile access of ICT connectivity down to the village level by 2013 will further boost access to ICT infrastructure and services. A regional development that will expand Bhutan's ICT network is the South Asian Sub Regional Economic Cooperation (SASEC) Information Superhighway project that will contribute to cross border connectivity and enhance local ICT human resources which is a major constraint for Bhutan at present. Under this project, 30 communication information centres (CICs) and an ICT Research and Training Institute are to be established in Bhutan.

### *2.4.5 Gender Dimensions in CSMI*

A pertinent finding of the ES 2011 with relevance for national policy in terms of gender mainstreaming and a more effective use of human resources is the gender asymmetry in the ownership profile of and participation levels in Bhutanese CSMI.

The survey revealed that around 29% of the surveyed industries were owned by women with a slightly higher level of female ownership in small and medium industries as compared to ownership in cottage industries. The sectors in which female ownership were more prominent were in mineral based, construction and crafts industries[17]. Nevertheless, female ownership of industries extends across a wide spectrum of industries including in traditionally male dominated industries such as construction and is not typically limited to a narrow range of business activities such as the hospitality, crafts or food processing activities[18]. This bodes well for female entrepreneurship and suggests less socio-cultural barriers to overcome in promoting the latter.

In terms of labour participation, women's employment in the CSMI sector overall was at 28% as compared to 72% for men. Their presence was most dominant in the crafts sector, services and agro-processing and least in the construction and mineral based industries.

On the basis of income differential, the ES 2011 indicates that men are generally paid higher than women across CSMI with the wage gap more accentuated in small and medium industries but quite marginal at the cottage industries level. The World Bank's Bhutan ICA Report (2010), however, while noting a gender disparity in wages, does indicate that business enterprises provided equal non-wage benefits such as for paid leave, trainings and compensation for premature termination.

While there is considerable scope to enhance gender parity in the CSMI workplace in terms of ownership, labour participation and remuneration, these figures are still slightly better than what prevails in South Asia and a good sign of adequate entrepreneurial opportunities for women in Bhutan. Some initiatives would further enhance the engagement of women in

17 *Part of the enterprises are in Manufacturing is included under mineral based*

18 *Comparative studies suggest that typical ownership of women's enterprises are small with low technology, have a narrower range of activity, tend to operate in different subsectors than men and are most likely to be concentrated in specific subsectors.*

CSMI. As a first step, there is a need to collect gender disaggregated data for mainstreaming gender issues in the CSMI workplace. The development of special credit schemes to promote female entrepreneurs through a start-up fund for women entrepreneurs; the introduction of suitable award schemes that recognises female entrepreneurship and innovation in business; promoting greater female representation in corporate board rooms; and promoting gender parity in access to technical training and education, particularly in the TTIs.

### 1.3 SWOT Analysis of CSMI Sector

Notwithstanding gaps in the data available, the preceding analyses highlight the nature of the challenges and constraint affecting the CSMI sector. However, it is important to take into consideration the broader context within which CSMI operate. For this purpose a general sketch of the broad opportunities and challenges that Bhutanese CSMI face is presented and the results of a SWOT analysis of the CSMI sector are highlighted in Table 2.3.1. The SWOT analysis was carried out involving both government institutions and private sector stakeholders.

Bhutan's economy has been growing robustly over the last decade on average at over 8%, with real Gross Domestic Product (GDP) growth at 11.8% in 2010. Available projections of real GDP growth indicate sustained levels of robust growth upwards of 9% during 2011 - 2019. (Budget Policy and Fiscal Framework Statement, 2011) Additionally, external assessments by International Financial Institutions (IFIs) of economic management and macroeconomic performance reflect it to be a top performer consistently. The country has low political and economic instability and moreover is rated highly for government effectiveness, quality of public administration, and low levels of corruption, crime and disorder. Bhutan also enjoys the full confidence of its development partners and its track record of effective utilization of aid resources has encouraged donor countries to maintain their aid commitments beyond the Eleventh Plan (GNHC, 2012, 2011). Finally, there is already a supportive national policy (EDP 2010, Five Year Plan and Vision 2020) and institutional framework which is being further strengthened with numerous proactive initiatives being considered to facilitate and catalyse CSMI development.

As such, there is a conducive macro-economic situation and favourable policy and governance environment that could stimulate the rapid growth and successful development of CSMI. Proximity to India and preferential access to regional markets also present an enormous opportunity in terms of market access though this open access has yet to be maximized fully by Bhutanese CSMI. Another significant advantage that Bhutan enjoys pertinent for CSMI development relates to the availability of cheap and reliable power and with the firm prospect of electricity for all by 2013, this could provide a major impetus for CSMI, particularly rural based enterprises and clean industries.

The improvement in the quality of human and social capital, such as the rising numbers of English literate workers as compared to the region, is yet another positive. Equally important is the fact that Bhutan has a singular Unique Selling Point (USP) working in its favour pertaining to its popular and positive image abroad of a country that has shown exemplary stewardship of its natural and cultural environment. The promotion of a variety of CSMI products under the Brand Bhutan such as the "Happiness is a Place" advertisement campaign for tourism has a credible element to it and may not be perceived as mere marketing in a global market that is usually overhyped. The prospect for securing carbon credits under various Clean

Development Mechanisms (CDMs) for clean and green CSMI in Bhutan remains another opportunity that needs to be explored.

Despite these positive aspects, Bhutan remains challenged by a high degree of economic vulnerability[19] and constraints that stems from its small size and difficult terrain, landlocked situation and distance from sea ports that limits its access to global and regional markets. Export and import costs in terms of unit cost per container remain among the highest in the world. Infrastructural constraints, principally pertaining to road access have also hindered the further expansion and growth of CSMI, particularly in the rural hinterland. Additionally, there are risks associated with the lack of product and market diversification, factors that have a significant bearing on the prospects of CSMI business development in Bhutan. The other constraints for the CSMI sector relate to the low level of skills and managerial know-how; the absence of a well-developed entrepreneurial culture; and difficulties in accessing finance for start-ups and cottage industries. Most undercapitalized CSMI do not possess the requisite assets to guarantee the loans and the situation is further constrained by the virtual absence of financial instruments supporting the CSMI sector. The SWOT Analysis in Table 2.3.1 provides more specific details in terms of an analysis of the strengths, weaknesses, opportunities and threats for the CSMI sector.

19 *Bhutan's Economic Vulnerability Index (EVI) assessed at 52.9 by UN-ECOSOC places it among those LDCs with a high degree of economic vulnerability.*

*Table 2.3.1* **SWOT ANALYSIS FOR CSMI SECTOR**

| | STRENGTHS | WEAKNESSES | OPPORTUNITIES | THREATS |
|---|---|---|---|---|
| **ACCESS TO FINANCE** | • Entrepreneurial culture developing, resulting in more innovative business projects that can attract financing<br>• Greater commercialization of agriculture strengthens formal lending to CSMI Bank efficiency and quality of financial services are improving<br>• Arrival of new banks and BDBL up-grade will improve quality and quantity of finance available to CSMI<br>• Gradual trend towards financial book-keeping by CSMI | • Limited financial resources to expand<br>• Presence of informal money lenders and usury practices<br>• While interest rates officially liberalised, they remain uniform and interest spread is relatively high<br>• While interest rates officially liberalised, they remain uniform and interest spread is relatively high<br>• Strong emphasis by FIs on collateral requirement which are very high<br>• Low risk appetite<br>• Limited financial products and services<br>• Urban lending bias with limited branch network in rural areas<br>• Fragile(but improving) credit culture<br>• Unbalanced loan portfolios in some banks<br>• Underdeveloped financial services in rural areas | • On-going formulation and future implementation of a Financial Inclusion Policy may help improve access to finance for CSMI<br>• Credit scoring by FIs could improve CSMI's' access to finance<br>• Rapid growth of enterprise cooperatives will facilitate credit growth to CSMI such as through group guarantee credit schemes<br>• Enhanced FDI inflows and donor support may increase capital inflows and access to finance for CSMI | • Risk of foreign exchange fluctuations and depletion of foreign exchange including Rupee reserves could affect access to finance for CSMI<br>• Declines in international donor support could adversely impact the economy and also negatively affect access to finance for CSMI |
| **HUMAN RESOURCES** | • English language literacy and fluency high in comparison to region<br>• Reasonable number of Technical Training Institutes (TTIs)<br>• NGO and donor support available for private sector **H**RD<br>• Potential to enhance productivity through investment in technology and training<br>• Access to cheap skilled and unskilled labour from India | • Weak entrepreneurial culture characterized by lack of innovation and creativity<br>• Absence of entrepreneurship learning within education system and weak linkages with industry<br>• Skills mismatch and weak skills base<br>• Strong preference for white collar jobs, especially in the civil service<br>• High cost for CSMI compliance to new Employment Law<br>• High local labour cost, low productivity and limited workforce<br>• Restrictions on recruiting expatriate workers<br>• Inadequate technical and managerial capabilities<br>• TTI graduates tend not to take up jobs in trained field<br>• Decline in traditional skills<br>• High turnover of employees and prevalence of job hopping[1]in the hospitality and ICT services<br>• Gender disparity in ownership of CSMI | • IT literacy drive under *Chiphen Rigphel* Project will benefit CSMI as it is a key skill gap for industry. Will also further facilitate E-Commerce<br>• Draft National Employment Policy (NEP) lays strong emphasis on CSMI/ Entrepreneurship development as a strategic focus area<br>• Reforms to further streamline business regulations and support business will facilitate CSMI start-ups and survivability<br>• Donor support for CSMI HRD may increase including providing additional support for vocational training<br>• Education City project will improve national human capital | • Failure to create gainful employment for rising numbers of youth will have far reaching social consequences<br>• Failure to meet the requirements of a growing expanding labour market<br>• Inability to sustain reforms to improve services and reduce burdens on people and businesses would deter entrepreneurship<br>• Regional labour competitiveness could further widen gaps in productivity |

**Table 2.3.1 SWOT ANALYSIS FOR CSMI SECTOR**

| | STRENGTHS | WEAKNESSES | OPPORTUNITIES | THREATS |
|---|---|---|---|---|
| **ACCESS TO MARKETS** | • Enabling policy environment (EDP 2010, FDI 2010, etc.) for CSMI to enhance access to domestic and export markets<br>• Fluency in English facilitates better access to global markets<br>• Favourable international perception with added benefit of Brand Bhutan marketing drive<br>• Preferential access to regional markets including under SAFTA<br>• Off-season advantage for horticultural and agricultural produce | • Small, narrow and widely dispersed domestic market<br>• High trading costs due to being landlocked and harsh terrain exacerbated by weak transport infrastructure[20]<br>• Extended transport times and limited logistics support impact adversely on perishable goods<br>• Relatively high costs of domestic production reduces competitiveness<br>• Difficulty in meeting certain quantity and quality requirements of export markets<br>• Insufficient processing, grading, branding, certification and PSP capabilities for export markets<br>• Small base of products including Insufficient number/ variety of niche products for export, that could potentially mitigate weak economies of scale<br>• Inadequate access to market information, e.g. for export | • Strategically located between two of the world's largest economies<br>• Preferential access to Western markets on basis of Bhutan's LDC status<br>• Potential growth of an expanding domestic market<br>• Emergence of Bhutan as a prime and high value tourism destination for cultural, eco-nature based tourism, trekking etc.<br>• Increase of and better organized agricultural and enterprise cooperatives | • Poverty, youth unemployment may reduce domestic demand<br>• Risk of neighbouring countries restricting trade-transit facilities and trans-shipment of third country exports<br>• Weak demand from international tourism markets due to economic recession and other reasons could affect prospects of achieving tourism arrival targets of 100,000 p.a. by 2013<br>• India and China have extremely competitive industries due to their highly developed mass production<br>• Other Asian countries such as Thailand, Bangladesh, Malaysia etc are following aggressive export promotion policies which are impacting on Bhutan's CSMI through increasing imports of competing products |
| **LAND AND INFRA-STRUCTURE** | • Rich natural resource base<br>• Availability of cheap and reliable electricity<br>• Natural beauty, a living cultural heritage and immense biodiversity in a relatively unspoilt environment makes Bhutan an attractive tourism destination<br>• Existence of several industrial estates | • Harsh terrain and difficult topography, scarce flat land , limited arable and utilizable land<br>• Increasing competition for land use between agriculture and enterprise and growing human-wildlife conflicts<br>• Complex and lengthy process of land acquisition(regulations)<br>• Weak transport infrastructure and services including bottlenecks in air transport services<br>• Disparity in access to socio-economic infrastructure and services for remote communities<br>• Poor allocation of land within industrial estates<br>• Ceiling of land holding at 25 acres (for individuals) and lease terms of maximum 30 years<br>• Power generation capacity in winter drops significantly due to reduced hydrology flows | • Capacity addition of 10,000 MW by 2013<br>• Development of Nehru Golden Jubilee rail link.<br>• Growing global demand for organic produce and high value NTFPs<br>• Development of SEZs and industrial estates<br>• Promotion of cultural industries<br>ICT network infrastructure now cheaper and better with increased bandwidth and ICT connectivity | • Rising fiscal deficit and high public debt with increasing levels of debt servicing could dampen necessary infrastructure investments<br>• Delays in meeting the Electricity for All Goal by 2013 would slow down growth of rural economy and rural CSMI<br>• High dependence on hydropower investments and exports make Bhutan vulnerable to risks<br>• Natural disasters (earthquake, GLOFs) and climate change would severely impact hydropower and other economic activities<br>• High dependence on imports including fuel |

20 *Weak transport infrastructure pertains to poor road access for many rural communities that limit access to markets; lack of direct access to seaports and railways, quality and limited reach of road network, air transport bottlenecks, poor mass transport facilities, etc.*

**Table 2.3.1 SWOT ANALYSIS FOR CSMI SECTOR**

| | STRENGTHS | WEAKNESSES | OPPORTUNITIES | THREATS |
|---|---|---|---|---|
| **ENTERPRISE SUPPORT SERVICES** | • Civil society organizations exist (business associations like BCCI) Including cooperatives and farmers' groups<br>• Value Chain Studies on key commodities undertaken and related programmes initiated<br>• Rural outreach services for agro-industries exist<br>• Entrepreneurial training activities for entrepreneurs exist including entrepreneur modules being integrated into TI curriculum | • Small, nascent and weak BDS market that is currently constrained by limited demand/supply<br>• BCCI and associates offer limited service to members and themselves have significant capacity constraints<br>• Specialized BDS provision not currently available<br>• Implementation of Entrepreneurship training programmes severely constrained by lack of funds<br>• Very limited advocacy by business organisations<br>• Concept of BDS not well understood by stakeholders<br>The absence of reliable, CSMI disaggregated data inhibits monitoring of enterprise development initiatives and formulation of schemes and support services to address the needs of a heterogeneous CSMI sector | • Increased participation of private sector in providing BDS including providing skills and entrepreneurial training<br><br>On-going ADB and other donor support will help strengthen BDS provision | • Direct assistance and delivery of enterprise support distorts local market pricing mechanisms and obstructs local BDS market development<br>• Failure to build local competitiveness to compete in local and export markets could result in a permanent loss of opportunity |

## 3 The CSMI Policy and Institutional Framework

In developing and implementing the CSMI Development Strategy, it is essential to understand both the policy and the institutional framework that exists to support CSMI development in Bhutan. Firstly, the broad national policy framework is set out, within which the CSMI Development Strategy operates. This includes the Bhutan Vision 2020, the Tenth Five Year Plan and the Economic Development Policy 2010 which have been framed within the context of the overarching GNH Policy that seeks to maintain a harmonious balance between sustainable and equitable socio-economic development, conservation of the environment, preservation and promotion of cultural heritage and good governance, Thereafter, the institutional framework for CSMI development is articulated, ranging from the MoEA structures to other parts of the government, as well as the privates sector and related stakeholders.

### 3.1 The National Policy Framework

Any CSMI Development Strategy needs to be located within the wider national economic policy framework. The emphasis attached to CSMI development within the national policy framework is discussed below.

#### 3.1.1 Bhutan 2020: A Vision for Peace, Prosperity and Happiness

Bhutan's Vision 2020 document identifies the development of the CSMI Sector as a key priority and cautions about the need to avoid "*the emergence of a dual economy in which a small and modern sector is set in a sea of small and cottage industries using simple technologies with few interactions between them*." The Vision clearly acknowledges that "*while some of these initiatives (to support CSMI development) have yielded positive results, their overall impacts have so far been modest and the response of the private sector to liberalization has so far been sluggish*".

The Vision 2020 clearly anticipates some of the key constraints in fostering an enabling environment for CSMI development. It states that '*the slow pace of change can be attributed to a variety of factors. Efforts to establish an enabling environment have left some obstacles, such as the absence of unambiguous commercial law and cumbersome licensing arrangements, still largely untouched. The number of people covered by entrepreneurship training programmes has been modest, and the credit programmes that have been established to support the establishment of new enterprises have worked less well than expected. Our institutional capacities to identify 'viable' projects are still being developed, and we often lack important information on available resource endowments that is required to identify and evaluate investment opportunities. The growth of manufacturing activity has also been severely hampered in some parts of the country by the lack of required physical infrastructure, such as roads and electricity. Moreover, the private sector in Bhutan is still at an early stage of development and is not yet well organized. The pace of private sector development in both urban and rural areas continues to lag behind expectations. Given current rates of private sector growth, especially in the crucially important manufacturing sector, it may take longer than expected before it can assume the role of engine of growth and is able to create the productive employment required to absorb a rapidly growing work force.*"

Finally, the Vision also provides a broad direction for promoting small and cottage industries and emphasizes the need to enhance "*access of small-scale producers to technology, credit and markets so as to enable them to produce profitably for the domestic market, with the* *priority dictated more by the need to maintain our rich craft tradition and to create productive employment than to capture export markets*".

### 3.1.2 Bhutan's Tenth Five Year Plan [2008-2013]

The development of a dynamic CSMI sector is equally important within the framework of the on-going Tenth Five Year Plan, particularly within the context of some of the Plan's key strategic objectives, namely, Vitalizing Industry, Investing in Human Capital and Synergizing Integrated Rural Urban Development for Poverty Alleviation. The FYP expects that CSMI will stimulate private ownership and entrepreneurial skills, generate employment and help to diversify and deepen economic activity and make a significant contribution to exports and trade as well. CSMI are also seen to be critical in promoting innovation, creativity and enterprise which the FYP maintains is *"deeply integral to and should permeate the spirit of all the various industrial development activities to be undertaken over the Tenth Plan."*[21]

More specifically, the Tenth FYP states that "*Micro, Small and Medium Enterprises (MSMEs) sub-sector from an employment and income generation perspective cannot be over-emphasized. With relatively low levels of capital investment required, the sector offers decent employment and income generating opportunities, particularly for Bhutanese youth and other weaker sections of Bhutanese society. The proper development of the MSME sector in Bhutan is thus a very critical strategy for ensuring equitable distribution of income and poverty reduction. The development of MSMEs, especially through local entrepreneurs, requires considerable institutional support, which continues to be inadequate. As such the broad areas of intervention to further the development of MSMEs under the Tenth Plan period are the development of institutional, legal and regulatory frameworks for MSME including their implementation modalities, enhancement of business development services, providing entrepreneurship training and advisory services, establishing a small business resource centre, undertaking a feasibility and resource study and the revision of investment opportunity study*".

In outlining some of the initiatives necessary to undertake, the FYP states that " *…during the Tenth Plan, the Department of Industry will continue to support promoting SMEs through innovation, creation and development of our niche products, which have comparative advantage over other products in the regional and global market. The department will also continue to put efforts in strengthening institutional framework, regulations, capacity building and providing access to financial institutions through various schemes, to create an environment that will facilitate the growth of MSMEs in the country. Enterprise development at rural community will be encouraged and given emphasis in the Tenth Plan through the regional trade and industry offices and the dzongkhags.*"

While the process of formulation of the Eleventh Plan (2013-2018) is just underway and it is too early to assess the level of priority that CSMI development is given, it is almost certain that the promotion of CSMI will still remain an important priority and highly relevant for the future.

### 3.1.3 Bhutan's Economic Development Policy (2010)

The Economic Development Policy (EDP 2010) is the apex policy for economic development that was formulated to help create a transparent and conducive environment for business

21 *Tenth Five Year Plan 2008-2013, Vol.1. Box 3.3, p. 27.*

and investment in Bhutan. Its two main objectives pertain to achieving economic self-reliance by 2020 and full employment (97.5%) and a core strategy to achieve these economic targets hinge on promoting "Brand Bhutan".

The areas of economic opportunities spelt out in the EDP 2010 pertain to agro and forest produce, handicrafts, textiles, culture and tourism products, energy, services, mineral based industries, construction, cultural goods, and high quality green services such as high end education and medical services, ICT, and financial services.

The EDP highlights that creating an enabling environment for businesses is a cross cutting issue and commits the RGoB, in particular, to:

- **Ensuring that all Acts, Policies, Rules and Regulation of all sectors are reviewed by the end of 2010 to create an enabling environment.**
- **Ensuring that businesses classified as cottage and small (services only) will not be required to obtain a licence to start operations as long as the activity is not classified as prohibited. The business must register itself with the Regional Trade and Industry Office (RTIO) within 30 days from start of business activity.**
- **Ensuring that for all other industries, approval or denial of the project will be communicated within a maximum of 90 days from the date of submission of required documents. Businesses that do not hear within the stipulated time from concerned agencies, the principle of 'silence is consent' shall be applied for final approval.**
- **Establishing a "One stop shop" through the use of IT among government agencies responsible for providing clearances. The Ministry/Agency that is responsible for issuing the final approval / licence shall be the point of contact for the applicant.**
- **Reducing the burden of compliance by eliminating unnecessary and overlapping approvals and submission of documents.**
- **Basing the frequency of inspection of business establishments on violations; business entities that violate rules shall be inspected with higher frequency, those that comply; inspection shall be reduced to once or twice a year and those in violation but have reformed shall be inspected with less frequency to reward good behaviour and compliance.**

The EDP also emphasizes the importance of promoting cottage and small industries and the need to create a specific Department for the promotion and development of these industries. The EDP further mandates the development of a CSI Policy in two years after the establishment of the Department of CSI and notably mentions the need for a special focus on women's enterprises.

The Fiscal Incentives 2010 Notification further specifies certain incentives to be provided for CSMI:

- **Interest subsidy of 25% of the applicable interest rate on the term loan at a debt equity ratio of 3:1 shall be provided by the Royal Government.**
- **Rent free (both on land and structure) incubation facilities for a maximum period of three years shall be provided where available.**

- **Focused entrepreneurship training and extension support shall be provided.**
- **Financial institutions shall provide preference in lending to this sector.**
- **Ten years CIT/BIT tax holiday.**
- **The RGoB shall accord preference in its purchases from CSIs provided they meet the quality criteria.**
- **Subsidy of 25% of the cost of plant and machinery up to a maximum of Nu. 250,000.**
- **All incentives that are available to a particular category of enterprise shall be made available to new CSIs owned and managed by women by a factor of 1½.**
- **The RGoB will provide stipend to trainees (under specified conditions).**
- **The RGoB will bear up to 50% of the training fees (under specified conditions).**

#### 3.1.4 CSMI Policy (2012-2020)

In 2012, the RGoB approved the new CSMI Policy 2012-2020, which provides the framework for this CSMI Development Strategy. The content of the CSMI Policy in reproduced in this document (see Section 4.6), so it is not repeated here.

### 3.2 The Institutional Framework for CSMI Development

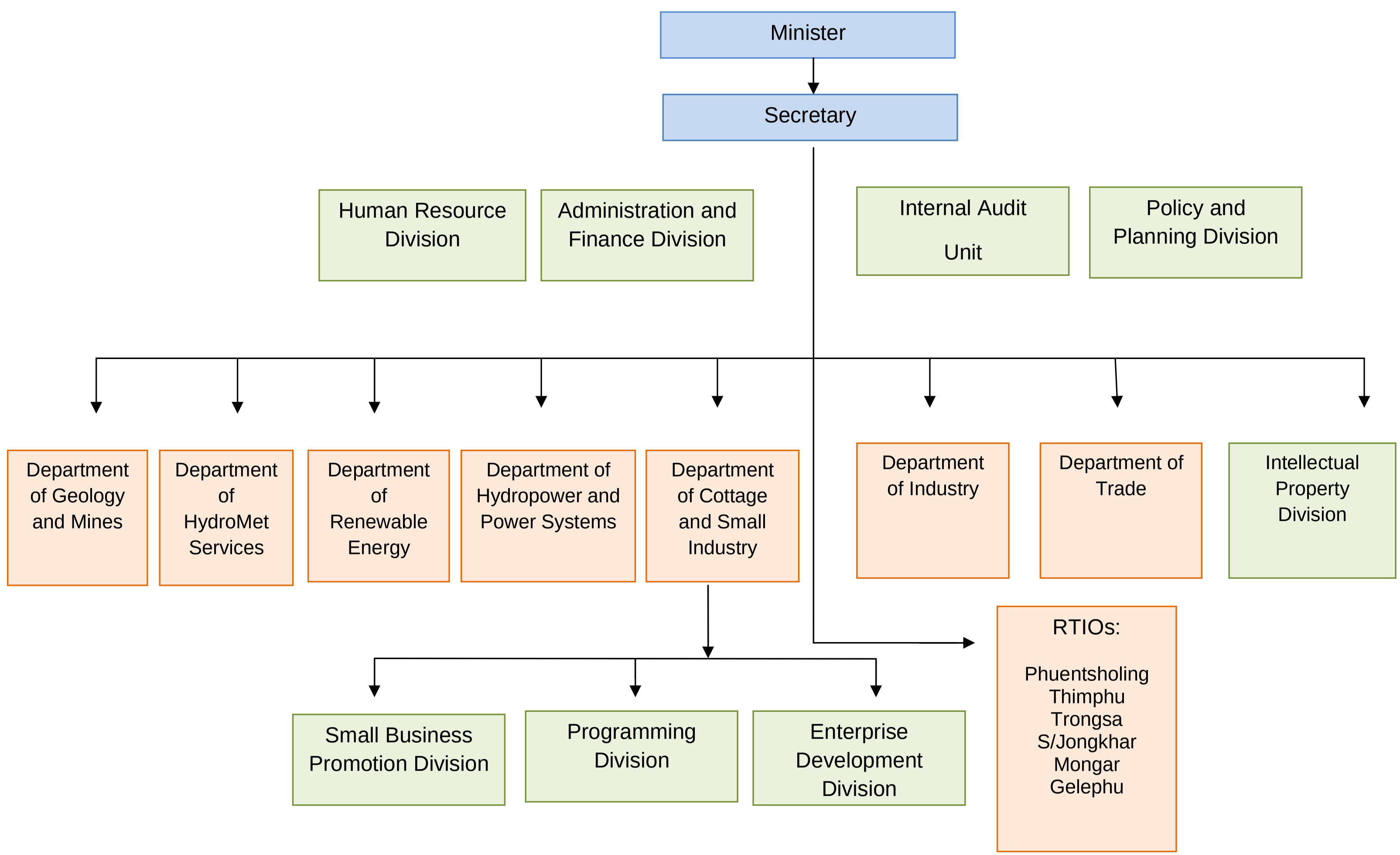
The national policy framework has been previously highlighted within which the CSMI Development Strategy will operate. However, it is also necessary to identify the main players that make up the institutional framework for CSMI development. This is done below.

#### 3.2.1 Ministry of Economic Affairs

The Ministry of Economic Affairs (MoEA) is comprised of various technical Departments, the most important of which, from an CSMI perspective are: the Department of Cottage and Small Industry, Department of Trade, Department of Industry and Intellectual Property Division. Additionally, the MoEA has other service Divisions (such as Policy and Planning Division, Administration and Finance Division, Human Resource Division), an Internal Audit Unit and Regional Trade and Industry Offices (RTIOs) in Thimphu, Phuentsholing, Gelephu, Trongsa, Mongar and Samdrup Jongkhar. The total manpower of the MoEA, as of February 2012, was 527.

The structure of the Ministry is shown in the Chart below.

**Chart 3.1.2 : The Structure of the Ministry of Economic Affairs**



Department of Industry

The Department of Industry (DoI) is entrusted with the responsibility to foster sustainable industrial development in harmony with national objectives and priorities. Accordingly, its functions are promotional as well as regulatory by nature, covering the industrial sector classified broadly under manufacturing and services. The RGoB's focus on industrialization through the private sector has magnified the facilitative role of the DoI to create an enabling environment for industrial development and support private sector initiatives.

Regulatory services comprise the implementation of various rules and regulations governing the industrial sector to promote deeper integration and linkages to other sectors and avoid conflicts in development. In doing so, sectoral requirements are integrated to maintain coherence and compatibility with the priorities and objectives of other sectors.

The Department has six divisions (FDI Division, Project Coordination Division, Company Registry Division, Industries Infrastructure Development Division and Environment Unit).

*Regional Trade and Industry Offices*

Six Regional Trade & Industry Offices provide field support in the implementation of rules and regulations. They are located in Thimphu, Phuentsholing, Gelephu, Samdrup Jongkhar, Mongar and Trongsa and are headed by Regional Directors.

The RTIOs are responsible for:

- **Approving and issuing new licenses, environment clearance, activity conversions, etc. for trade and industries within the framework of the Ministry's guidelines.**
- **Formulating policy guidelines and strategies on issues relating to the promotion and regulation of trade and Industrial sectors within the region.**
- **Establishing close contacts and liaison with the Dzongkhag officials, officials within the Ministry and various other Ministries, Departments, Organizations and/or private sectors in order to facilitate development and promotion of trade and industrial ventures within the region.**
- **Reviewing and evaluating the progress of trade and industrial activities in the region.**
- **Liaising with various international firms and providing necessary information to the private sector in developing trade and commercial contacts.**
- **Coordinating the formulation of Dzongkhag/region-wide project proposals to facilitate trade and industrial development.**
- **Providing advisory services to the Ministry on matters pertaining to the development of trade and industrial activities within the region.**
- **Managing industrial and service centres in the region.**
- **Providing business development advisory services to the entrepreneurs.**
- **Enforcing and monitoring of environment standards in industries.**
- **Contributing to the national economy through the timely collection and deposits of fees/royalties.**

Department of Cottage and Small Industry

The EDP (2010) states that the "Royal Government shall promote Cottage and Small industry (CSI) to generate employment, support equitable distribution of income and bring about balanced regional development. A Department shall be created for the promotion and development of these industries... Special focus on women's enterprises shall be given within the CSI industries development framework". The EDP also specifies certain incentives for CSIs: "Cottage and Small industries (CSI) to generate employment, support equitable distribution of income and bring about balanced regional development. A Department shall be created for the promotion and development of these industries". The MoEA established the Department of Cottage and Small Industry (DCSI in line with this policy commitment in month 2010. DCSI's current responsibilities are illustrated in Box 3.1.1.

**Box 3.1.1: Role and Responsibility of the Department of Cottage and Small Industry (DCSI)**

- Promote and support the establishment of CSIs.
- Formulate a comprehensive policy framework comprising specific interventions and support measures for CSI. This will be complemented by developing the necessary institutional and regulatory framework for the growth and development of CSIs.
- Work in close coordination with other agencies in both the public and private sector to ensure a consolidated approach towards the support and promotion of CSIs.
- Identify business opportunities on the basis of supply and demand gap analysis and also opportunities that may arise from ancillarisation and outsourcing/subcontracting.
- Conduct sector studies / analysis for development strategies including developing a sector specific resource inventory to identify opportunities for CSI in different parts of the country.
- Enhance business development services, facilitate and develop support service packages, monitor project implementation and provide timely implementation where necessary.
- Explore and facilitate the development of the full potential of the embryonic cultural industry into a vibrant sub-sector to include film-making, animation, performing arts (music and dance), publishing, community-based spiritual tourism, wellness tourism based on traditional medicine and a larger role for rural and traditional craftsmen.
- Improve access to finance through financial institutions, as well as guarantee mechanisms.
- Promote and facilitate access to industrial infrastructure e.g. layouts, incubators, clusters and industrial parks.
- Setup and manage a CSI service providers' database including machinery suppliers.
- Facilitate transfer of technology and best practice in management and operations.
- Disseminate vital information and skills to CSI by conducting and facilitating seminars, workshops and training programmes in different parts of the country.

DCSI is sub-divided into three divisions:

- **Programming Division.**
- **Small Business Promotion Division.**
- **Enterprise Development Division.**

### 3.2.2 Ministry of Labour& Human Resources

Department of Employment

The Department of Employment's (DoE) under the Ministry of Labour and Human Resource (MoLHR) efforts are focussed on employment promotion. The DoE is the parent department responsible in spearheading the functions and the mandate of promoting entrepreneurship and self-employment in the country. As part of its role, the Department of Employment is engaged in the development of a comprehensive strategy and policy for development and promotion of entrepreneurship in the country. The Department also envisages the development of numerous entrepreneurship and self-employment programmes. The Entrepreneurship and Self-employment programmes aims to promote entrepreneurship and self-employment as a strategy to generate employment opportunities for the youth.

The tasks are undertaken through a departmental structure comprised of the Employment Services Division (focusing on the operation of three Employment Service Centres and other actions to match job seekers and job vacancies), the Labour Market Information and Research Division (focusing on planning, organizing and conducting labour force surveys) and the Entrepreneurship Promotion Division (focusing on entrepreneurship development especially amongst young people).

*Entrepreneurship Promotion Division*

The Entrepreneurship Promotion Division (currently has a staff of two) took over the operation of the Entrepreneurship Promotion Centre and the Enterprise Development Programme from the MSME Division of MoEA in 2008. The Entrepreneurship Promotion Centre was, according to MoLHR, “created under the MoEA to focus solely on the promotion of entrepreneurship in its various forms. Recognizing the fact that entrepreneurship and self-employment is increasingly accepted as an important tool and a useful alternative for job creation and income generation, the Royal Government has underscored entrepreneurship and self-employment as a critical source of new jobs and economic dynamism. This is evident with the transfer of Entrepreneurship Promotion Centre (EPC) from the Ministry of Economic Affairs to the Ministry of Labour and Human Resources”.

### 3.2.3 Ministry of Agriculture and Forests

Given the nature of Bhutan’s economy, the Ministry of Agriculture and Forests (MoAF) plays a critical role in CSMI development, especially:

- **Department of Agriculture.**
- **Department of Forests & Park Services.**
- **Department of Livestock.**
- **Council for Renewable Natural Resources Research of Bhutan**
- **Department of Agricultural Marketing and Cooperatives.**

The MoAF is pursuing a policy of Markets, Access and Production (MAP), consistent with the objectives of the 10$^{th}$ Five Year Plan. It places emphasis on the development of cooperative and farmer’s groups. There are currently 60 such institutions registered, 10 of which are cooperatives. There are a further 700 informal groups which have the potential of being registered and contributing to rural and regional development. Clusters and value chains are being promoted by MoAF in the context of cooperatives and farmers’ associations through a Strategy and Development Fund.

### 3.2.4 Bhutan Development Bank Limited (BDBL)

The BDBL formerly called the Bhutan Development Finance Corporation Ltd was established in 1988 to address the credit needs of CSMI with a special focus on providing credit to rural agricultural communities, to act as the development financial institution for providing credit for rural and agricultural purposes, including CSMI. It is currently 93.5% owned by RGoB. The mandate of BDBL is to:

- **Provide CSMI financial services for the development and modernization of agricultural, commercial and industrial enterprises in the country;**
- **Enhance income of the people thereby improve standard of living through provisions of financial services;**
- **Provide financial services for private sector development;**
- **Alleviate poverty;**
- **Provide technical and advisory services to the enterprises;**
- **Mobilize external and internal funds for investments.**

BDBL's Mission statement relates directly to CSMI development, such as:

- **To extend reach to the greatest majority of families living in the rural areas, play a lead role in supporting CSMI, and help rural agriculture become commercially viable, thereby uplifting the rural economy**
- **To be a genuine partner to our valued customers by providing advisory services, technical assistance, BDS, etc., in addition to financial assistance.**

BDBL has 29 branch offices nationwide, two sub-branches and three regional offices. BDBL has mobile banking facility at the grassroots level, which is operational in 208 Geogs. The Group Guarantee Lending and Saving Scheme programme was started in 1998 targeting the poorest of the poor in the rural areas. To finance small entrepreneurs, the BDBL joined the Entrepreneurial Development Programme (EDP); and its share in the EDP was Nu. 20 million.

### 3.2.5 Druk Holdings and Investment (DHI)

Druk Holding and Investments (DHI) is a government owned holding company established by the Royal Government of Bhutan (RGOB) pursuant to the Royal Charter issued on 11th November 2007 in order to fully or partly own the shares of commercially oriented companies that used to be under the direct ownership of the Ministry of Finance (MoF). It is incorporated as per the Companies Act of the Kingdom of Bhutan 2000. The primary purposes of DHI are to hold and manage commercial companies on behalf of the Government, make new investments, raise funds and promote private sector development. DHI owns eight companies and holds shares ranging from 14-80% in eight others. These companies operate in the energy, telecommunication, aviation, natural resources, financial and manufacturing sectors. Many of the new business ventures and investments that the DHI has carried out or is planning to do so have a significant bearing on the CSMI sector particularly in relation to the establishment or promotion of special economic zones, IT park, education city, mineral industries, organic farming, etc. While the DHI Private Sector Partnership Framework (DPP) is mainly for large enterprises, to avoid crowding out smaller enterprises, DHI also facilitates various activities for the latter. These include, the BEGIN (Business Entrepreneurship Growth and Innovation) Programme, which seeks to mainstream entrepreneurship by providing comprehensive training (3 months), sustained mentoring (9 months), and opportunity to pitch for equity financing to highly motivated individuals with strong entrepreneurial traits who may or may not have immediate sound business ideas. However, focus is on growth oriented and scalable businesses. Also, DHI is establishing an Entrepreneurship Promotion Fund (EPF), to provide equity and equity like capital to businesses started by the BEGIN trainees and others (such as people who have already started a business but need capital to make it grow to sizable scale). However, focus is on businesses that have the potential to grow to significant size (revenues, profits and/or employees) and offer services/products not currently available in the market and import substitution. In addition, DHI is also working with IFC in promoting access to finance through a IFC SME Fund (equity finance) and trying to access the potential offered by the Business Angels Networks.

### 3.2.6 Business Associations

Business associations, whether national or sectoral, are important stakeholders, as far as CSMI development is concerned. Numerous business associations exist, with varying emphases, membership, capacities, etc. The Table below presents an overview of the main institutions. It should be noted that the Bhutan Chamber of Commerce and Industry (BCCI) has taken a strong role in advocacy with the RGoB for changes in policy and regulation to encourage economic development.

**Table 3.2.1 Business Associations**

| Chamber or Association | Staff | Members | Members' fee (per year in BTN) |
|---|---|---|---|
| Bhutan Chamber of Commerce & Industry (BCCI) | 32 | Approx. 13000 | Min: 200 Max. 40000 |
| Association of Bhutanese Industries | 4 | 58 | Small & Micro: 7,000; Medium: 20,000; and Large: 70,000 |
| Association of Bhutanese Tour Operators | 7 | Approx. 550 | 1000 registration USD 3 per guest |
| Automobile Service Association of Bhutan | 1 | 27 | Small: 8000 Large: 15000 |
| Bhutan Exporters Association | 3 | 60 | Temporary 3000 permanent 10000 |
| Construction Association of Bhutan | 8 | Approx. 3500 | 1000 |
| Handicrafts Association of Bhutan | 2 | 50 | Unlicensed (artisans, weavers) 500 Licensed Members 3,000 |
| Hotel Association of Bhutan | 1 | 52 | 1,000 per month |
| ICT Association of Bhutan | 2 | 69 | 10000 |
| Motion Pictures Association of Bhutan | 5 | 190 (approx.) | Corporate: 3,000; Active: 1,000; Associate: 500; Movie Post Prod. Fee 5,000 |
| Association of Wood-based Industries | 1 | Approx. 109 | Nu. 1 per cft of wood |
| Private Cable Operators | 3 | 40 | Small:5000 Medium:15000 Large: 40,000 |
| Guide Association | 3 | 250 | 500/- |
| Bhutan Association of Women Entrepreneurs | 3 | 0 | |

### 3.2.7 BDS Providers

In September 2009 the Government advertised for private sector BDS providers to register on a National Register, but very few registered. Currently, there are 29 registered private sector BDS providers considered to be ‘active’, of which 21 operate in the Information and Communication Technology (ICT) area. The full list, by activity and location, is given below.

**Table 3.2.2 Business Development Service (BDS) Providers**

| Training Organisation or Institute | Location | Training Offered |
|---|---|---|
| Athang Training Academy | Thimphu | Information Technology |
| Bhutan Institute of Media | Thimphu | Art Design and Media |
| Bhutan Centre of Excellence | Thimphu | Business Process Outsourcing (call centre<br>training) and other business training |
| Bhutan Intern. Institute of Hospitality and Tourism | Thimphu | Hospitality and Tourism training |
| Bright Life Institute of Management | Thimphu | Finance and Management |
| Choki Traditional Art School | Thimphu | Arts and Crafts |
| Dechen IT and Management Institute | Thimphu | Information Technology |
| Digital Shangri-La | Thimphu | Information Technology |
| Green Dragon Media Academy | Thimphu | Information Technology |
| Habibs Hair and Beauty Academy | Thimphu | Beauty and Grooming |
| Infotech Learning Centre | Thimphu | Information Technology |
| Institute of Management Studies | Thimphu | Finance and Management |
| Kheyrig Institute of Accounts and Management | Thimphu | Finance and Management |
| Kuenphen Institute of Technology | Thimphu | Information Technology |
| Rigsum Institute of Information Technology | Thimphu | Information Technology |
| Woodcraft Centre | Thimphu | Furniture, upholstery |
| Zas Multimedia Institute | Thimphu | Information Technology |
| Nyesel Institute of Technology | Paro | Information Technology |
| Link2support | Paro | Business Process Outsourcing/ services |
| Rimpung Computer Training Centre | Paro | Information Technology |
| Jampel Computer & Management Training Institute | Haa | Information Technology |
| Computer and Management Institute | Phuentsholing | Information Technology |
| GPY Computer training Institute | Phuentsholing | Information Technology |
| Nyinshar Computer Learning Centre | Phuentsholing | Information Technology |
| Himalyan Institute of Information Technology | Gelephu | Information Technology |
| Kuenzang Institute of Information Technology | Gelephu | Information Technology |
| Nazhoen Pelri Skills Training Centre | Punakha | Arts and Crafts |
| Tashi Lakphel Computer Training Centre | Wangduephodrang | Information Technology |
| ST IT Institute | Tsirang | Information Technology |

### 3.2.8 Government and Semi-Governmental BDS Providers

RGoB has a quite extensive involvement in training, mainly coordinated through the Ministry of Labour, and the principal RGoB training Institutes and bodies, as illustrated in the Table below.

**Table 3.2.3 Government and Semi-Governmental BDS**

| Name | Location(s) | Training Offered |
|---|---|---|
| Royal Institute of Management | Thimphu | Financial management, Information management, Development management, Administrative management, Tax Administration |
| Royal Institute of Health Sciences | Thimphu | Health, medicine |
| Zorig Chusum Institutes | Thimphu and Trashiyangste | Arts, crafts, embroidery, silversmith |
| Natural Resources Training Institute | Various centres | Agriculture, Animal Husbandry, Forestry and other short courses in Mushroom production, Vegetable production, Pig production, Dairy production, Bee keeping, Fishery and Poultry Production. |
| Hotel & Tourism Management Training Institute, and Royal Institute of Tourism and Hospitality | Thimphu | Housekeeping, Front Office reception, Restaurant, Cultural Guide, Trekking Guide, Tourism, hospitality |
| Royal Bhutan Institute of Technology | Bumthang, Punakha, Gelephu | Civil, Electrical and Mechanical Engineering |
| National Institute of Traditional Medicine | Thimphu and other centres | Traditional Physician, traditional clinic assistant |
| Institute of Language and Cultural Studies | Thimphu | Languages, culture |
| Bhutan Forestry Institute and Wood Based Training Institute | Thimphu and other centres | Forestry management, furniture making, cabinet making, upholstery |
| Thimphu Institute of Automobile Engineering | Samthang and Thimphu | Automobile repair and maintenance |
| Rural Development Training Centre | Zhemgang | Agriculture |
| National Handloom Centre | Khaling | Weaving, textile design |

### 3.2.9 Business Infrastructure

Bhutan has a variety of business infrastructure, as illustrated below:

- **Business incubators: The Bhutan Innovation and Technology Centre (BITC) at the IT Park (Thimphu Techpark) was inaugurated on 7th May 2012. The Centre includes, a business incubation centre, a shared technology service centre and a data centre. Both MoEA and MoLHR plan to establish business incubators in future.**
- **Industrial estates: there are two established industrial estates in Pasakha (near Phuensholing, about 265 acres) and Jimina (Thimphu, about 33 acres). A further four industrial estates are planned in Jigmeling (Gelephu, about 735 acres), Dhamdum (Samtse, about 620 acres), Motanga (Samdrup Jongkhar, about 145 acres) and Bondeyma (Mongar, about 110 acres).**

- **Technology Parks: Bhutan's first technology park, Thimphu TechPark Pvt Ltd (joint venture between Druk Holding and Investments and Assetz Property Group, Singapore), is located on a five-acre plot in Wangchutaba, Babesa. The land has been provided by Government on lease for an initial period of 30 years with two automatic extensions of 30 years each (total 90 years) and developed the ancillary services.**
- **Clusters: pilot cane and bamboo 'cluster' (APIC / MoAF; the work focuses on creation of cooperatives and farmers' groups); both MoEA and MoLHR intend to establish clusters and/or value chains.**
- **Service Centres: only one service centre is operated by MoEA. Changzamtok Service Centre accommodates 34 highly diverse enterprises in craft industries, service industries and small scale manufacturers. The rents are highly subsidised (Nu. 4 per square foot per month) and the average space is 540 square feet, with 10 year renting agreements. The other Service Centres (SamdrupJongkhar and Gelephu) have been transferred to local governments.**

#### 3.2.10 Other

A number of other CSMI stakeholders are important in Bhutan. These are listed below:

- **Commercial banks: there are five such financial institutions: Bank of Bhutan (BOB); Bhutan National Bank (BNB); Bhutan Development Bank; Druk Punjab National Bank and Tashi Bank. A number of national and international applicants are also hoping to be approved by the Royal Monetary Authority (RMA) of Bhutan.**
- **IFIs: a number are active in supporting enterprise development, not least the Asian Development Bank (ADB), IFC and Work Bank.**
- **Donors: the most active bilateral donors include: ADB, Austria, EU, GTZ, Helvetas, India, JICA, SNV, the UN systems including UNDP, World Bank (including its subsidiary the IFC)**

### 3.3 Conclusions

CSMI development cannot happen in a vacuum. Therefore, this chapter has set out the policy framework within which the CSMI Policy, Development Strategy and Action Plans must operate. Bhutan is currently a transition phase from the 10th to the 11th Five Year Plans and this is taken into consideration by the CSMI Development Strategy and Action Plan. The chapter also examined the institutional system for CSMI development, which includes the MoEA (responsibility for CSMI development) as well as other governmental institutions, as well as the private sector (business associations), business infrastructure (incubators, services, centres, industrial centres, etc.), as well as Business Development Service providers.

## 4 CSMI Development Strategy

### 4.1 Overall objective

The Royal Government of Bhutan (RGoB) has approved the CSMI Policy (2012). This strategy's overall objective is to implement the CSMI policy and the strategic objectives contained therein. This strategy is supplemented with the first Action Plan covering the period 2012-2014; further action plans will bridge the period up to 2020.

### 4.2 Vision

| |
|---|
| ***To develop a dynamic, competitive and innovative CSMI sector in harmony with the GNH philosophy, thus promoting employment, poverty reduction and balanced regional development.*** |

### 4.3 Mission

- ***Nurture a culture of entrepreneurship that encourages innovation, creativity and enterprise.***
- ***Ensure that CSMI become dynamic, outward-looking and capable of generating profits and wealth across the country.***
- ***Ensure that CSMI contribute to the goal of full employment or 97.5% employment by 2020[22].***
- ***Ensure that CSMI contribute to alleviation of poverty, especially in rural areas.***

### 4.4 Targets

The CSMI Development Strategy identifies three targets to be achieved by 2020[23]:

- **To double the total number of CSMI from 20,000[24] to 40,000.**
- **To increase the contribution of private business sector employment from 20%[25] to 30% of total national employment.**
- **To more than double revenue income from CSMI from Nu. 890 million[26] to Nu. 2 billion.**

### 4.5 Strategic Objectives

The CSMI Policy has set out the framework for CSMI development for the period until the end of the decade (2012-2020), which involved the following six strategies:

I. **Strengthen the Policy Environment and Institutional Framework.**

II. **Strengthen the Legislative Framework and Enterprise Environment.**

III. **Facilitate Access to Finance and Incentives.**

IV. **Enhance Competitiveness and Innovation.**

V. **Improve Market Access.**

VI. **Enhance Employment and Develop a Culture of Entrepreneurship.**

For each of the above strategic objectives, the following sections of this Chapter set out the following:
The policy statement based on the RGoB's CSMI Policy
Analyses of the issues, challenges and/or priorities associated with each policy statement
The main measures to be implemented through the CSMI Development Strategy (and associated CSMI Action Plan) which will be pursued up to 2020.

22 *Source: Economic Development Plan.*
23 *The base year for all three targets is 2010.*
24 *Statistical yearbook of Bhutan 2011*
25 *Labour Force Survey 2010(data includes trading sector and no separate data available for CSMI)*
26 *DRC, MoF(data includes trading sector and no separate data available for CSMI)*

## 4.6 Policy and Institutions

| Strategy I: Strengthen the Policy Environment and Institutional Framework |
|---|
| Direction: The role of the RGoB is to develop a national policy for the development of the CSMI sector until 2020. A national CSMI policy must set out the necessary policy environment (strategies, action plans, etc.) and institutional framework to ensure that it is systematically implemented, using both international and national good practices. |
| RGoB shall:<br>I.1: Prepare a Strategy for the development of CSMI (2012-2020) to establish the vision, targets and strategic objectives based on the CSMI Policy.<br>I.2: Develop Action Plans for the development of the CSMI to establish the specific activities, responsibilities, timescales and coordination mechanisms to implement the vision and strategic objectives of the Strategy. There will be three action plans covering the period up to 2020.<br>I.3: Reorganise and build the human capital of the Department of Cottage and Small Industry (DCSI) and Department of Industry to ensure effective responsibility for the implementation of the CSMI policy, strategy and action plan.<br>I.4: Assess the need for and, depending on the results, establish an CSMI Agency (possibly merging with the Agency for Promotion of Indigenous Crafts or APIC) to focus on the implementation of the CSMI programmes and projects determined by the MoEA, as well as advocacy and awareness raising on CSMI matters.<br>I.5: Entrust the MoEA to oversee and coordinate the implementation of the CSMI policy, strategy and action plan. However, since CSMI development is cross-cutting in nature, there is a need for an inter-ministerial mechanism to ensure effective implementation. The Committee of Secretaries (CoS) will be the inter-ministerial coordination committee.<br>I.6: Build on the activities of the Private Sector Development Committee (PSDC) to ensure regular, proactive, two-way public private dialogue between the CSMI sector and RGoB.<br>I.7: Liaise closely with the Gross National Happiness Commission (GNHC) Secretariat to ensure proactive and effective mobilisation of donor funds to complement and supplement the state funds devoted to CSMI development. |

### 4.6.1 CSMI Action Plans

**Policy:** RGoB shall develop Action Plans for the development of the CSMI to establish the specific activities, responsibilities, timescales and coordination mechanisms to implement the vision and strategic objectives of the Strategy. There will be three action plans covering the period up to 2020.

**Analysis:** Hitherto, there have been no policies, strategies or action plans to further the development of the CSMI sector, but these are essential in creating a framework for development. In the absence of a strategic framework for CSMI development, CSMI activities have been *ad hoc*, irregular and resource and/or donor driven. This does not make for effective CSMI development. A separate document sets out the RGoB-approved CSMI policy, whereas this document lays out the CSMI Development Strategy. The only gap is the proposed action plan. An action plan is basically a sequence of steps or activities that must be performed effectively, for the CSMI Policy and Development Strategy to succeed. Action plans have three core elements, namely: specific actions or tasks with allocated responsibilities; a time horizon or deadline by which they will be completed; and resource allocation setting out the funds available for specific activities. There will be three CSMI Action Plans spanning for the period up to 2020: 2012-2014; 2015-2017 and 2018-2020. Nine months prior to the end of each Action Plan, these will be reviewed/evaluated, thus enabling the rolling forward of continuing/revised/new actions. The review/evaluation would be carried out independently since Government is normally not in a position to evaluate itself in a neutral manner. Nine months before 2020, the overall CSMI Policy, Strategy and Action Plans will also be evaluated independently.

**Measures:**

- Prepare and seek approval for CSMI Action Plan (2012-14)
- Evaluate the CSMI Action Plan (2012-14) independently
- Prepare CSMI Action Plan (2015-17)
- Evaluate the CSMI Action Plan (2015-17) independently
- Prepare CSMI Action Plan (2018-20)
- Evaluate the CSMI Action Plan (2012-20), previous Action Plans, Strategy and Policy
- Prepare the new CSMI Policy / Strategy Action Plan for 2021+

### 4.6.2 Human Capacity Development

**Policy:** RGoB Reorganise and build the human capital of the Department of Cottage and Small Industry (DCSI) and Department of Industry to ensure effective responsibility for the implementation of the CSMI policy, strategy and action plan.

**Analysis:** From an organisational perspective, CSMI responsibility is split between two institutions at MoEA, namely the Department of Cottage and Small Industry (DCSI - responsible for cottage and small industries) and Department of Industry (DoI - responsible for medium and large industries). In the long term it would be relevant to assess whether this institutional arrangement is effective. International good practice stresses the importance of building the capacities of the institution(s) responsible for CSMI development/policy formulation, so as to ensure that they have the know-how to implement the CSMI Development Strategy and Action Plan, in this case primarily DCSI.

An assessment of the human capital and capacities available to implement the CSMI Development Strategy and Action Plan involve a Training Needs Analysis in the first instance, leading to a the development of a capacity building programme typically covering issues such as: key toolset for CSMI development, international CSMI good practice, project cycle management, monitoring and evaluation, coordination of implementation, working with stakeholders, etc. A capacity building programme, typically includes study tours and work placements, so as to encourage civil servants gain hands-on experience.

The MoEA will allocate resources for both salaries and human capital development, consistent with the RGoB's HRD Policy (2010), which states that: "It is high time we realise that [civil service] in-service training infrastructure is at best weak in the country so it needs to be bolstered." (p.97). The HRD Policy also states that: "It is recommended that a policy of 40 hours training per employee per year should be followed for all civil servants... Ex-country training can be implemented depending on the availability of aid from different donors... In-country training with the help of domestic and international trainers should be encouraged" (p.96-97).

**Measures:**

- Undertake annual Training Needs Analysis (TNA)
- Prepare annual Capacity Building Programmes, including work placements and study tours (including the RTIOs, where relevant)
- Obtain resources from RGoB for human capital development.

#### 4.6.3 CSMI Agency

**Policy:** RGoB shall assess the need for and, depending on the results, establish an CSMI Agency (possibly merging with the Agency for the Promotion of Indigenous Crafts or APIC) to focus on the implementation of the CSMI Programmes and Projects determined by the MoEA, as well as advocacy and awareness raising on CSMI matters.

**Analysis:** The role of Government is often expressed as "steering, not rowing" the policy boat. Such a role implies taking the lead in addressing market failures; identification and removal of bureaucratic and legal impediments to the development of the CSMI sector; identifying potential options in policies and strategies; coordination of policy implementation; and public dissemination of information on progress and results, etc. However, many Governments conclude that policy formulation is such an onerous task that the detailed implementation of specific projects, programmes, etc. should be devoted to a specialist institution. For example, the experience of implementing several donor-funded projects, combined with the task of implementing the first round of the Cost Sharing Facility (see BDS discussion in Section 4.9.1), has clearly illustrated that the burden on the staff can be so great and the skills required so specialist, that it is hard to perform its mainstream policy role, as well as overseeing all the implementation aspects required.

This situation has arisen even before the approval of the CSMI Policy, Strategy and Action Plan. When this begins in earnest, especially from 2013 onwards, there is a chance that it will be overloaded, hence the reason for considering establishing a dedicated CSMI implementation tool. Such an institution is typically a state Agency/Bureau/Office under the supervision of the relevant institution, in this case the MoEA/DCSI. Under such an arrangement, the role of DCSI would be to set the course of the CSMI policy and coordinate its implementation, whereas the role of the CSMI Agency/Bureau/Office (if and when established) would be to implement specific programmes and projects (within the framework of the CSMI Development Strategy / Action Plan) to be determined by DCSI, once funding has been secured. International experience indicates that the relevant government department would have more than sufficient work in the event the new Agency/Bureau/Office being created and would be able to focus and specialise in relation to the demanding role of CSMI policy making.

The possible establishment of an CSMI Agency/Bureau/Office would take into consideration the roles and responsibilities of the Agency for the Promotion of Indigenous Crafts (APIC), which focuses on the 13 defined crafts (Zorig Chusum), as well as other institutions, so as to avoid duplication and proliferation of Agencies/Bureaux/Offices. Alternatively, between them, DCSI and DoI have a total of eight divisions (see Section 3.21), which means that it might be possible for an alternative organisational form to evolve whereby some of the divisions take-up a greater role in relation to policy ("steering") and others focus more on the role of implementation ("rowing"). This variant appears to be worth exploring since RGoB is concerned about a growth in new agencies.

**Measures:**

- Feasibility study on establishment of an CSMI Agency/Bureau/Office, taking into consideration the roles and responsibilities of DCSI/DoI (possible realignment of existing duties and responsibilities), APIC and other existing stakeholders.
- (Depending on the recommendation) Prepare a detailed specification for the role, responsibilities, legal basis, budget, organogram, job descriptions, management board, etc.
- (Depending on the recommendation) Establish and build the capacity of the CSMI Agency up to 2020 to maximise efficacy.

### 4.6.4 Inter-Ministerial Coordination

**Policy:** RGoB shall entrust the MoEA to oversee and coordinate the implementation of the CSMI policy, strategy and action plan. However, since CSMI development is cross-cutting in nature, there is a need for an inter-ministerial mechanism to ensure effective implementation. The Committee of Secretaries (CoS) will be the inter-ministerial coordination committee.

**Analysis:** International experience demonstrates that the horizontal / cross-cutting nature of CSMI development means that implementation of the CSMI Development Strategy and Action Plans tends to underperform unless reinforced with effective inter-ministerial coordination. All relevant ministries that have a role in the CSMI Policy/Strategy/Action Plan(s) should form part of the inter-ministerial committee. A number of requirements are foreseen for effective CSMI policy co-ordination, such as the fact that it should: be high profile, involve "doers" rather than "talkers", involve a regular, formal mechanism, be supported by a secretariat (minutes, agenda, progress reports, etc.), have a problem solving capacity, ensure effective implementation (see The Analysis of the Current Legal and Regulatory Environment for CSMI (2010). In order to avoid proliferation of committees/working groups, the MoEA (in the form of DCSI) oversee the coordination of the implementation of the CSMI Development Strategy and Action Plans via the Committee of Secretaries (see Box 4.1 below), which will monitor progress the CSMI Development Strategy / Action Plan, identify bottlenecks, fix problems, etc. at least twice per annum, based on Progress Reports prepared by DCSI. The Finance Secretary will play the main role in relation to access to finance matters, however, other key stakeholders, such as the Royal Monetary Authority, will be invited to participate in meetings, as required. If it proves to be necessary, delays and bottlenecks will be presented to the GNH Commission and/or Cabinet so as to ensure effective implementation. The existing ToR of Committee of Secretaries demonstrates that it can be used as the inter-ministerial coordination committee without the need to create a new mechanism.

**Box 4.1: Role of the Committee of Secretaries (COS)**

Among other functions, the COS performs the following:

- Discuss all matters related to inter-ministerial coordination and cooperation in the implementation of policies and programmes of the Royal Government to minimise duplication and wastage of resources;
- Develop mechanisms of effective enforcement of policies;
- Ensure that regular administrative responsibilities and development programmes for the Royal Government are implemented in the most efficient, effective and beneficial manner.

Source: Terms of Reference of the Committee of Secretaries, 2011

**Measures:**

- DCSI to liaise with the Committee of Secretaries for all meetings (dates, minutes, agendas)
- DCSI to prepare six monthly Progress Reports on the implementation of CSMI Action Plan
- Committee of Secretaries to discuss CSMI Progress Reports at least twice per annum
- Committee of Secretaries to act as a coordinator/problem solver for CSMi issues
- Meetings of GNH Commission / Cabinet to be convened, if required
- DCSI to prepare Annual Progress Reports for Committee of Secretaries / Cabinet

#### 4.6.5 Public Private Dialogue(PPD)

**Policy:** RGoB shall build on the activities of the Private Sector Development Committee (PSDC) to ensure regular, proactive, two-way public private dialogue between the CSMI sector and RGoB.

**Analysis:** RGoB, in common with many other Governments, aims to strengthen dialogue between the private sector / CSMI and government. However, experience shows that this is not a one-off activity but rather a long term process. The Private Sector Development Committee (PSDC) plays an important role in this respect and its composition has been revised to achieve a better balance between private sector, regional and government representatives (a 70/30 split in favour of the private sector). Although the PSDC has become more effective, it is still in need of further development so as to ensure that it becomes a forum for regular, proactive, two-way public private dialogue between the whole of the CSMI sector and RGoB. The Box below illustrates the membership of the PSDC.

**Box 4.2: Membership of the PSDC**

Twenty-five members, of which:

- 11 from various RGoB ministries/GNHC/DHI (chaired by MoEA, which has 3 members)
- 7 from BCCI (including the 5 regional representatives)
- 1 from Bhutan Exporters Association
- 1 from IT Association of Bhutan
- 1 from Association of Bhutanese Tour Operators
- 1 from Construction Association of Bhutan
- 1 from Association of Bhutanese Industries
- 1 from President, Handicraft Association of Bhutan
- 1 from Hotel Association of Bhutan

The PSDC's powers and responsibilities could be further refined so as to ensure full implementation of the decisions; it could be better resourced (currently only Nu. 1 m. for staff, coordination, research, etc. which is considered by PSDC insufficient to perform its role fully); it could benefit from a neutral location/office (it is widely assumed that PSDC is part of BCCI, which takes half of all the private sector representation and all of the regional membership, and/or represents the private sector); and it must evolve from a "grass roots/ bottom-up" institution (highlighting issues of concern to CSMI) into a "two-way" forum for public private dialogue (which government would use routinely, for example, for consultation on new laws, regulations, incentives, policies, strategies, action plans, etc.). This does not mean that the CSMI development PPD should be exclusively restricted to cooperation with PSDC and/or BCCI. The above analysis follows from discussions with PSDC and BCCI, as well as international good practice with in relation to PPD. It reflects the fact that PPD is a process that evolves and takes time and effort by both the public and private sectors to be make it effective. This would enhance the public private dialogue system and ensure that it becomes even more effective over time. The resulting forum would allow for bottom-up, as well as top-down communication, consultation, information provision, problem solving and independence (in the sense of being representative of the CSMI sector as a whole) in relation to CSMI policy matters.

**Measures:**

- Reform the PSDC into a two-way, broad-based PPD forum
- Ensure that PSDC has an adequate annual budget
- Use the PSDC to the maximum extent for CSMI development purposes

### 4.6.6 Mobilisation of External Support

**Policy:** RGoB shall liaise closely with the Gross National Happiness Commission (GNHC) Secretariat to ensure proactive and effective mobilisation of donor funds to complement and supplement the state funds devoted to CSMI development.

**Analysis:** Effective donor coordination will be critical to the implementation of the CSMI Action Plan; competing pressures for limited resources mean that state funds are unlikely to fully meet the needs of the CSMI Action Plan. Therefore, it is critical to ensure that donor / IFI resources and activities are harmonized with the CSMI Development Strategy/Action Plan to the fullest extent possible. The resources mobilization exercises are coordinated directly by the GNH Commission and Ministry of Finance on behalf of the RGoB with the development partners. To ensure that resources are mobilised to implement key aspects of the CSMI Action Plan, the MoEA will prioritise the CSMI Policy. Furthermore, regular liaison (meetings) with GNH Commission and Ministry of Finance will ensure that additional funds are mobilised for implementation of the CSMI Policy/Strategy/Action Plan. Moreover, the 11th Five Year Plan (scheduled to start in 2013) is in the process of being prepared so MoEA will prioritise CSMI activities so as to strengthen the scope of resource mobilisation in partnership with the GNH Commission. The more proactive MoEA/DCSI is, the greater the volume of resources that are likely to be mobilised for CSMI development purposes. In this context, it is important for DCSI, jointly with GNHC, to organise regular resource mobilisation meetings/consultations, focused on the priorities of the CSMI Development Strategy. Since donors require clear project proposals, it will be necessary for DCSI to prepare well-structured project proposals, so as to successfully mobilise external support for CSMI development, jointly with GNHC.

**Measures:**

- Organise meetings of resource mobilization coordinators MoEA (PPD & DCSI) and GNHC
- Organise donor fund mobilization meetings to obtain funds to implement the CSMI Development Strategy
- Organise regular funding applications for CSMI development

The CSMI Action Plan converts the policy measures connected with this strategic objective into activities, deadlines, etc.

## 4.7 Legislative Framework and Enterprise Environment

| Strategy II: Strengthen the Legislative Framework and Enterprise Environment |
|---|
| Direction: The role of the RGoB is to develop a regulatory framework and enterprise environment for the development of the CSMI sector. This regulatory framework and enterprise environment must stimulate entrepreneurship, thus encouraging more start-ups, including a greater emphasis on potential new areas of growth, such as green/eco-friendly industries. At the same time, the regulatory framework and business environment must stimulate growth and profitability of existing CSMI by reducing unnecessary and unreasonable cost and other burdens on them (red tape). Finally, the regulatory framework and business environment must facilitate the "exit" of industries, ensuring that productive capacities are recycled efficiently. Below, we explore the main policy aims, the issues involved, as well as the measures to be implemented through the CSMI Development Strategy. |
| RGoB shall:<br>II.1: Prepare and implement an Enterprise Registration Act to ensure that all enterprises become legal entities to ensure symmetry in legal rights and privileges.<br>II.2: Streamline the process of registration and licensing (e.g. the Community Centre one-stop-shops, Enterprise Registration Act, on-line registration, etc.) to stimulate entrepreneurship.<br>II.3: Establish a consistent MoEA definition of CSMI and harmonize the definitions of other ministries to enable coherent data collection, policy development, and impact monitoring and evaluation.<br>II.4: Collect, analyse and disseminate Annual CSMI Reports, highlighting trends and issues in relation to the sector.<br>II.5: Assess and improve the insolvency and bankruptcy procedures to streamline process, time and cost, so as to ensure that assets of failing industries are re-deployed as quickly as possible.<br>II.6: Simplify the tax administration system thus reducing the burden on CSMI.<br>II.7: Raise the accounting standards of Small and Medium Industry (SMI) to align with internationally accepted norms.<br>II.8: Increase CSMI's access to public procurement opportunities by ensuring that public procurement favours products and services locally produced or provided and that have low ecological footprints.<br>II.9: Streamline relevant regulations, such as labour market regulations, that impact on CSMI development to ensure that procedures developed for large indsutries are not automatically applied to CSMI. |

### 4.7.1 Enterprise Registration Act

**Policy:** RGoB shall prepare and implement an Enterprise Registration Act to ensure that all enterprises become legal entities to ensure symmetry in legal rights and privileges.

**Analysis:** Although only two percent of enterprises are registered under the Companies Act, the other 98% are licensed by the MoEA but are not registered. This situation creates legal anomalies which hinder the potential development of this sector, such as the multiplicity of businesses with either the same or very similar names, which is almost entirely comprised of CSMI. Therefore, the MoEA will prepare and implement an Enterprise Registration Act (ERA) whose objective will be to i) register enterprises, thereby vesting them with legal status; ii) establish a One-Stop-Service (OSS) with respect to all matters of registration requiring clearances from various ministries and agencies within the government; iii) facilitate enterprises to enter their profile information in a business software application as provided under the OSS; and iv) regulate the establishment of the Enterprise Registry, including maintenance and public access to the background information in the Enterprise Register. The ERA and its implications for CSMI will need to be publicised through awareness raising activities.

**Measures:**

- Draft the Enterprise Registration Bill
- Awareness raising campaign to ensure enterprise compliance with the ERA

### 4.7.2 Registration and Licensing

**Policy:** RGoB shall streamline the process of registration and licensing (e.g. the Community Centre one-stop-shops, Enterprise Registration Act, on-line registration, etc.) to stimulate entrepreneurship.

**Analysis:** Corporate entities are registered under the Companies Act (189 or 2% of all enterprises, including some medium-sized enterprises (the exact number are not available); the rest (98%) are currently licensed by the MoEA and in future will be registered as per the Enterprise Registration Act. The process for registering and obtaining security and other clearances, such as environmental permits, is gradually improving. RGoB E-Governance initiatives such as the on-line application process for security clearance have expedited matters and are reducing the administrative burden. However, this is a process, not a one-off event; further streamlining is desirable for licensing and registration, consistent with international good practice (see RIA Report on Enterprise Registration in Bhutan (2012) and Scott Jacobs (2010) which seeks to minimise time and cost for entrepreneurs (see annual WB Doing Business reports, such as 2012). The focus of the streamlining will be connected to implementing the ERA (though this should also apply to the Companies Act process since some CSMI fall into this category); providing information, extending on-line activities, and generally reducing the number of procedures, time and cost involved.

A single MoEA institution responsible for both the Companies Act and the Enterprise Registration Act would result in efficiency gains. Thus the ERA is expected initiate a One-Stop-Shop system for enterprises, which would handle business formalization and other bureaucratic processes under one roof would increase efficiency and ease market entrance for start-up businesses. Three government levels are currently involved in the business formalization process: at the central level MoEA and Revenue and Customs Office (MoF); at the regional level RTIOs and the Regional Revenue and Customs Offices; and at the local (Dzongkha/municipal) level, authorities issue local clearances. Greater integration will be pursued over time.

In terms of deregistration, a cottage, retail and wholesale enterprise can be deregistered at the time of renewal of registration certificate or license on the basis of the enterprise not having a “clean record”, even though the term is not defined; it is up to the RTIOs to enforce this provision. Therefore, in the absence of such definition the provision may be inefficient and subject to abuse. In addition, the ERA (see preceding discussion) will lead to the removal of registered but inactive enterprises.

**Measures:**

- Company Registry Division to be responsible for Enterprise Registries
- Integrate Company and Enterprise Registry into one database/platform, incl. reporting
- Amend Companies Act, including international good practice on de/registration

#### 4.7.3 CSMI Definition

**Policy:** RGoB shall establish a consistent MoEA definition of CSMI and harmonize the definitions of other ministries to enable coherent data collection, policy development, and impact monitoring and evaluation.

**Analysis:** The RGoB has several definitions of CSMI (e.g. MoF, MoLHR, Construction Board, etc.) and the MoEA itself has two definitions focusing on investment and turnover respectively. International good practice illustrates this leads to inconsistent data, confusion for CSMI and distorted policy making and evaluation. International experience indicates that it is not uncommon to have a definition for economic purposes (by the Ministry of Economy or equivalent) and another for tax purposes (by the Ministry of Finance or equivalent), but that other line ministries and state bodies should not have their own definitions of CSMI. Thus MoEA is in the process of introducing a single CSMI definition; assess its effectiveness and refine. During the period up to 2020, it will ensure that there is a harmonized CSMI definition across RGoB. It should be noted this process can but does not necessarily have to result in a single definition.

**Measures:**
- Introduce and implement the a CSMI definition for MoEA
- Review the effectiveness of the definition
- Refine and finalize the CSMI definition
- Harmonize the CSMI definition across all the whole of the RGoB

#### 4.7.4 Annual CSMI Reports

**Policy:** RGoB shall collect, analyse and disseminate Annual CSMI Reports, highlighting trends and issues in relation to the sector.

**Analysis:** The preparation of the CSMI Development Strategy demonstrated the dearth of CSMI data, primarily caused by the multiplicity of definitions and databases. Policy-making is rendered "blind" without regular analyses of the state of the SME sector. The introduction of a CSMI definition which is compatible across RGoB, it would be possible to collect data systematically and consistently, and analyse the nature of the CSMI sector in the future (see on the definition of Micro, small and medium-sized enterprises, White Paper, 2010). However, in the meantime it would be possible to collect, analyse and publish information from MoF (Revenue and Customs), MoEA (companies and enterprise registries) and MoLHR (Labour Force Survey and Establishment Survey), in collaboration with the National Statistics Bureau of Bhutan (NSB). The process would need to institutionalised and the analysis would in due course evolve into time-series (trends), benchmarking (against competitors) and other types of analysis, thus delivering increasingly valuable policy-making and monitoring tools. An annual CSMI report will become an important tool in the armoury of the CSMI sector and its stakeholders, and will be disseminated freely and widely.

**Measures:**
- Introduce employment data during annual license renewal
- Build on the Establishment Survey (MoLHR), define and collect CSMI data
- Collect data (MoF, MoEA, MoLHR, NSB), analyse and disseminate Annual CSMI Report
- Improve CSMI data collection, indicators and analysis (time series, benchmarking)

### 4.7.5 Insolvency and Bankruptcy

**Policy:** RGoB shall assess and improve the insolvency and bankruptcy procedures to streamline process, time and cost, so as to ensure that assets of failing industries are re-deployed as quickly as possible.

**Analysis:** It is important to ensure that the assets of failed industries are re-deployed as quickly as possible (see WB Doing Business Report, 2012). However, businesses face numerous challenges in declaring bankruptcy and company closure arising from stringent bankruptcy and related legislation. As a result there are few reported cases where incorporated companies have been wound-up under the Bankruptcy proceedings. Jurisdiction for bankruptcy cases lies with the district court and the high court. In the absence of a specialized court or judges, both the creditors and debtors undergoing bankruptcy proceedings may have to wait for a long time to be heard as the courts hear cases in seriatim. There are no specific provisions with regard to automatic de-registration of licenses by the RTIOs in cases of Bankruptcy under the Bankruptcy Act nor the Rules and Regulations for Establishment and Operation of Industrial and Commercial Ventures. Further, the Bankruptcy Act does not contain provisions with regard to sale of a distressed entity as an on-going concern. The necessity for reform is reinforced by commercial banks, which argue that the re-deployment of assets of a failing individual/enterprise/company is critical yet costly for banks. However, given the weak legal provisions, many assets are let-go by the business, which in turn compel Financial Institutions such as banks to tighten their lending norms. While it is important to review the current procedures and consider reform, from the perspective of CSMI, this is not likely to involve a large number of industries. Moreover, neither RMA nor MoF nor MoEA is aware of which institution is actually responsible for the Bankruptcy Act. Therefore, the focus will be on reviewing the relevant sections of the Companies Act (e.g. provisions for Winding up By Court and Defunct Company) so as to streamline the process, followed by an eventual focus on the Bankruptcy Act, through a study to assess the experiences of industries and companies with the Bankruptcy Act, and whether there is a case for reform.

**Measures:**

- Review Companies Act to ensure that bankruptcy and insolvency are streamlined
- Study on companies'/industries' experiences with bankruptcy/Bankruptcy Act
- (Depending on the outcome) Amend the Bankruptcy Act and other related legislation
- Awareness raising of the pros and cons of bankruptcy

### 4.7.6 Tax Administration

**Policy:** RGoB shall simplify the tax administration system thus reducing the burden on CSMI.

**Analysis:** Evidence from surveys illustrate that the tax administration system is one of the key barriers to CSMI development (e.g. the burden of books of accounts and associated records, tax payments at stipulated tax offices (Enterprise Survey, 2010; Bhutan Investment Climate Assessment Report, 2010; Enterprise Survey, 2011). Part of the reason is that CSMI are not perceived to be materially different from large industries and are consequently subject to the same rules and regulations, despite being mainly small and family run. For example, there are many time consuming tasks. Section 47 (Tax Registration) of the Income Tax Act mandates that all companies should register with the Regional Revenue and Customs Offices (RRCOs) under whose jurisdiction the company is located within three months of establishment. The RRCOs cover a wide geographic area and registration and filing of taxes may require significant travel and costs. There is currently no opportunity to undertake on-line registration of tax, though plans are underway to change this (while recognising that cottage industries may not benefit as much from this development as small and large ones). Further, Rule No. 1, Part I, Corporate Income Tax of Rules on the Income Tax Act of Bhutan (2001) states that "on satisfaction and in the public interest, the Ministry may grant exemption and tax holidays to certain companies", however, the term "certain companies" is vague and the rule has yet to be used for CSMI, in part because of the lack of targeting of policy initiatives. As a general principle, the tax administration burdens can be simplified for CSMI through recognition of their specials status (family-oriented, limited accounting and finance capacity, small scale operation). In short, there is a need for proportionality compared with large industries (see also Section 4.7.9), there is a need for the Ministry of Finance to engage in a dialogue with the CSMI sector to ensure that proposals for change take 98% of industries' needs into consideration and the introduction of E-Government on-line procedures to reduce the burdens of tax administration on CSMI.

RGoB may consider raising existing customs duties on imports of products which hinder growth of domestic manufacturing by CSMI under the infant industry argument. In the case of imports from India this would have to be done within the framework of the trade agreements between the two countries since there are provisions which would allow this.

**Measures:**

- Implement on-line tax reporting and payment for Customs, Revenue and Sales Tax
- Establish consultation forum for tax reforms affecting CSMI

### 4.7.7 Accounting Standards for SMEs

**Policy:** RGoB shall raise the accounting standards of SMEs to align with internationally accepted norms.

**Analysis:** By their very nature, accounting systems must be as simple as possible as far as Cottage industries are concerned; these are typically family-run business and have limited turnover, skills and resources. However, it is important to raise accounting standards of small and medium sized industries (SMIs) over time since they can impact positively on a variety of issues such as: investment, merger and acquisition, international cooperation, export orientation, access to finance, etc. The Accounting and Auditing Standards Board of Bhutan (AASB) was created expressly to further the development and implementation of accounting standards. In 2011, it prepared the Bhutanese Accounting Standards for companies and SMEs, in line with the International Accounting Standards / International Financial Reporting Standards (IAS/IFRS). These can offer advantages to SMEs: about 100 countries such as India are converging on these; they lead to comparability in financial information for investors, which is important for cross border investment; they can lower cost of capital, etc. The Bhutanese Accounting Standards (BAS) will lead to phased implementation targeting companies, as well as SMEs (BAS for SMEs) during 2013-2021, when it is anticipated that Bhutan will be fully IFRS compliant (AASB, 2012). BAS for SMEs are a simplified version of full IFRS (73 countries are implementing them). AASB will begin implementation during 2014-2021, initially targeting 147 SMEs and 32 large companies.

**Measures:**

- Raise awareness of importance of accounting and audit standards for SMEs
- Select SMEs to participate with AASB activities, based on MoEA's definition
- Capacity building for SMEs in the first phase until 2014, on a cost sharing basis
- Select and support targeted SMEs to introduce BAS for SMEs until 2021

#### 4.7.8 Public Procurement

**Policy:** RGoB shall increase CSMI's' access to public procurement opportunities by ensuring that public procurement favours products and services locally produced or provided and that have low ecological footprints.

**Analysis:** Public procurement is an important opportunity for CSMI; about 10% of GDP is awarded annually in this way (MoF, 2012, discussions). There are many barriers which discourage SMEs from responding to tenders or even lead them to avoid such opportunities altogether. These include: i) difficulties in obtaining information; ii) lack of knowledge about tender procedures; iii) the large size of the contracts; iv) too short time span to prepare the proposal; v) cost of preparing the proposal, SMIs face disproportionately high costs in comparison with larger industries); vi) high administrative burdens; vi) unclear words and technical vocabulary used; vii) high qualification levels and required certification; vii) financial guarantees required; viii) discrimination against foreign renderers; viii) finding collaboration partners abroad, etc.

Despite recent improvements, analysis of the public procurement system suggests more could be done to stimulate CSMI' access to opportunities. For example: i) rules and Regulations requiring 2% Earnest Money Deposit may disadvantage CSMI; ii) the low level of literacy among CSMI means that because all procurement documents are in English, opportunities may be restricted; iii) in works estimated to cost up to Nu. 1 million, no amount shall be payable to the contractor until the whole work has been completed but since CSMI generally run on less capital, the inability to obtain advances may impair their ability of undertake such work; iv) interest free advances of 10% of the Contract price must be secured against bank guarantees, but CSMI may lack of qualifying finance and credit history, etc. Other burdens to CSMI include the establishment of Lists of Registered Consultants; the 5% margin of preference to national bidders in case of works and goods of Bhutanese origin but this appears to be on the low side and is also discretionary (procuring agency) so business cannot claim this as a right, etc.

**Measures:**

- Establish a Central Procurement Website and require all procurement agencies to use it
- Replace the 2% Earnest Money Deposit with Bid Securing Declaration
- Prepare Standard Bidding Document for Engineering, Procurement and Construction
- Translate into Dzongkha and make freely available Small Value Procurement documentation; as well as all other important procurement documentation
- Amend the requirements that in work contracts costing up to Nu. 1 million, no amount shall be payable to the contractor until the whole work has been completed
- Revise the rule for interest free Mobilization Advance of 10% of the Contract Price secured against bank guarantees for Small Value Procurement
- Abolish the requirement for establishment of Lists of Registered Consultants
- Raise the 5% margin of preference for national bidders (works and goods); and ensure that implementation of the preferential treatment is not discretionary
- Ensure that the recommendation that bid and performance security for consultancy services be avoided is enforced by procurement agencies
- Develop guidelines for CSMI bidders on drawing-up public procurement proposals
- Develop guidelines for Awarding Authorities concerning smaller size contracts (i.e. dividing more tenders into lots)
- Maximise the use of e-procurement for the benefit of all, especially CSMI

### 4.7.9 Proportionality for CSMI

**Policy:** RGoB shall streamline relevant regulations, such as labour market regulations, that impact on CSMI development to ensure that procedures developed for large industries are not automatically applied to CSMI.

**Analysis:** A notable burden is that regulations designed for large industries are automatically applied to CSMI without due consideration to the implementation capacities and costs for smaller industries, such as their ability to comply with complex regulations. CSMI, in particular the small and cottage activities, still exist primarily as family run business so it is effectively impossible for them to follow and implement the provisions of many Acts of Parliament. A way of circumventing this problem is the introduction of a "small business test", as part of the RIA process (i.e. revising the existing broad question into a more specific one, such as: "Is the policy proposal likely to have an impact on small businesses?" and "If so, undertake an impact test "sounding" with CSMI and their representatives to test assumption.", would be essential in ensuring proportionality of legislation and regulations, as far as CSMI are concerned: they are after all, one of the key engines for generating income, wealth and well-being, including happiness.

An important area where this could help is labour market legislation and regulations, though the focus would change over time, e.g. tax administration, import/export, etc. (see Box below). According to the Enterprise Survey 2011, one third of employees are hired by cottage and small industries. Moreover, the vast majority of industries are cottage in nature, employing 1-4 staff. As a general rule, the cottage and small industries are characterised by poor remuneration, no provision for leave, are mainly family owned, poorly educated (primary school level) or not educated at all, etc. Yet the labour market legislation and regulations appear to be geared towards medium and large industries, rather than 98% of all Bhutanese firms. By way of illustration, the Employment Act displays a number of characteristics connected with this issue, such as the fact that: i) working hours are set at 8 hours per day, restricts overtime to two hours per day, overtime night shifts to one per week, regulates rest hours, etc. but for CSMI to be productive and profitable, they often have to be operational beyond the regular hours of work. Such labour provisions represent a significant burden and restriction on the operation of CSMI. The report "Analysis of the Current Legal and Regulatory Environment for CSMI Development (2010) highlights a number of other areas for possible reform (administration, registration, etc.) from a CSMI perspective. The Box below illustrates some other areas of CSMI concern.

**Box 4.5: Issues of Concern to CSMI**

Based on detailed analysis, a number of issues of concern to CSMI may be highlighted in relation to: i) labour market issue. ii) import/export, iii) tax, and other areas.

**Labour Market:**

- Working hours: the Rules on Working Hours, standardises working hours as 8 hours per day and 48 hours per week. Overtime is restricted to two hours per day and overtime night shifts to one per week. Rest hours are also regulated. But for CSMI to be productive and profitable, they often have to be operational beyond the regular hours of work. Such labour provisions represent a significant burden and restriction on the operation of CSMI.
- Financial implications: the Labour and Employment Act and subsequent rules and regulation seek to establish standard working conditions, but mean that CSMI face significant financial implications in relation to provident fund not applicable to CSMI with fewer than 12 employees), gratuity, insurance, etc. These requirements add financial burdens (in terms of time and resources) to CSMI, which usually do not have the capacity to comply.
- Termination: the Labour and Employment Act make it difficult for enterprises to terminate the services of a non-performing employee. In the event of redundancy of an employee's services and skills the contract termination procedure is inflexible and time consuming. For instance, the employer has to consult the worker's association or the employees of the workplace and due notice according must be given. An additional notice of seven days for every year of continuous employment by the employee up to a maximum of 42 days has to be provided by the employer.
- Inspection: the Labour Inspection Regulation (2009) empowers labour inspectors to undertake various inspections: routine visits, follow-up visit and special visits. The rule foresees many inspections which consume valuable time of both entrepreneurs and inspectors. The inspections should be minimal for CSMI and only when required.
- Penalties: a key burden on CSMI is the numerous and stringent penalties (heavy fines and imprisonment terms) arising from every requirement of labour market regulations. Such mechanism may overburden or stifle growth, especially of CSMI.

**Import / Export:**

- Import licenses: validity in case of goods of a capital nature, such as plant, machinery and raw materials is normally a year, and for other goods it is three months. The validity may not be extended more than once. There appears to be limited rationale for such tight time restrictions.
- A manufacturing unit is allowed to import plant, machinery and capital equipment but such import must result in clear advantages in terms of price or technology. However, the rule does not provide as to how this "clear advantage" must be drawn or who is competent to decide.
- Import of raw materials: the prerequisite that the final product must have a value addition of a minimum of 40% may require relaxation in case of CSMI or may require revision altogether. There is also no mechanism as to how to assess that the 40% value addition has been achieved.
- Remittances: must be made directly to the supplier and payments may not be released in cash or traveller's cheques to the importer. It is implicit that each import payment has to be made through a bank directly to the supplier. This is inconsistent with the Foreign Exchange Regulation 1997 which states that payments and remittances by residents to non-residents can be made either in cash or using traveller's cheques. Other forms of payment must be channelled through authorised banks. This creates an unnecessary restriction on CSMI.
- Imported goods have to be cleared through customs within seven days of issuance by the customs authorities of intimation of the arrival of the goods. However, this is inconsistent with the Sales Tax, Customs and Excise Act of Bhutan, which states that imported goods have to be cleared within 90 days from the date of arrival. It also creates an unnecessarily short time for CSMI.
- The Sale Tax, Customs and Excise Act states that only licensed and registered clearing agents are permitted to act as the agent for both importers and exporters. The licensing of such registered clearing agents and the conditions of their operation are determined by the Ministry of Finance.
- The ban on import of second hand and reconditioned vehicles and equipment reflects RGoB efforts to avoid the problem of becoming a dumping ground for obsolete, polluting, etc. machines and equipment. However, this imposes significant constraints on CSMI, which may not be able to afford to purchase new machinery.

**Other areas:**

- Land use.
- Contract and dispute resolution.
- Technical standards, etc.

Source: Analysis of the Current Legal and Regulatory Environment for MSME Development, 2010.

**Measures:**

- ❖ Establish a process of engagement with CSMI to ensure proportionality of regulations:
  - Phase I: Labour Regulations (see Box above)
  - Phase II: Import/export (see Box above)
  - Phase III: to be determined in consultation with CSMI sector (see Box above)

The CSMI Action Plan converts the policy measures connected with this strategic objective into activities, deadlines, etc.

### 4.8 Access to Finance

| **Strategy III: Facilitate Access to Finance and Incentives** |
|---|
| Direction: According to the quantitative and qualitative analyses available (e.g. MoEA survey), access to finance is considered to be a key priority by enterprises generally and CSMI specifically. Recent surveys of CSMI (2009, 2010 and 2011) systematically find that a large proportion of CSMI claim that limited access to finance was a constraint on their development. In this sense, the country is no different from any other economy in the world. Whilst acknowledging the high interest rate and demanding collateral policy of the commercial banks, the RGoB recognises that the market must determine the cost of finance. The policy of the RGoB is to facilitate access to finance through the development of a range of financial tools and intermediaries, making good use of Bhutanese examples where these exist, as well as international good practice, customised to the local specificities. By improving access and outreach to finance, the cost of finance will also be reduced over time. Below, we explore the main policy aims, the issues involved as well as the measures to be implemented. |
| RGoB shall:<br>III.1: Improve access to commercial bank finance for CSMI through awareness raising and capacity building on alternative credit appraisal methodologies, thus introducing advanced lending practices and innovative financial products.<br>III.2: Expand the existing Credit Guarantee Scheme (CGS) to overcome the disincentive of commercial banks to lend to existing CSMI lacking collateral.<br>III.3: Implement effective Micro Finance Institutions (MFI), consistent with the RGoB's Financial Inclusion Policy, especially with a focus on economic development, gender equality and poverty reduction in the rural areas.<br>III.4: Stimulate the development of financial leasing and factoring for CSMI by commercial banks and specialist leasing companies.<br>III.5: Ensure that the recently established Credit Information Bureau (CIB) contributes to the effective reduction of the collateral requirements and interest rates for CSMI via effective reduction in asymmetry of information.<br>III.6: Increase CSM'Is' access to equity finance (venture capital), thus contributing to bridging the financing gaps of growing CSMI.<br>III.7: Stimulate the development of Business' Networks comprising high net worth individuals willing to invest in and develop CSMI (internationally referred to as Business Angels Networks).<br>III.8: Maximise the potential offered by Public Private Partnerships (PPP) to address financial constraints confronting CSMI through pilot initiatives.<br>III.9: Provide incentives for the development of the CSMI sector in line with the EDP (2010). Priority would be given to sustainable, green and service industries.<br>III.10: Facilitate access to raw materials for targeted CSMI activities / sub-sectors.<br>III.11: Encourage the use of domestic component requirement for targeted CSMI activities / sub-sectors.<br>III.12: Develop further non-fiscal incentives, where these add value to the development of the CSMI sector, through further studies and pilot initiatives. |

#### 4.8.1 Commercial Bank Finance

**Policy:** RGoB shall improve access to commercial bank finance for CSMI through awareness raising and capacity building on alternative credit appraisal methodologies, thus introducing advanced lending practices and innovative financial products.

**Analysis:** Survey evidence (MoEA Enterprise Surveys, 2010 and 2011; WB Doing Business, various; Bhutan Investment Climate Assessment Report 2010, etc.) points to the conclusion that CSMI's' access to credit from commercial banks is both constrained and perceived to be significant barrier to development and growth. The three greatest constraints on greater bank lending to CSMI are: i) banks' emphasis on collateral as lending security, and borrowers' inability to provide such assets; ii) inadequate financial accounts held by many CSMI; and iii) the limited branch network of most banks and Non Bank Financial Institutions (NBFIs) in rural areas. The Enterprise Survey 2011, with a sample of 512 CSMI, shows that 70% have never applied for the bank loan from a formal institution. The general perception was that bank loans and overdraft facilities were largely inaccessible to them, since most are unable to furnish the necessary security for a loan. Interestingly, the large majority of the CSMI that had applied for bank loans were able to obtain them; out of the 155 respondents (30% of industries) that applied for a loan, only 13 CSMI (8%) were rejected by the financial institutions, representing a 92% loan acceptance ratio. While this appears to be encouraging, it may be indicative of a self-selecting bias where only those industries that have the necessary collateral and are bankable apply in the first instance. The likelihood of accessing bank loans is positively correlated with size of enterprise. The large firms have by far the highest likelihood of accessing bank loans and the average size of loans is similarly correlated. Overall, 92% of the firms surveyed responded that they had provided collateral in order to obtain their loans or lines of credit. The high collateral requirements apply to all borrowers, regardless of sector, region and enterprise size. The margin of collateralization is negatively correlated with firm size (229% for cottage firms, 211% for small firms and 158% for medium firms). The consequence of the preceding discussion is that 30% of CSMI had to make use of informal sources of finance, especially family or relatives (50%), friends or associates (18%) and informal money lenders (20%) (Enterprise Survey 2011).

From the perspective of commercial banks, the absence of financial statements, of national accounting standards, and borrower credit histories, makes it difficult for them to carry out proper loan appraisal of borrower creditworthiness, so more collateral is required from them. Overall, only half of surveyed firms in the Bhutan Investment Climate Assessment (2010) prepared certified financial statements with a moderate degree of variation across sectors and firm size. The smaller the firm is, the less likely it prepares financial statements.

The Loan Act also appears to restrict access to loans and use of collateral in a variety of ways: i) no person shall mortgage any property owned by others, however, persons should be allowed to mortgage property of others provided the property owner gives written permission; ii) no person can mortgage an inherited house or land but if all those who have a legal interest in the property agree in writing to the mortgage then it should be permitted; iii) notwithstanding any agreement between the lender and borrower, the loan amount is deemed to have been fully recovered after a period of ten years and the mortgage is automatically rescinded whether the loan has been repaid or not, but this discourages long-term finance; and iv) the maximum interest rate chargeable for any kind of loan is 15%. Not allowing the market to define interest rates discourages lending to CSMI where a higher degree of perceived risk usually merits a higher rate of interest. This also contradicts Section 17(1) of the Moveable and Immoveable Property Act, 1999 which states that no lender, other than a registered financial institution, may charge interest greater than 15% per annum. Furthermore, the RMA confirms that the provisions of this law have been superseded by the Financial Services Act. The attempt to protect the borrower may overly restrict access to finance: the critical problem for most CSMI is access to finance and not necessarily the actual cost of such finance. Typically, commercial banks either do not lend to CSMI or lend at high interest rates and require significant collateral because they consider CSMI to be high risk but low profit. Banks neither have a CSMI lending policy nor special products; they lack CSMI operations and their analysis and reporting do not have a CSMI dimension.

Discussions with banks indicate a willingness to experiment with alternatives to collateral-based lending, such as credit scored lending and there is a degree of willingness to participate in pilot initiatives leading to more effective methodologies, as a basis for expanding the client base and eventual profitability. International good practice suggests that access to finance can be facilitated through awareness raising and capacity building leading to the introduction of improved information and alternative credit appraisal methodologies (relationship lending, cash flow based lending vs. collateral based lending, financial statement based lending (creditworthiness, asset issues, profitability, enterprise growth, sustainability), credit-scored lending, cyclical lending (to stimulate lending to the agricultural sector), etc.) designed to introduce new lending practices and innovative financial products, including streamlining loan application procedures.

However, given the current global financial and economic crises, it is not enough to rely entirely on measures which will increase lending to CSMI. Therefore, efforts will be made to mobilise credit lines from IFIs for on-lending to CSMI and the RGoB will also work towards establishing a facility for provision of CSMI finance (loans) on a commercial basis, targeting sectors with growth potential, as per the Competitiveness Report (2012).

**Measures:**
- Repeal Loan Act in relation to regulatory constraints to lending and interest rate caps
- Deliver capacity building programmes focusing on alternative lending methodologies
- Implement pilot initiatives to test alternative lending methodologies jointly with IFIs
- Implement a CSMI credit line, focusing on commercial banks
- Implement a CSMI Finance facility targeting competitive sectors with potential for growth

### 4.8.2 Credit Guarantee Scheme

**Policy:** RGoB shall expand the existing Credit Guarantee Scheme (CGS) to overcome the disincentive of commercial banks to lend to existing CSMI lacking collateral.

**Analysis:** The Entrepreneurship Development Programme (EDP) has existed since 1990 and targets young unemployed, involves training of 30/40 days followed by the preparation of a business plan and application and selection for funding by the five participating banks. The MoLHR allows the trainees up to two years' time to decide whether or not to apply for the loans. The CGS element of the EDP was introduced in 2004 as a loss sharing scheme. This element is collateral free and involves a loss sharing facility with Ministry of Finance bearing 60% and the commercial banks the balance of the losses. The interest applied to the scheme is 10% on term loans and 12% on working capital. Two variants exist: the Basic

Entrepreneurship Course (full loan, initial maximum of Nu. 500,000, repayment after 5 years and provision for another tranche on the same basis as the first) and the Comprehensive Entrepreneurship Course (trainees provide 15% cash or assets, up to Nu. 1 m, repayment after 10 years).

However, start-ups are not a target group for commercial banks and the background of the applicants (young unemployed) is not a sound basis for the development of a commercially viable CGS. As the size of the CGS loan increases, so has the default rate; this renders the initiative a loss-making scheme for the state and for the banks involved. Thus the EDP's loss sharing scheme should not be confused with commercial CGSs. Such CGSs target existing, viable industries and are designed to overcome a key disincentive to lending to CSMI, namely the high administrative cost in relation to loan size limits profitability for banks and lack of collateral restricts lending to perfectly viable applicant CSMI. The Enterprise Survey 2011 demonstrates that: only 30% of CSMI are currently able to access bank finance, that the situation is much worse for cottage firms (10%), meaning that their main current source of finance is personal savings and resources from family and friends. For working and expansion capital, only 1% of CSMI are able to access finance from commercial banks. As previously mentioned there is currently a high collateral requirement for all borrowers, which is negatively correlated with firm size (229% for cottage, 211% for small and 158% for medium firms). On the other hand, 30% of CSMI already make use of informal sources of finance. A key challenge is, therefore, how to increase access to finance for perfectly viable industries which lack collateral and/or a bankable financial track-record. CGSs designed to international good practice standards basically compensate the lenders for a share of the risk, should the borrowers default. By enabling access to finance, they can play a key role in stimulating the development of CSMI.

It should be noted that CGSs are no panacea and entail a number of risks. The main precondition is that the CGS must have a good risk assessment process, if it is to be sustainable. If its risk assessment is inadequate, clients (i.e. lending institutions) will not see the utility of using its service for a fee, and/or these fees will not be sufficient to cover calls made on the guarantees, rendering the CGS rapidly insolvent. The main risk is that banks will aggressively lend to CSMI, in the knowledge that repayment is partially guaranteed, and therefore will not conduct adequate credit appraisal processes of their own. It should also be noted that the fixed costs of operating a CGS agency can be substantial and yet the utilization of credit guarantees by banks is sometimes lower than expected, resulting in little 'additionality'. Indeed, some research suggests that CGSs are fundamentally unsustainable for developing countries, as the administrative and operating costs are too high, relative to the amount of new credit generated (CGS white paper, 2010). Nevertheless, there is plenty of international experience demonstrating that, if based on good practice (see Box below), CGS can play an important role in relation to improving access to finance and generating new bankable clients for the commercial banks. Therefore, on balance, it is proposed that a CGS targeted at established SMEs be developed, with a limited focus on start-ups.

**Box 4.6: Good Practice in CGS**

There is a scope for creating a CGS in Bhutan. However, this would need to be on a commercial basis, targeting existing, viable, profitable CSMI whose development is constrained by the inability to meet the current collateral requirements of the commercial banks for investment purposes.

Despite their popularity in regions such as Asia, a CGS must be designed and operated according to good practice lines such as:

i) Being managed by a legally autonomous agency;
ii) Funding from both government and private sector sources;
iii) Experienced management and staff;
iv) Operating on a profit-oriented basis;
v) Selective approach to coverage and focus on specific target groups;
vi) Suitable distribution of risk across lenders, borrowers and the guarantee agency;
vii) Provision of training and other support to borrowers (i.e. CSMI) and lenders (i.e. participating banks);
viii) Appropriate fee structure;
ix) Vigorous loss recovery;
x) Partial reinsurance through a counter-guarantor;
xi) Development of trust and credibility with borrowers and lenders;
xii) Building up reserves for sustainability;
xiii) Limited government interference; and
xiv) Robust regulation and supervision on capital adequacy, risk management, accounting standards, etc.
(White Paper, 2010; OECD (undated); UNIDO, 2003: World Bank, 2008).

The White Paper on CGS is a general overview, rather than a feasibility study. In order to determine the detailed nature and structure of the CGS, including CSMI products and terms and conditions, further information and research is necessary.

**Measures:**

- Implement commercial CGS targeting existing/start-up CSMI using good practice
- Review operation of CGS on annual basis to strengthen effectiveness.

### <u>4.8.3 Micro Finance Institutions</u>

**Policy:** RGoB shall implement effective Micro Finance Institutions (MFIs), consistent with the RGoB's Financial Inclusion Policy, especially with a focus on economic development and poverty reduction in the rural areas.

**Analysis:** A number of micro-finance initiatives have been pursued, emanating from: i) financial institutions, principally Bhutan Development Bank Limited (BDBL); ii) government agencies such as the Ministry of Agriculture and Forests; and iii) Non Governmental Organisations (NGOs), such as National Women's Association of Bhutan, NGOs and donor agencies such as the United Nations. Micro-finance activities have been pursued over the last two decades, but such initiatives remain small and there are no professional for-profit MFIs in operation. Past experience of microfinance supported by the BDBL and some donor agencies, revealed a high level of non-performance. As previously discussed, the Loan Act caps the maximum interest rate chargeable for any kind of loan at 15% (and 10% in rural areas), which represents a potential constraint on development of for-profit, sustainable MFI operations. Nevertheless, good practice and experience from neighbouring countries can be utilised to develop professional and sustainable MFIs capable of offering demand-driven financial products to the CSMI sector.

Such a development is consistent with the draft Financial Inclusion Policy of Bhutan (draft FIP, 2012). The draft FIP, being prepared by RMA, is designed to ensure that those in rural areas gain access to a broader range of financial services. The draft FIP focuses on three levels:

macro (e.g. create a legal framework for deposit taking); meso (e.g. improve coordination and representation capacity of the micro-finance sector, improve information about clients and potential clients); and Micro (e.g. develop financial products and services, attract new players, improve financial literacy, etc.).

**Measures:**

- Implement relevant aspects of the FIP (e.g. deposit taking, MFI association, information about clients/potential clients. etc.)
- Undertake a feasibility study to assess viability of for-profit MFI to develop new MFI players
- (Depending on the outcome) Develop for-profit MFIs using IFIs / specialist MFI institutions (e.g. ProCredit, MicroCred, etc.) in partnership with local financial institutions

### 4.8.4 Leasing and Factoring

**Policy:** RGoB shall stimulate the development of financial leasing and factoring for CSMI by commercial banks and specialist leasing and/or factoring companies.

**Issues:** Leasing can fill the financing gap for CSMI in need of new equipment (e.g. industrial and agricultural plant), but which cannot or do not want to obtain loans. The tenor of leasing contracts (around five years) is longer than for most bank loans, while the potential for misuse of the 'loan' is also reduced because the lessee takes receipt of the asset directly from the leasing firms. For policy-makers, the regulatory and reporting requirements on leasing companies are less stringent than for commercial banks, since leasing companies normally do not take deposits (both commercial banks and non-banking institutions can be involved). Since the leasing companies retain legal ownership of leased assets, they are able to overcome some of the obstacles of bank lending. By contrast, factoring involves selling a company's accounts receivable, at a discount, to a factor which then assumes the credit risk of the account debtors and receives cash as the debtors settle their accounts. Factoring has the potential to increasing access to working capital / liquidity to CSMI, especially to export-oriented medium-sized industries , if entrepreneurs' awareness and use of this financial tool is maximised and factoring rules and regulations are defined in the relevant regulations and acts (both commercial banks and non-banking institutions can be involved).

On the demand side, just 21% of CSMI surveyed claimed to be familiar with leasing as a source of financing, of which close to a quarter had an interest in accessing leasing finance. An even smaller proportion (less than 6% of CSMI surveyed) knew about factoring, slightly more than half of which expressed an interest in factoring services (Enterprise Survey, 2010). Financial leasing activity is virtually non-existent at present, even though the Financial Services Act of Bhutan (2011) does permit financial institutions to provide this service. However, while Article 24 lists the activities that financial institutions licensed as banks may engage in, financial leasing is not specifically cited. At the moment, however, there appears to be a lacuna in the current legal and regulatory regime which may be constraining the introduction of leasing products and services. There are no specialist leasing companies operating, and the existing commercial banks and NBFIs do not currently provide leasing products to their clients. As a consequence, CSMI must effectively rely on bank loans (i.e. debt) as the only source of formal financing, and for those CSMI unable to provide sufficient collateral to serve as security on a loan, this effectively prevents them from accessing formal sources of finance. However, the RMA may make regulations in relation to a number of financial services, including financial leasing.

Under the Financial Services Act financial institutions may engage in factoring (receivables financing). However, commercial banks and NBFIs in Bhutan have yet to provide this service. As with financial leasing, the constraint appears to be the lack of any specific regulations on factoring and this gap in the regulatory regime is holding back the pursuit of a potentially useful source of financing for CSMI. RGoB could issue a specific regulation that provides banks and Non Bank Financial Institutions (NBFIs) greater clarity and legal certainty on the provision of financial leasing products and a separate provision for factoring to CSMI clients, so as to catalyse and support the development of this CSMI-friendly financial service. This would provide an improved regulatory platform for commercial banks and NBFIs to introduce leasing and factoring products that will be of particular benefit to CSMI, and especially those CSMI that have insufficient assets to provide as loan collateral. Such a regulation will be in conformity with the Loan Act and the Financial Services Act. Other concerns also appear to be of importance: i) lack of clear legal basis, in particular the lack of a Contract Law (is the responsibility of the MoEA and has been in draft since 2003); ii) the enforcement capacity through the courts (which, according to banks may take 1 – 3 years to resolve); and iii) the lack of a small claims court or similar (allowed under Art. 21 of the Constitution, 2008) which would specialise and accelerate court cases.

**Measures:**

- RMA to issue regulations on permitted financial leasing activities by banks and NBFIs
- RMA to issue regulations on the provision of factoring services by banks and NBFIs
- Pilot test agricultural and industrial leasing activities for CSMI, building on Construction Development Board experience
- Promote pilot initiatives to stimulate factoring for CSMI
- Promote awareness of leasing and factoring as potential alternatives to loan financing
- Create a Central Registry of Assets
- Create a Contract Law

### 4.8.5 Credit Information Bureau

**Policy:** RGoB shall ensure that the recently established Credit Information Bureau (CIB) contributes to the effective reduction of the collateral requirements and interest rates for CSMI via effective reduction in asymmetry of information.

**Analysis:** Rather than conducting a credit appraisal on a CSMI in the same way as a bank would appraise a far larger firm, credit scoring entails the use of an analytical model to more efficiently and effectively undertake appraisals of loan applicants. International experience indicates that credit scoring can be an important driver of bank lending to the CSMI sector. Advances in information technology and software development have boosted the use of credit scoring as an important part of the banking and finance infrastructure in some countries. Credit scoring helps banks to reduce the time and transaction cost of one-on-one interaction with borrowers, thereby reducing the price of small business loans, and increasing credit availability for CSMI. Credit Bureaux, therefore, reduce asymmetry of information when processing loan applications, thus contributing to the reduction of the collateral requirements and interest rates.

All commercial banks are participating in the recently established CIB through an annual fee, supplemented with a fee of Nu. 500 for each credit check performed. While this can be seen as being a nominal fee for large loans, this can be a high fee as far as CSMI are concerned, especially cottage and small businesses, and early indications are that this may act to further constrain access to finance. This could be overcome, for example, by a sliding fee, depending on the size of loan being requested. The CIB contains information on individuals and companies; credit checks are fast and efficient; and both negative and positive information is available. CIB has already expedited loan processing; however, there is a need to assess whether credit information is working effectively for CSMI. For example, there is no historical information (e.g. default history) and MFIs and other Non-Bank Financial Institutions could be added to the CIB.

**Measures:**

- Improve effectiveness of CIB for CSMI (e.g. sliding fees based on size of loan request)
- Add historical information (e.g. default history) and other relevant data
- Add MFIs and other Non-Bank Financial Service Providers to CIB

#### 4.8.6 Equity and Mezzanine Finance

**Policy:** RGoB shall increase CSMI's' access to equity finance (venture capital, mezzanine finance, etc.), thus contributing to bridging the financing gaps of growing CSMI.

**Analysis:** When asked "Would you be interested in allowing an outside investor to invest in your firm if they provided you with appropriate capital?" 34% of CSMI would indeed be willing to accept such finance (Enterprise Survey, 2010), which normally refers to other finance than loans. Currently, no formal / professional source of equity finance is available for CSMI. Typically in developing countries, the first equity financiers of this kind, with the experience and professional skills necessary, are foreign-owned and/or have some degree of start-up assistance provided by an International Finance Institution (IFI). Much would depend on the regulatory and legal regime being flexible enough to allow foreign investors to acquire (and just as importantly, subsequently sell) equity positions in local industries. Typically, venture capital investors do not want permanent ownership of an enterprise, but rather seek to "exit" it in the medium term by selling the shares acquired; a return on investment of approx. one-third per year is expected. Mezzanine financing is potentially advantageous to CSMI because it is treated like equity on a company's balance sheet and may make it easier to obtain standard bank financing. To attract mezzanine financing, a company must demonstrate a track record in industry with an established reputation and product, a history of profitability and a viable expansion plan for the business (e.g. expansions, acquisitions, Initial Public Offering, etc.). Since mezzanine financing is usually provided to the borrower quickly and with little due diligence on the part of the lender and little or no collateral on the part of the borrower, the lender usually seeks a high return (20-30%).

**Box 4.7: Definition: Equity and Mezzanine Finance**

- Equity Finance: The act of raising money for company activities by selling common or preferred stock to individual or institutional investors. In return for the money paid, shareholders receive ownership interests in the corporation. Also known as "share capital".
- Mezzanine Finance: A hybrid of debt and equity financing that is typically used to finance the expansion of existing companies. Mezzanine financing is basically debt capital that gives the lender the rights to convert to an ownership or equity interest in the company if the loan is not paid back in time and in full. It is generally subordinated to debt provided by senior lenders such as banks and venture capital companies.

Source: www.investopedia.com

IFC is in the early stage of establishing an IFC SME Ventures Fund, involving venture and mezzanine capital, with a likely upper investment limit of $500,000 per company. IFC is committed to establishing the SME Ventures Fund in the next 1-2 years in line with the regulatory requirements applicable for such investment as per the laws of Bhutan. The development of equity finance is likely to be a medium to long term policy objective which is likely to focus initially on medium-sized, rather than cottage and small firms. For equity and mezzanine finance to have a long term impact on private sector development, however, regulatory and other constraints would need to be overcome.

**Measures:**
- Awareness raising of equity/venture/mezzanine finance among CSMI / entrepreneurs
- Use the IFC SME Ventures Fund to be implemented through a licensed FMC as a piloting initiative to learn from and further develop

### 4.8.7 Business Networks

**Policy:** RGoB shall stimulate the development of Business Networks comprising high net worth individuals willing to invest in and develop CSMI.

**Analysis:** A variant of the venture capital concept is that of the Business Networks, internationally known as 'business angels' or 'angel finance'. This typically entails wealthy individuals investing in an CSMI and providing managerial guidance, skills and/or contacts. As the sums invested by individual investors tend to be less than private equity or venture capital institutions, they typically get involved with start-up ventures at a relatively early stage. But they can also invest in slightly more mature CSMI that are looking for expert help to scale-up the business or diversify into new areas. The best kind of business angel tends to be individuals who have worked and been highly successful in the same industry sub-sector as the CSMI in which they invest. They tend to be relatively 'hands-on' in terms of their investment style, providing knowledge of the industry, serving as networkers, giving strategic advice, and more applied guidance on specific issues.

**Box 4.8: Definition: Business Angel / Angel Investors**

Originally a term used to describe investors in Broadway shows; "angel" now refers to anyone who invests his or her money in an entrepreneurial company (unlike institutional venture capitalists, who invest other people's money). Angel investing has soared in recent years as a growing number of individuals seek better returns on their money than they can get from traditional investment vehicles. Contrary to popular belief, most angels are not millionaires. Typically, they earn between $60,000 and $100,000 a year, which means there are likely to be plenty of them.

Angels come in two varieties: those you know and those you don't know. They may include professionals such as doctors and lawyers; business associates such as executives, suppliers and customers; and even other entrepreneurs. Unlike venture capitalists and bankers, many angels are not motivated solely by profit. Particularly if the angel is a current or former entrepreneur, they may be motivated as much by the enjoyment of helping a young business succeed, as by the money they stand to gain. Angels are more likely than venture capitalists to be persuaded by an entrepreneur's drive to succeed, persistence and discipline.

Angel investors vary widely, but they are typically willing to accept risk and demand little or no control in return for the chance to own a piece of a business that may be valuable someday.

Source: www.entrepreneur.com

No business angel networks operate currently but could be stimulated in the short to medium term through awareness raising and financial support for the creation of networks that match potential investors with primarily small and medium industries. Through such a Business Angel Network, it would be possible to build up capacity of CSMI to present their investment opportunity effectively to potential investors. Druk Holding and Investments (DHI) are at an early stage of assessing the potential of establishing an Entrepreneurship Promotion Fund (a mission has been carried out to assess Indian angel networks). RMA (see also preceding discussion) regulations currently restrict foreign angel investors, though they do not exclude the possibility that this policy may change in time. The availability of such networks is an important factor missing in the present initiatives of promoting entrepreneurship.

**Measures:**

- Awareness raising of Business Networks among CSMI / entrepreneurs
- Stimulate the development of a pilot Business (Angel) Network

### 4.8.8 Public Private Partnerships

**Policy:** RGoB shall maximise the potential offered by Public Private Partnerships (PPP) to address financial constraints confronting CSMI through pilot initiatives.

**Analysis:** Substantial investments in infrastructure will be required in the coming years and RGoB has prioritised the development of Public Private Partnerships (PPPs) as the basis for such investments; PPP may be used to encourage the private sector to undertake investments which it would not have considered without public support due to various constraints. PPP can thus contribute to development of the economy and the outlook for the CSMI in two ways. Firstly, attracting private investors to invest in the required infrastructure under a PPP scheme, where the private sector may be asked to design, build, finance, operate and/ or maintain the infrastructure on behalf of the RGoB and where the private sector will be rewarded through either user fees or availability payments from the RGoB or a combination of both payment mechanisms. This type of PPP is often used for transport infrastructure such as roads, but can also be applied to smaller scale (e.g. rural) infrastructure that facilitates trade and hence, increases market access for CSMI. Secondly, the RGoB cooperating with the private sector to share some of the risks, costs and benefits of business initiatives that are normally not a public responsibility, but that need to be encouraged because certain constraints in the business environment are hindering investment. This may be called “PPP for CSMI Development” and can be promoted, for example, in the provision of infrastructure, such as the planned Industrial Estates, Business Incubators, etc. The benefits of PPP for CSMI development include:

- Improved access to finance
- Availability of modern technology
- Sharing of competences
- Reduced cost of product development and innovation
- Better project design and implementation
- Increased accountability and incentivized performance
- Efficient use of resources.

The PPP analysis prepared by MoEA (Public Private Partnership Report, 2012) suggests that there is potential to support a number of PPP for CSMI development pilot projects, as highlighted in the measures below.

**Measures:**

- Establish PPP pilot initiatives in i) rural cold chains ii) food processing iii) business support services network
- Evaluate PPP pilot CSMI initiatives and amend PPP approach to facilitate CSMI investment

### 4.8.9 CSMI Sector Incentives

**Policy:** Provide incentives for the development of the CSMI sector in line with the EDP (2010). Priority would be given to sustainable, green and service industries.

**Analysis:** The EDP specifies certain fiscal and non-fiscal incentives for CSMI. A wide range of fiscal incentives provided through the Fiscal Incentives Notification 2010 has also been provided (see Section 3.1.3 for a list of incentives). These are potentially significant benefits to CSMI, though it has only been a couple of years since they were introduced and there is a need to gather evidence of the actual impact. Nevertheless, the tax incentives related to investment in plant and machinery, procurement of raw materials, procurement of business support services and training of staff are likely to be the most significant in respect of encouraging CSMI establishment and early stage growth.

However, there are potential adverse consequences from the widespread use of tax incentives: i) they probably erode the tax base because many investments would have taken place even without them (i.e. there is little or no 'additionality'); ii) tax incentives distort resource allocation as some activities are encouraged over others, not necessarily because they are more economically productive, but because they have been given a tax advantage. A tax incentive is a special tax provision granted to eligible investment projects that lowers the effective tax burden on those projects, relative to the effective tax burden borne by investment projects that are not eligible. In the case of the Fiscal Incentives 2010 Notification, the most obvious discrimination is in income tax holidays between new CSMI, which benefit highly, and existing CSMI which do not. However, while this benefit initially appears generous, it provides no benefit until the CSMI actually has any taxable profits, which do not normally exist at the beginning of an enterprise's life. The effective support to new CSMI establishment is thus very limited, and its continuation for 10 years or more creates an unfair competitive advantage, once the benefitting CSMI has achieved profitability, over CSMI that do not qualify. To reinforce this point, according to the Enterprise Survey 2011, 64.3% of CSMI have been operating for less than 10 years.

Granting tax incentives entails three main types of costs: i) distortions between investments granted incentives and those without incentives; ii) foregone revenue; and iii) administrative resources required to implement and oversee them. While these costs could be substantial, the benefits to the economy that could be attributed solely to tax incentives are less clear and not easily quantifiable. Thus while the Fiscal Incentives 2010 Notification is potentially a valuable tool for CSMI development, it is not based on an assessment of the needs of such CSMI and may require re-focusing to be cost-effective in supporting CSMI start-up and early stage growth.

**Measures:**

- Evaluate (cost-benefit analysis) all CSMI-oriented fiscal incentives to optimise start-up/ early stage growth
- Refine/abolish incentives which are not achieving the intended impact and introduce new, targeted fiscal incentives for the CSMI sector based on results of the CBA

#### 4.8.10 Non-fiscal Incentives

**Policy:** RGoB shall develop further non-fiscal incentives, where these add value to the development of the CSMI sector, through further studies and pilot initiatives (please note that this includes access to raw materials since it is a form of non-fiscal incentive).

**Analysis:** Incentives are divided into fiscal and non-fiscal. While the fiscal incentives are fairly well known and established (see preceding discussion), this is not the case for non-fiscal incentives. This is in part because there is a very wide palette of incentives for CSMI that fall into the 'non-fiscal' category such as:

- Development banks' loan policies
- R&D / innovation support
- Environmental standards support
- Labour market / VET support
- Support services for marketing, export, product development
- Support for BDS development
- Government grants and subsidies, etc.

The RGoB's Fiscal Incentives 2010 Notification includes a set of non-fiscal incentives:

- Use of a proportion of convertible currency earnings for import of permissible raw materials
- Domestic preference of 5% to RGoB's procurements
- Subsidy of 50% of patent registration fees incurred for innovations/inventions
- In-country training and employing skilled Bhutanese (50% of training or 100% stipends)

Use of domestic preference is discretionary and could be raised (see discussion in Section 3.3.8) in relation to targeted CSMI activities / sub-sectors. Competitiveness studies (Competitiveness Report, 2012) focusing on cluster and value chain development highlight scope to support small scale domestic textiles, packaging, branding, cold storage, new handloom technology and design and similar. Furthermore, improving access to raw materials could assist targeted CSMI activities such as incense production, vegetable dyes, etc. by facilitating effective and affordable access to raw materials through targeted support (see Section 3.5.3. on cluster and value chain development). The Box below illustrates a number of non-fiscal incentives proposed elsewhere in this CSMI Development Strategy.

**Box 4.9: Non-Fiscal Incentives for CSMI**

Some of the key non-fiscal incentives which are part of this strategy are highlighted below:

- Increased access to finance and wider palette of financial products (Section 4.8)
- Improved public procurement, including raising the 5% margin of preference for national bidders (works & goods); and implementation of the preferential treatment (Section 4.8)
- BDS grants/vouchers/challenge funds, training and capacity building (Section 4.10)
- R&D and innovation support (Section 4.9)
- Cluster and value chain development, including pilot initiatives to enhance access to raw materials through cluster/value chain development (Section 4.9)
- Subsidised space in service centres / estates/ zones / parks / incubators (Sections 4.9.5 and 6)
- Resources and support for cooperative/farmers' group development (Sections 4.9.7 and 3.9.3)
- Support to improve market access (branding, standards, trade fairs/B2B, product development (3.10)
- Labour force (education and skills) better matching labour market needs (Sections 3.11.2 & 3.11.3 )

Broadly the same considerations discussed earlier in relation to fiscal incentives apply in relation to non-fiscal incentives. While the costs of non-fiscal incentives are fairly clear, the benefits to the economy that can be attributed to such non-fiscal incentives are not easily quantifiable. Thus, while the Fiscal Incentives 2010 Notification is potentially a valuable tool for CSMI development, it is not based on an assessment of the needs of CSMI. It is only recently that the non-incentives were introduced. It would be necessary to assess what their actual impacts are in relation to CSMI and, if required, refocus so as to maximise their potential to support CSMI development.

**Measures:**

- Evaluate (cost-benefit analysis) non-fiscal incentives to optimise start-up/early stage growth
- Refine/abolish non-fiscal incentives which are not achieving the intended impact and introduce new, targeted incentives for the CSMI sector based on results of the CBA

The CSMI Action Plan converts the policy measures connected with this strategic objective into activities, deadlines, etc.

### 4.9 Competitiveness and Innovation

| Strategy IV: Enhance Competitiveness and Innovation |
|---|
| Direction: The SWOT analysis of the sector (see Section 2.3) suggests that future development depends on the ability of CSMI to increase their competitive and innovation capacities. This is to be stimulated through a palette of infrastructure for entrepreneurship designed to assist both start-ups and established CSMI with potential for growth, profitability, employment generation and export orientation. This will include an emphasis on eco-friendly businesses and green technologies. Below, we explore the main policy aims, the issues involved as well as the measures to be implemented. |
| RGoB shall:<br>IV.1: Develop effective Business Development Services (BDS) infrastructure (private sector, including BCCI, and public sector, including Regional Trade and Industry Offices), which is supportive of CSMI's' development.<br>IV.2: Develop incentives for the CSMI sector to engage in R&D /innovative/green industry activities via BDS/ competitiveness/ innovation vouchers and similar initiatives in collaboration with Royal University of Bhutan.<br>IV.3: Stimulate the development of business clusters and/or value chains with the potential to increase the competitiveness of CSMI products and services, guided by the MoEA competitiveness studies.<br>IV.4: Stimulate the development of Inter-Enterprise Networks to facilitate development of CSMI.<br>IV.5: Strengthen the network of industrial estates and service centres with a focus on CSMI in line with EDP (2010).<br>IV.6: Develop a network of business incubators to accelerate the development of start-up companies through an array of business support services, including access to business premises orchestrated by incubator management.<br>IV.7: Develop Special Economic Zones with a focus on CSMI (see EDP, 2010).<br>IV.8: Develop Science and Technology Centres/ Parks with a focus on CSMI (see EDP, 2010).<br>IV.9: Support the development of Cooperatives, Farmers' Associations, Community Based Initiatives and similar mechanisms.<br>IV.10: Maximise use of e-business (B2B, G2B and B2C) for the benefit of the CSMI sector.<br>Note: for coherence, the following two policy statements have been transferred from the fifth Strategy (Improve Market Access) to this section:<br>V.6: Facilitate greater awareness raising and compliance with Intellectual Property Rights (IPR) and its advantages for the development of the CSMI sector for example as a marketing tool.<br>V.7: Stimulate franchising, an aspect of IPR, which offers potential for rapid business development and employment generation (excluding "fast-food" chains, as well as those in the prohibited list). |

#### 4.9.1 Business Development Services

**Policy**: RGoB shall develop effective Business Development Services (BDS) infrastructure (private sector, including BCCI, and public sector, including Regional Trade and Industry Offices), which is supportive of CSMI development.

**Analysis:** An Enterprise Survey (2010) concluded that there is very little provision of BDS in the private sector and is highly underdeveloped. BDS is provided through the Technology Training Institutes (TTIs) and other RGoB-operated entities, but these tend to be organised in long, structured diploma courses. A further Enterprise Survey (2011) assessed BDS demand via questions regarding advice sought and received from external sources. Fifteen percent of firms interviewed had in the past asked for advice or services from external sources; 85% had not. Most (61%) of the services requested were of a technical nature, concerning repairs and maintenance to equipment, production processes, and ICT support. In 66% of the cases the services were paid for by the CSMI, but only in 29% of cases did the CSMI feel that the service benefitted their performance: most services were routine in nature. Only thirty-two respondents (15%) reported outsourcing tasks to external BDS providers. A number of issues may be noted in terms of improving the supply and quality of BDS:

- The market with respect to both supply and demand of BDS is not functioning properly. There is a need, in line with international good practice, to encourage increased supply and demand of all forms of BDS in both urban and rural areas. Strengthening supply and demand for BDS will benefit CSMI, BDS providers and private sector operations.
- BCCI and the sectoral associations do not play a significant role in BDS provision but they could expand the range of BDS available to their members.
- The provision of BDS by RGoB ministries and agencies may act to limit the creation of a functional, private-sector/commercial BDS market. While recognising that there are currently no private BDS providers offering hard skills (other than the Governmental or quasi-state ones) and relatively few providers of soft skills, there is a need to ensure that the provision of subsidised support services by both RGoB and donors to help create such a market. This means acting only to fill vital gaps in provision and only temporarily, so as to allow a private/commercial market to emerge in due course.

The Box below illustrates the lessons learned in relation to BDS provision, based on the Cost Share Facility.

**Box 4.10: Lessons from the Cost Share Facility (CSF)**

**Definition**

Business Development Services (BDS) is defined as services that improve the performance of an enterprise, its access to markets and its ability to compete. The services include a wide array of business training and inputs, both strategic and operational. The three main types of business development programme are: i) financial services; ii) enterprise development (or BDS); and iii) enabling environment.

**Key Lessons Learned**

- Empirical findings: a fundamental principle of CSF design is that the programme should be based on an up-front needs study that assesses the existing state of available BDS and the potential demand amongst CSMI and industry associations for BDS.
- Role of associations: emphasis should be laid on working closely with business associations.
- Governmental and quasi-governmental BDS providers: Government is a significant supplier of ‘hard skill’ training while the small number of private BDS providers offer mainly ‘soft’ skill training.
- International BDS providers: identify and source international BDS providers who can ‘kick-start’ the BDS process by both delivering higher quality BDS service to association members, and by using the ‘demonstration’ effect.
- Procurement procedures: it is critical that an incentive programme (such as the CSF) is not so difficult to access that it effectively becomes a disincentive to participation. Keep things simple.
- CSMI contribution levels: The requirement for CSMI to pay a 50% contribution and do so up-front is onerous and creates an extra barrier for CSMI. The situation in Bhutan merits maximum contribution rates of perhaps 10% - 20%.
- Operational flexibility: to be economically efficient and practically effective, BDS assistance for CSMI needs to be flexibly organised and demand-responsive.
- CSF management unit: a balance needs to be struck between effective supervision and monitoring, and allowing scope for the fund management to act proactively in its task of mobilizing BDS and upgrading private business. An autonomous CSF management unit, with clear guidelines, operational scope, appropriate monitoring and oversight, and the correct selection of implementing agent/manager, this is usually the most efficient and effective way of implementing such programmes.

Source: PCA (2012) Report on the Closure of the CSF Component of the MSME SDP

Thus BDS provision (whether private in nature, such as consultants and consultancies or public, such as RTIOs, TTIs and others) must be demand (vs. supply) driven, sustainable, develop higher value-adding services over time. The BDS market could be stimulated through initiatives such as voucher schemes, challenge funds, and certification of business consultants to internationally recognised standards. Initiatives leading to development of quality BDS provision could focus on technology/engineering/certification (ISO, HACCP, etc.) advisories for CSMI in priority sectors and sub-sectors, focusing on issues such as technology transfer and absorption capacity (appropriate, competitive technologies), focusing on exports (B2B, market linkages, etc.) as well as development of bankable business plans / applications for funding of market access activities. Furthermore, since all BDS providers are individuals who may or may not work in an enterprise or company, it is essential to raise the standards of business consultants through encouragement of certification to internationally accredited standards. This will raise overall standards and ultimately influence CSMI’ willingness to use and pay for BDS.

**Measures:**

- Establish grant schemes / voucher schemes / challenge funds to promote BDS provision, involving private sector, industry associations including BCCI, APIC and similar institutions
- Evaluate each round of BDS provision, develop good practice and refine the next round
- Raise the quality of individual business consultants through certification to internationally recognized standards

### 4.9.2 R&D/Innovative Activities

**Policy**: RGoB shall develop incentives for the CSMI sector to engage in R&D/ innovative/ green industry activities via BDS/ competitiveness/ innovation vouchers and similar initiatives in collaboration with Royal University of Bhutan.

**Analysis:** Successful commercial application of R&D and innovation depends partly on the scope of knowledge creators to transfer their knowledge to technology users, as well as the willingness of technology users (CSMI) to understand and utilize this knowledge. Both issues are relatively underdeveloped and need support since there are few, if any, programmes stimulating R&D activities on the part of CSMI. There is also a need to intensify the cooperation between higher education and CSMI in the future, while at the same time strengthening BDS provision (engineers, quality management specialists, business consultants, etc. – see also preceding discussion) in the country.

The R&D culture among industries is limited. There is currently no data on the level of R&D in GDP terms, though this is probably quite low. The Enterprise Survey 2011 shows that about one quarter of CSMI consider themselves to be engaged in R&D. About 42 industries in the sample reported they spent an average of Nu. 250,000 per annum on R&D. Moreover, the institutions that might support R&D, innovation, technology transfer, technology absorption, etc. are limited in number, though they do exist such as: Royal University of Bhutan (College of Science and Technology), Zorig Chusum Institutes, National Handloom Development Centre, TTIs, etc. The MoEA's Competitiveness Study identifies the follow types of services that are in demand by CSMI: vegetable dying technology, pre-weaving technology, IPR protection (designs, geographical origin, etc.), grading and sorting technology, packing, storing and labelling technology, etc. (see PCA Competitiveness Report (2012).

Making use of international good practice in the use of voucher scheme could help stimulate CSMI's R&D and innovation activities.

**Box 4.11: Voucher Schemes for CSMI**

Voucher schemes are used to encourage CSMI to increase research, technological development and innovation (RTDI) activities. Innovation vouchers are a versatile instrument to enable SMEs to buy knowledge and stimulate the interaction and exchange of knowledge. Vouchers establish simple and rapid procedures with the intention of increasing the appetite, interest and potential of CSMI to hire business, R&D and innovation specialists.

Following a transparent application process, an CSMI may be awarded one or more vouchers and can seek business, technological, academic expertise, usually from pre-approved universities, research institutes and BDS providers, to solve a specific problem or get an entry of new ideas for their business. The company pays the researchers or consultants with the voucher, which in turn is reimbursed by the issuer, such as the state. It is up to the CSMI to decide for which concrete purpose it will be applying for the voucher. Application processes are fast; an application can be approved in days or weeks.

The following need to be considered carefully when designing a voucher scheme:

- Services must be clearly defined and linked to clear objectives: ensure expected impact is achieved.
- Qualified service providers: the definition of eligible service providers and mechanisms to avoid fraudulent behaviour of CSMI, especially in those schemes where they could act as service providers, should be based on agreed criteria that promote competition.
- Success criterion for the measure: find a suitable threshold for the maximum support to be granted and an appropriate co-financing rate in order to get interested parties and projects.
- Target group: voucher users need to be representative of the CSMI population; the scheme should not attract large companies or firms that are already innovative.
- Voucher quota: set a maximum number of vouchers in each round to realise a permanent behaviour change for CSMI, enabling a sustainable co-operation between CSMI and business/ research / technology institutions.
- Marketing the measure: it is important to proactively stimulate the use of vouchers. The impact depends on the implementation mode e.g. publicising the voucher scheme, support and guidance.
- Secondary effects: success must be assessed from a broad perspective e.g. contract research, secondary effects influencing innovation, staff mobility, contact between CSMI and knowledge institutions and R&D, etc.
- Administrative costs: procedures and control mechanisms should be proportionate to the size of the innovation vouchers and be benchmarked against the "best in class".

Source: Policy Instruments for Regional Innovation: Innovation Vouchers, Technopolis Group

**Measures:**

- Voucher scheme to stimulate R&D, innovation and technological absorption by CSMI
- Encourage knowledge creators (universities, public institutes, etc.) to organise fairs and forums to showcase new products and services to CSMI

### 4.9.3 Clusters and/or Value Chains

**Policy**: RGoB shall stimulate the development of business clusters and value chains with the potential to increase the competitiveness of CSMI products and services, guided by the MoEA competitiveness studies.

**Analysis:** Clusters are geographic and/or sectoral concentrations of interconnected industries, suppliers and associated institutions in a particular field; business clusters can increase productivity with which companies can compete, nationally and globally. By contrast, a value chain is a chain of activities for an enterprise operating in a specific industry. Products pass through all activities of the chain, gaining value. The chain of activities gives the products more added value than the sum of the independent activities' values.

Very few of Bhutan's CSMI have the capacity to export and many are threatened by increasing competitiveness and exports from neighbouring countries. If such CSMI are to thrive in a highly competitive environment, they need to learn to cooperate in clusters of similar industries along a value chain. There is clear scope for such cooperation and potential to increase the level of value-added by increasing the amount of secondary processing of raw materials undertaken by CSMI clusters. Thus clustering and value chains could bring many benefits to CSMI and, if effectively implemented, will enhance both the competitiveness of CSMI in the domestic market and Bhutan's wider global competitiveness. However, for the moment, RGoB provides no systematic support for cluster development at present, though the Ministry of Agriculture and Forests (MoAF) is engaged in supporting the development of cooperatives and farmer's groups (rather than clusters and value chains per se). APIC aims to develop four clusters (cane and bamboo, wood products, metal products, and silk and weaving), however, like MoAF, its focus is actually on cooperative and farmers' group development, using clusters in a loose sense. Clustering offers the best prospect for growth away from the major population centres and the Indian border, but is unlikely to develop without significant RGoB support. The Competitiveness Study (2012) prioritises a number of interventions to strengthening the value chain/clusters, namely:

- Value chain development: for the dairy sector, organic food production sector and manufacture of wellness products based on traditional medicine
- in view of the fact that these producers or manufacturers are geographically dispersed.
- Cluster-based development: for apple processing, textiles, wood-based industries and incense manufacturing since "natural" clusters of CSMI already exist in these sectors.

**Measures:**

- Develop clusters (including cooperatives and producers' groups of CSMI), focusing on:
  - Value chain development: dairy, organic food and wellness products based on traditional medicine.
  - Cluster development: apple processing, textiles, wood-based industries and incense manufacturing.
- Cooperate with relevant stakeholders for implementation e.g. APIC for crafts
- Evaluate the cluster / value chain development and improve the process

### 4.9.4 Inter-Enterprise Networks

**Policy**: RGoB shall stimulate the development of Inter-Enterprise Networks to facilitate development of CSMI.

**Analysis:** Firms typically develop a web of relationships with suppliers, customers and other partners. These are often informal in nature and allow companies to exchange ideas and share tacit knowledge. In other cases, firms enter into formal co-operation and define a networking agreement. Networks can serve many purposes: i) facilitate identification of business opportunities, ii) help raise finance iii) pool resources to reach a common goal, etc. Inter-firm networks thus play an important role in the competitiveness and innovation process. Public policy can help such networks develop. Government can stimulate interest through awareness campaigns on the benefits of inter-enterprise networks. Public brokerage services can help SMEs identify the most relevant partners for potential co-operation, both in Bhutan and internationally. Seminars and other networking events can be catalysts for formation of networks. Public policy can provide finance to support the early stages of co-operation. Feasibility studies can assess potential alliances / brokerage services.

**Measures:**

- Establish a pilot Inter-Enterprise Network to facilitate development of CSMI
- Assess impact and promote further development of Inter-Enterprise Networks

### 4.9.5 Business Incubators

**Policy**: RGoB shall develop a network of business incubators to accelerate the development of start-up companies through an array of business support services, including access to business premises orchestrated by incubator management.

**Analysis:** A business incubator is an institution, either for-profit or non-profit, that assists start-up companies to establish their business. An incubator provides below-market rent on office space and shared services (e.g. conference room and secretarial services). Marketing, legal, and accounting services also may be provided. Private businesses and developers, state institutions and universities often operate business incubators. By providing entrepreneurs with services on a 'one-stop' basis and enabling clients to reduce their overhead costs by sharing facilities, business incubators can significantly improve the survival rate and growth prospects of new start-ups. Evaluation studies in Western Europe and North America suggest that incubators can reduce the failure rate amongst start-ups to below 10% over a three year period (as compared with failure rates of between 60% and 80% for small businesses generally). The 10th Five Year Plan anticipated a large number of Business Incubators being established during 2008-2013. However, the MoLHR's plan to establish incubators within the Technical Training Institutes (TTIs) has failed to take-off, though pilot initiatives are planned. These appear to be 'resource centres' targeting unemployed youth, rather than incubators *per se*. The Thimphu (Changzamtok) Service Centre was originally conceived as a craft incubator, but this has yet to happen. Changzamtok accommodates 34 industries in diverse sectors. The rents are highly subsidised (Nu. 4 per square foot per month vs. approx. double in the centre) and the average space is 540 square feet, with a 10 year renting agreement. The service centre is spread over several buildings, part of which house the MoEA / RTIO staff. Two staff deals with the Service Centre but do not provide customised services to the tenants, as would be the case in an incubator.

However, the BITC (Bhutan Innovation and Technology Centre) was inaugurated on 7th May 2012. The BITC was contracted out to Thimphu TechPark Pvt. Ltd (a joint venture involving Druk Holding and Investments and Assetz Property Group, Singapore) by the Ministry of Information and Communications (MoIC) to design, build, operate and manage for a period of 5 years on a 10,000 $ft^2$ facility leased by MoIC at the IT Park. As such, BITC will focus on Small and Medium early growth industries (nascent firms) and, down the timeline, will also support start-ups (DHI Clarification Note, 2012).

However, BITC is unlikely to become the model for other incubators, as it:

- Is newly built: normally incubators involve minimalistic refurbishment of existing buildings) and it unlikely that investment costs can be recovered through subsidised service charges

- Is a relatively small space: only 5,000 $ft^2$ (465 $m^2$) will be utilized by BITC itself
- Will have very few tenants: capacity for 10, which makes it almost impossible to become sustainable (covering rent, management team and other overheads)
- Will involve nascent firms: incubators typically target start-ups, so as to maximise their chances of surviving, rather than Small and Medium early growth industries
- Short incubation period: the intended incubation period is 3 years (renewable on an annual basis), whereas the typical incubation period is 24 months
- Will involve intense capacity building: this reflects the generous budget available for 5 years

Thus scope exists for the development of sustainable business incubators, starting with defining a suitable model to pursue, using international good practice (see Box below). Without a model, there is likely to be different approaches and the level of impact and sustainability may be compromised. Such an approach is likely to involve the development of a network of business incubators across the country using broadly the same approach, even if the particular focus is likely to vary according to the market opportunities in different localities.

**Box 4.12: Business Incubator Development**

Target group: start-ups with growth potential (not existing/weak/inactive industries)

Sectors with potential: include agro-processing, services (e.g. ICT), furniture and upholstery, handicrafts and weaving among others. However, this will vary from location to location and can only be assessed via customised feasibility studies.

A report by the OECD and EBRD (2003) highlights the experience with incubators in transition countries, which has direct relevance to Bhutan:

- Incubators are recognised as being an effective means of providing newly-established industries with premises, business infrastructure and business support services, thus enhancing their ability to survive and become established during the developmental phase.
- Most Incubators were established in the 1990s but the pace of development has slowed since 2000. Most countries have plans to create Incubators, but few have developed a dedicated strategy for doing so or indeed for setting aside the necessary budget.
- To be viable and sustainable, Incubators have certain minimum requirements. In the EU, this would include a rental space of 2,000 – 4,000 $m^2$; 20-30 tenants; and occupancy rates of about 85%. The Incubators in other regions, such as South East Europe, operate well below these benchmarks.
- Many of the Incubators that were established in the 1990s have closed down. Moreover, few if any of the Incubators appear to possess the capability of becoming sustainable in the near future.
- The main reason for is that these Incubators have been largely created as unemployment alleviation measures to counteract the impact of enterprise restructuring / closure / recession. As such, their focus has largely been on employment generation and poverty alleviation, rather than focusing on entrepreneurs and industries with high growth potential and long-term prospects.
- As a result of this approach, Incubators' governance structures, in particular relating to entry and exit, do not always follow international best practice and could be improved.
- More generally, despite extensive international best practice on business incubators, the MSME policy community, public authorities, business associations and entrepreneurs appear to be remarkably poorly informed about Incubators.

Source: OECD and EBRD (2003)

**Measures:**

- Develop model for the development of effective and sustainable business incubators
- Establish a network of sustainable business incubators
- Possible development of a women focused incubator (see 4.11.5)
- Possible development of University oriented incubator (see 4.11.6)

### 4.9.6 Industrial Estates/Special Economic Zones/Technology Parks

**Policy**: RGoB shall strengthen the network of Industrial Estates / Service Centres / Special Economic Zones / Technology Centres/ Parks with a focus on CSIMs (see EDP, 2010).
**Analysis:** The current infrastructure consists of the following:

- Industrial estates: there are two established industrial estates in Pasakha (near Phuensholing, about 265 acres) and Jimina (Thimphu, about 33 acres). A further four industrial estates are planned in Jigmeling (Gelephu, about 735 acres), Dhamdum (Samtse, about 620 acres), Motanga (Samdrup Jongkhar, about 145 acres) and Bondeyma (Mongar, about 110 acres). The latter is expected to focus on CSMI, whereas the others are likely to mainly target medium and large industries.
- Technology Parks: Bhutan's first technology park, Thimphu TechPark Pvt Ltd (joint venture between Druk Holdings and Investments and Assetz), is located on a five-acre plot in Wangchutaba. Thimphu Techpark designed, built, financed, as well as owning and operating the park.

The existing infrastructure needs to be managed effectively, while also ensuring that the RGoB plans for future development, to be based on PPP funding, come to fruition:

- A dedicated Management and Development Authority (or similar) could be established to manage the estate/centre/park/zone infrastructure, maintenance, 'after care', etc. along the lines discussed in the Box below (see Louis Berger Group, (2006), for the problems.
- MoEA has signed an Memorandum of Understanding with DHI for the for the development of three Industrial Estates/SEZs
- It is anticipated that Bondeyma will be funded by the state but all other estate/centre/park/zone development is expect to be funded through PPP.
- There is a need to establish a clear and stable rental policy for estates/centres/parks/zones
- Rentals are significantly lower than the market rate for land and there is a shortage of land for industrial development, so the process of selecting tenants for both the industrial estates and the service centres must be carefully designed to ensure that the tenants selected best meet the Government's economic development objectives (i.e. EDP and CSMI policy).
- Ensure that part of the estates/centres/parks/zones is allocated for CSMI investors, in addition to Bondeyma.

**Box 4.13: Industrial Estate Development and Management**

Most countries have, at some stage in their development, undertaken state investment in free zones, special economic zones, technology parks, business parks, all of which may be termed "industrial estates." RGoB is considering developing industrial estates as Public Private Partnerships between Druk Holdings and Investment, and private sector developers.

Industrial estates have been a significant factor in the growth of Asian economies in the last four decades. The experience of the successful programmes is of direct relevance to Bhutan, since they involved a great deal more complexity than just developing 10-20 acres industrial estates. Some features are worth noting (Louis Berger Group, 2006):

- The industrial estates development programme needs to be managed by a specialised agency focusing on planning development, operation and management (comparable to the Industrial Estates Authority of Thailand, Malaysian Industrial Estates Ltd., West Bengal Industrial Development Corporation, Hong Kong industrial Estates Corporation, Industrial District Management Ltd. of Nepal).
- The specialised agency must be run in a commercial manner reflecting its triple role as: a property developer, an economic developer and a commercial venture.
- Private sector involvement in the management of the new agency must be ensured, at board level.
- The key activities would include: community and public relations, planning design and construction, estate management, financial management, general administration, legal affairs, investment promotion, project evaluation and investor support.
- Management of the industrial estates must include maintenance and 'after care', to ensure that a high level of satisfaction is retained with existing tenants (not least as prospective tenants will always seek the views of existing tenants before committing to an investment).

Source: Louis Berger Group (2006) Feasibility Study for the two industrial Estates at Jigmeling, Sarpang and Dhamdum, Samtse, Bhutan; and PCA (2010) Analysis of the Current Legal and Regulatory Environment for MSME Development.

Currently, there appears to be little differentiation of the specificities of estates/centres/parks/zones, an issue which needs to be clarified through the planned Industrial Infrastructure Policy, leading to the establishment of clear models for development. The Enterprise Survey 2011 highlights that 59% of CSMI rent the property from which they run their industries (with the balance owning them), with the majority paying between NU. 10,000 – 100,000 per annum. In addition, the Enterprise Survey 2010 shows that most businesses (76%) operate from fixed premises (small shops or workshops, or space in a larger building or in an industrial site). Seven percent operate from their homes. One percent of them operate from a traditional market place. Sixteen percent operate from temporary locations, such as the roadside. This suggests that entrepreneurs, especially CSMI, need locations in smaller population centres to establish and grow their industries. At present there is a shortage of such locations for industries that wish to grow beyond the home environment. RGoB will seek to stimulate the development, in Dzongkhag land, of small scale industrial/service centres to meet anticipated demand. No feasibility studies have been carried out specifically for this purpose (the Louis Berger Group Feasibility Study focused exclusively on two large industrial estates in Sarpang and Samtse and, having been published in 2006, is increasingly outdated).

**Measures:**

- Consider establishing a specialist Management Authority for the estates/centres/parks/zones
- Establish a clear and stable rental policy for industrial estates to maximise economic development, especially as far as CSMI are concerned
- Prioritise CSMI in the allocation of space in the estates/centres/parks/zones
- Prepare demand/supply/location feasibility study of small scale estates/centres for CSMI (Depending on the results) Implement small scale estates/centres for CSMI

#### 4.9.7 Cooperatives, Farmers' Groups, etc.

**Policy**: RGoB shall support the development of Cooperatives, Farmers' Associations, Community Based Initiatives and similar mechanisms.

**Analysis:** The Cooperative Act (Amendment) 2009 and its supporting regulations provide a good platform for the development of cooperatives. This is important as cooperatives (and Farmers' groups which also received legal recognition under the Act) provide an essential institutional and legal basis for developing agro-processing, handicrafts and other economic activities in rural Bhutan. Cooperative and Farmers' Groups enterprises probably offer the greatest prospect in rural areas of creating and developing income-generating activities, decent employment; increasing savings and investment; improving social and economic well-being, contributing to sustainable human development; establishing and contributing to broad-based economic empowerment. In rural areas, co-operatives and Farmers' Groups have a comparative advantage over other types of enterprises, such as:

- Economies of scale: entrepreneurs, households and workers use joint purchasing and marketing
- Economies of scope: joint production facilitates, division of labour and specialization enhance productivity
- Increased bargaining power: cooperative enterprises combine the supply and demand of its members and thus increase their bargaining and lobbying power
- Member participation and motivation: active participation of members in the management of a cooperative can reduce costs and thus enhance cost effectiveness
- Membership value (as compared to shareholder value): the overarching objective of cooperatives is to provide services to its members. The production process in co-operatives is thus generally more labour intensive than in capital-based companies
- Representation of interests: the co-operative members can defend their interests than individually, particular if they form part of a vertical structure (secondary/tertiary coops)
- Stability: because of risk sharing between members, cooperatives tend better to be more stable than individual enterprises
- Innovation: joining a cooperative can lead to learning from others in order to innovate jointly
- Legal protection: by joining, small-scale producers obtain legal protection and identity; they can also transform "informal" activities into legally protected work which is fully integrated into mainstream economic life.

The MoAF emphasises the development of cooperatives (minimum of 15 members) and farmers' groups (minimum of three members). The Competitiveness Study (2012) has also identified the necessity to organise organic farmers and dairy farmers into farmers' groups / producers' cooperatives. Despite the recent start of cooperative development in 2010, progress has been achieved in registering 16 cooperatives and 100 plus farmers group. An estimated 700+ others exist informally, approx. 300 of which are Community Forestry Management Groups. While the MoAF's target of registering 500 of these by 2013 is unlikely to be attained, it should be possible achieve it by 2018. However, it has to be recognised that the capacities of farmers' groups and cooperatives are low. Even the registered cooperatives and farmers' groups are not drawing down the resources available for their development (up to Nu. 300,000 or 40% of applications for funding); and significant resources are also earmarked (Nu. 35 million) through the Capacity Building Master Plan. The MoAF also has some 700-800 extension officers throughout the Dzongkhags and Geogs to ensure that the rural areas can maximise the economic development opportunities. The MoAF will be the main institution responsible for cooperative development, however, the MoEA activities will complement and enhance those of the MoAF, through activities such as cluster and value chain development, as set out in other parts of this strategy.

**Measures:**

- Implement the Cooperative Development Strategy
- Establish the Cooperatives' Development Fund
- Register 600 farmers' groups and cooperatives by 2018
- Support the capacity development of cooperatives and producers' groups though the MoAF's Capacity Building Master Plan and co-financing for cooperative development
- Implement pilot initiatives to test the Community Owned Company model to promote export
- Support the development of apex cooperative organizations of specific sectors or regions, including the development of a national federation

#### 4.9.8 e-business / e-commerce

**Policy**: RGoB shall maximise use of e-business / e-commerce (starting with G2B and extending to B2B and B2C) for the benefit of the CSMI sector.

**Analysis:** The Bhutan Information, Communication and Media Act together with the Bhutan ICT Policy and Strategy Programme (2003, revised in 2009) form the basis for E-Business and E-Commerce in Bhutan (see Box below for a discussion of both concepts). The RGoB has chosen to emphasise Government to Citizen (G2C) initiatives (including elements that impact on business, such as on-line registration), so E-Business and E-Commerce do not enjoy policy priority at present. An indirect benefit is that the G2C initiative trains and raises awareness of business leaders, entrepreneurs, self-employed, youth, etc. in relation to Communication and Information Technology (CIT) matters generally. The fact is that doing business by electronic means could have a significant further impact in overcoming the difficulties of access to goods, services and information (internet is frictionless and overcomes borders), with a focus on electronic payment, B2B (business to business activities), B2C (business to customers relations) and G2B (government to business activities e.g. registrations, licensing, tax declarations, labour market and social security declarations, etc.).

**Box 4.14: E-Commerce and E-Business**

While e-commerce and e-business tend to be used interchangeably, they are distinct concepts. In E-Commerce, information and communications technology (ICT) is used in inter-business or inter-organisational transactions (transactions between and among firms/organisations) and in business-to-consumer transactions (transactions between firms/organisations and individuals). In E-Business, on the other hand, ICT is used to enhance the business itself. It includes any process that a business (either a for-profit, governmental or non-profit entity) conducts over a computer-mediated network. Three primary processes are enhanced in E-Business: i) production processes, which include procurement, ordering and replenishment of stocks; processing of payments; electronic links with suppliers; and production control processes, among others; ii) customer-focused processes, which include promotional and marketing efforts, selling over the Internet, processing of customers' purchase orders and payments, and customer support, among others; and iii) internal management processes, which include employee services, training, internal information-sharing, video-conferencing and recruiting. Electronic applications enhance information flow between production and sales forces to improve productivity. Workgroup communications and electronic publishing of internal business information are likewise made more efficient.

- B2B E-Commerce: Business-to-Business is defined as E-Commerce between companies. This type of E-Commerce deals with relationships between and among businesses. About 80% of E-Commerce is of this type, and it is predicted that B2B will continue to grow faster than B2C (see below).
- B2C E-Commerce: Business-to-Customer or commerce between companies and consumers, involves customers gathering information; purchasing goods (i.e. consumer products) or information goods (e.g. digitized content such as software and e-books). It is the second largest and the earliest form of E-Commerce (e.g. Amazon.com).
- G2B e-commerce: Business-to-Government (also known as Business-to-Government or B2G) is defined as commerce between companies and the public sector. It refers to the use of the Internet, for example, for public procurement, licensing procedures and other government-related operations. It has two features: first, the public sector assumes a leading role in establishing E-Commerce; and second, it is assumed that the public sector has the greatest need for making its procurement system more effective. Web-based purchasing policies increase transparency and reduce the risk of irregularities. However, the size of the G2B E-Commerce market is insignificant and undeveloped.

Source: Wikibooks, UNDP, 2003

**Measures:**

- Update the ICT Policy & Strategy Programme, strengthening E-Commerce and E-Business
- Strengthen G2B (Government-to-Business activities), focusing on three Ministries
  - MoEA (information provision, registration, licensing, renewals, etc.)
  - MoF (tax declarations and payments) and
  - MoLHR (labour market information system, e.g. job brokerage, social security).
- Review potential for maximising B2B (business to business activities) B2C (business to customers relations) through pilot initiatives

### 4.9.9 Intellectual Property Rights

**Policy:** RGoB shall facilitate greater awareness raising and compliance with Intellectual Property Rights (IPR) and its advantages for the development of the CSMI sector for example as a marketing tool.

**Analysis:** Intellectual Property Rights (IPR) are basically temporary grants of monopoly intended to give economic incentives for innovative activity and exist in the form of patents, copyrights and trademarks. The MoEA's Intellectual Property Division (IPD) is responsible for the IPR system in the country. A legislative base for IPR exists in Bhutan (amended Industrial Property Act and Copyright Act, 2011), as well as various databases: Trademark Registry (99% Madrid), Industrial Design Registry (3 applications) and Copyright Unit. Moreover, a

Patent Registry is about to be launched (2 applications). There are relatively few applications, therefore, a key issue is raising awareness among CSMI and business associations in relation to the benefits and advantages of IPR, as well as enforcement matters. The Constitution guarantees to citizens the right to enforce their rights, including material rights over their intellectual property. There are no specific procedures for enforcement of IPR and there are hardly any cases dealing with violations of IPR.

**Measures:**
- Raise awareness among scientists/researchers and SMEs of IPR, such as procedures for obtaining patents, trademarks, industrial designs, as well as enforcement and penalties
- Establishing an award scheme to recognise the innovator of the year (see also Entrepreneurship awards in Section 3.11.1)
- Annual event to promote creativity and innovation with a focus on CSMI e.g. International Intellectual Property Day
- Establish an IPR Info Point network for CSMI, starting with one located at the TechPark

### 4.9.10 Technology Transfer through Franchising, Licensing, etc.

**Policy:** RGoB shall stimulate franchising, an aspect of IPR which offers potential for rapid business development and employment generation (excluding “fast-food” chains, as well as those in the prohibited list).

**Analysis:** There are three main forms of IPR-related technology transfer, namely licensing, assignment and franchising. Assignment refers to the transfer of IP rights absolutely to a third party in return for payment. As the licensor, you may grant an exclusive or non-exclusive right to a licensee to use your IPR in a particular territory in return for royalties but you retain all rights in your IPR. Under franchising, a franchiser grants the franchisee the right to use its trademark or trade-name, as well as certain business systems and processes, to produce and market a good or service according to certain specifications. All three options offer potential for CSMI development.

Franchising, where the franchisor sells a business idea and methodology or a “franchise business” to a franchisee, which operates the business under the franchisor’s name, offers many advantages to CSMI. CSMI may use and market goods or services under the franchisor’s trademarks, service marks, and trade names, for which the enterprise usually pays an up-front fee and a percentage of the sales. The franchisee gains immediate name recognition, tried and tested products and services, detailed techniques in running and promoting the enterprise, help in promoting and upgrading of the products and services, etc. Thus, an CSMI does not have to start the business from scratch, but can use a previously developed and operated business concept. Moreover, banks may be more willing to finance the franchisee of a reputable and established franchisor than the entrepreneur that wants to open an unproven business. Overall, a franchise can significantly reduce business risks. Although franchising, licensing and assignment are relatively new concepts for the business community in Bhutan, the legal system accommodates such agreements; laws protect trademarks, patents and copyrights.

There is already some experience of franchising, such as Coca Cola (manufacturing), Habib’s, (beauty parlour), Lilliput (children’s garments), etc. Potential exists for further development in both production and services. However, there are constraints for the concepts to be used more intensively, not least the lack of awareness among entrepreneurs.

**Measures:**

- Awareness raising among CSMI and business associations of franchising, assignments and licensing
- Streamline processing of applications for franchising, licensing and assignment

The CSMI Action Plan converts the policy measures connected with this strategic objective into activities, deadlines, etc.

## 4.10 Market Access

| Strategy V: Improve Market Access |
|---|
| Direction: CSMI must have access to their clients through markets. Consequently access to markets is a key determinant of enterprise success. Infrastructure and transport limitations are probably the single most critical constraint that CSMI face with regard to access to markets. Bhutan also has a relatively small market. Moreover, it is located between China and India which enjoy considerable economies of scale due to their large agricultural and manufacturing sectors. Finally, the ASEAN bloc countries are also directly promoting their CSMI, with the result that the level of competition is increasing over time. According to the Enterprise Survey 2011, only 8% of CSMI provided goods or services for the export market. Participation in regional and global trade agreements will help CSMI gain better access to overseas markets, but much will depend on the extent advances are made in development of niche products, improving product variety and quality, improving processing, grading, packaging and labelling and addressing supply-side constraints. Below, we explore the main policy aims, the issues involved as well as the measures to be implemented. |
| RGoB shall:<br>V.1: Improve the quality of products and services through the introduction of effective quality standards, testing and compliance services.<br>V.2: Promote CSMI products through "Brand Bhutan", starting with a focus on indigenous arts and crafts of Bhutan.<br>V.3: Strategically position goods and services produced by CSMI in high-value market niches using Bhutan's Seals of Excellence and Quality the Seal of Origin, Bhutan Organic Logo and Green Labelling.<br>V.4: Facilitate the participation of export oriented CSMI in targeted B2B events, trade fairs and exhibitions.<br>V.5: Stimulate product development and quality improvement, ranging from production to final packaging, focusing on high value markets and niche products.<br>Note: for coherence, the following two policy statements were been transferred from the analysis of this section to the fourth Strategy (Enhance Competitiveness and Innovation):<br>V.6: Facilitate greater awareness raising and compliance with Intellectual Property Rights (IPR) and its advantages for the development of the CSMI sector for example as a marketing tool.<br>V.7: Stimulate franchising, an aspect of IPR, which offers potential for rapid business development and employment generation (excluding "fast-food" chains and other business activities included in the prohibited list). |

### 4.10.1 Quality Standards, Testing and Compliance

**Policy:** RGoB shall improve the quality of products and services through the introduction of effective quality standards, testing and compliance services.

**Analysis:** Bhutan's increasing international orientation brings both opportunities and challenges for the CSMI sector. CSMI will be required to appreciate the importance of quality management as both a means of increasing their efficiency and effectiveness and as a marketing tool. Regardless of whether Bhutan accedes to the WTO or not, exporting increasingly requires products to comply with internationally recognised standards. Many international buyers will also push suppliers to establish internationally accepted quality management systems. At present the cost of such compliance is high (product conformity assessment with standards is normally performed in India) and awareness amongst CSMI of the value of complying with international standards is still rather low. Whilst some large industries have obtained ISO 9000 (e.g. Jigme Mining Corporation) and other quality management certification (ISO 14001, ISO 22000 and HACCP), no Bhutanese organisations are able to undertake the necessary independent audit and certification. CSMI are lagging well behind the most established (large) companies. The Standards and Quality Control Authority has been restructured and replaced by the Bhutan Standards Bureau (BSB). Following the Bhutan Standards Act 2010, BSB has obtained an onerous set of responsibilities covering: i) national/international standards; ii) metrology; iii) testing infrastructure; iv) certification; v) accreditation; vi) international trade agreements; and vii) monitoring. BSB recognises the need to develop standards that are the priorities for the CSMI sector and is processing some of these with donor support, focusing on engineering, food and agriculture, electrical, basic management systems, pharmaceuticals and traditional medicines, wood and timber products and textiles. However, the institution is young and in need of strengthening. Furthermore, greater cooperation and coordination with other state bodies is required to ensure that Quality Standards, Testing and Compliance services work for the benefit of the CSMI sector. There is a natural link between MoEA and BSB; consideration should, therefore, be given to the scope for changing the Chairman of the BSB Board from the Minister of Works and Human Settlements to the Minister of Economic Affairs.

**Measures:**

- Institutional development and strengthening of Bhutan Standards Bureau
- Develop standards cooperation and coordination between BSB, MoEA and others
- Support quality standards that prioritise the CSMI sector's comparative advantages in both high quality, niche, value adding products and services
- Develop the testing infrastructure to allow conformity assessment to internationally recognised standards in Bhutan (reduce cost / increase assess for CSMI)
- Support CSIMs, clusters and cooperatives to achieve quality management standards necessary for promotion of "Brand Bhutan"

### 4.10.2 Brand Bhutan

**Policy:** RGoB shall promote CSMI products through "Brand Bhutan", starting with a focus on the indigenous arts and crafts of Bhutan.

**Analysis:** Bhutan's unique culture, biodiversity and reputation for its pristine environment create the opportunity to create a competitive advantage through the establishment of a "Brand Bhutan", which is part of the RGoB's economic policy. Initial steps have been taken by MoEA's Department of Trade (DoT) via the establishment of Seals of Excellence and Quality for handicrafts (see below). The intention is to build upon these activities by developing the "Brand Bhutan" as well as brands in key CSMI sectors, namely the tourism, culture, handicrafts, textiles or agro-produce sectors, as identified in the Brand Bhutan Strategy (2010), which is in the process of being finalised. This will support the development of "Brand Bhutan" as a nationally and internationally recognised mark of origin of Bhutanese products. This will increase demand both for Bhutanese exports and from tourists coming to Bhutan and help create an opportunity to offset, at least partially, the cost advantage of imported products over their Bhutanese equivalents.

**Measures:**

- Implement the Brand Bhutan Strategy, once approved by GNHC
- Awareness raising among CSMI of the benefits of Brand Bhutan
- Capacity development of strategic CSMI stakeholders to promote "Brand Bhutan", such as in the handicrafts and tourism sectors e.g. APIC for crafts

### 4.10.3 Seal of Excellence and Quality, and the Seal of Origin

**Policy:** RGoB shall strategically position goods and services produced by CSMI in high-value market niches using Bhutan's Seals of Excellence and Quality, and the Seal of Origin, Bhutan Organic Logo and Green Labelling.

**Analysis:** The MoEA's DoT is responsible for implementation of the Seal of Excellence, the Seal of Quality and the Seal of Origin, which were introduced in order generate greater recognition of Bhutanese products, up-hold traditional knowledge and skills of artisans and to establish a quality benchmark for Bhutanese products. The three seals are currently only geared towards the handicrafts sector and aim to establish a national quality benchmark for Bhutanese handicraft products (traditional and non-traditional), thereby encouraging the producers/artisans to be more creative/innovative in their designs, while preserving traditional craft skills and knowledge. The Seal of Excellence and Seal of Quality are effectively part and parcel of the same application process: it is only if the product (services are not covered) scores 4-5 (on a 1-5 scale) that it can gain the Seal of Excellence. Based on the first round of Bhutan Seal Award in 2009, only one enterprise holds the Seal of Excellent, 23 hold the Seal of Quality and 31 indsutries failed to gain a Seal. The application process is relatively fast (average of two months), affordable (Nu. 2,500 for the administration costs) and seals remain valid for four years. The Seal of Origin is currently being prepared by APIC but would be restricted to handicrafts. Weaknesses include the fact that the Seals are not in any way connected with the Bhutan Standards Bureau; competitions are only held every other year based on stakeholder feedback; and the focus is currently only on handicrafts. These act as a significant constraint on the potential of the Seals. There is a need to coordinate with BSB in the short term and transfer the initiative to BSB in the medium term, thus enabling the Seals will gain nation-wide impetus. There is also a need to raise awareness of Seal benefits (certificates, marketing, advice on rights, capacity building, prestige and visibility, quality assurance, etc.).

**Measures:**

- Awareness raising among CSMI of benefits, procedures and costs of the Seals
- Implement annual programmes of Seals of Excellent and Quality
- Close cooperation with Bhutan Standards Bureau (BSB) in the development of Bhutan's Seals of Excellence and Quality, and the Seal of Origin and implementation of programme

### 4.10.4 B2B, Trade Fairs and Exhibitions

**Policy:** RGoB shall facilitate the participation of export oriented CSMI in targeted B2B events, trade fairs and Exhibitions.

**Analysis:** The MoEA's DoT has an annual budget of approx. Nu. 1 million to promote CSMI export initiatives. Such efforts are currently restricted to participation in trade fairs such as: i) South Asian Association for Regional Cooperation (SAARC) of which Bhutan is a member; ii) Indian Trade Fair; and iii) other trade fairs, depending on resources. A competitive application process involves adverts and requests for applications, and successful industries are assisted on a cost-sharing basis. The MoEA covers the costs of the stalls and getting products to the trade fairs, but the CSMI must cover the balance of the costs. The MoEA's DCSI also provides financial support to rural artisans for participation in fairs (stalls fees, advertisement materials and Daily Subsistence Allowances) with UNDP support. Some financial support is also provided for the craft bazaar (Nu. 450,000 for construction with UNDP support), as well as guidance.

What is currently done to promote the CSMI sector is a start, but more could be done to ensure that no only BCCI but other business associations engage in these activities, assist CSMI to sponsor these activities, and generally enable CSMI in targeted sectors/sub-sectors to gain exposure to potential partners/competitors and their products and services, thus stimulating market access.

**Box 4.15: Supporting Internationalisation**

The internationalisation of CSMI activities can be promoted through a variety of support services focusing on issues such as: information provision (on potential business partners, import and export) consultancy and advisory services (opportunities, niches, contacts, etc.) legal and tax advisory (customs, incentives, etc.), marketing, etc.

The most typical activities supported by government /public support measures include: B2B/matchmaking (joint ventures, cooperation, etc.), participation in conferences, exhibitions, trade fairs, product launches, delegations, missions and high powered meetings, etc.

Such activities would need to be coordinated between MoEA (DoT and DCSI) and the various business associations. MoEA would allocate resources and highlight priorities, while implementation would be largely left to the business associations.

**Measures:**

- Develop a wider range of support measures (both DoT and DCSI), such as trade fairs, exhibitions, B2B events, etc.
- Ensure targeting of CSMI (e.g. growth-oriented, capacity to increase supply, etc.) in close collaboration with business associations

### 4.10.5 Product Development and Quality Improvement

**Policy:** RGoB shall stimulate product development and quality improvement, ranging from production to final packaging, focusing on high value markets and niche products.

**Analysis:** For Bhutan to take advantage of initiatives such as Brand Bhutan, Seals of Excellence and Quality, and the Seal of Origin, product development and quality improvement is a pre-requisite. Given the constraints of CSMI sector, where economies of scale are difficult or impossible to reap, compared with neighbouring countries, CSMI are forced to concentrate on high value, niche products. Product and service development and quality improvement involves a chain of activities starting from production to final packaging with various activities in between. A focused approach is required in relation to product and service development and quality improvement, which emphasises product innovation, traditional and contemporary design, packaging, labelling, marketing, E-Business, etc. Handicrafts have been identified as comprising such a high value, niche category, while also offering one prospects for rural development. There is a need to encourage clustering of handicrafts, inculcating new products, skills and designs to enable handicrafts compete effectively with regional imports.

**Measures:**

- Grant/voucher/CSF scheme to stimulate product development, design, packaging, labelling, branding, marketing, etc. support services for handicrafts in cooperation with APIC
- Develop crafts clusters and value chains in cooperation with APIC (see Section 3.10.3)
- Promotion and marketing of Bhutanese crafts (link to Brand Bhutan – see Section 3.10.2)
- Extend activities to other sectors, such as tourism, textiles, culture and agro-produce

The CSMI Action Plan converts the policy measures connected with this strategic objective into activities, deadlines, etc.

## 4.11 Employment and Culture of Entrepreneurship

| Strategy VI: Enhance Employment and Develop a Culture of Entrepreneurship |
|---|
| Direction: Bhutanese society prioritises public administration over enterprise / business yet its key competitors include China, India and the Association of Southeast Asian Nations (ASEAN) bloc countries (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam), which value entrepreneurship. The 10th Five Year Plan emphasises that it is critical for a culture of entrepreneurship to be developed at all levels of the education system and all spheres of economic activity, which reinforces the importance of entrepreneurship and the contribution of entrepreneurs to employment generation, protection low carbon business, wealth creation, creation, environmental and social and poverty reduction (rather than seeing public administration / white collar jobs as the principal ideal). The advent of the knowledge economy and rapid developments in consumer preferences, product life cycles, etc. place a premium on the development of a deep and diverse talent pool, combined with a capacity to match labour market demand with the supply of human capital, with an emphasis on gender equality. Below, we explore the main policy aims, the issues involved, as well as the measures to be implemented. |
| RGoB shall:<br>VI.1: Develop a culture of entrepreneurship at all levels of society to stimulate a greater awareness and interest in self-employment and the business sector, including the developing a green mind-set.<br>VI.2: Embed "entrepreneurship/green business culture" awareness and skills at all levels of the education system. Promote innovation amongst students through provision of financial and technical resources for research and development.<br>VI.3: Stimulate the participation of CSMI in School/ Technical and Vocational Education Training Boards/Academic Boards generating greater linkage between the human capital demanded by the private sector and the skills supplied by the education system.<br>VI.4: Promote women entrepreneurship in CSMI to maximise the economic contribution of both genders.<br>VI.5: Raise the relevance and quality of Technical and Vocational Education Training (TVET) skills through closer links between technical training institutes and industries.<br>VI.6: Stimulate the absorption of new technology (including clean technologies) and innovation through the development of Research-CSMI linkages.<br>VI.7: Generate greater awareness and commitment to Corporate Social Responsibility (CSR). |

### 4.11.1 Culture of Entrepreneurship

**Policy:** RGoB shall develop a culture of entrepreneurship at all levels of society to stimulate a greater awareness and interest in self-employment and the business sector, including the developing a green mind-set[27].

27 *Green mindset refers in this context to the scope for developing eco-friendly businesses, consistent with the GHN philosophy and the potential offered by the country.*

**Analysis:** In contrast to many of its regional competitors, the levels of entrepreneurship in Bhutan are low. The country's level of start-ups reflects in part a strong cultural preference for employment rather than self-employment; and for public administration rather than business. There is a need to increase the awareness and appreciation of the role of entrepreneurship in society, so as to encourage people to look beyond the preference for "safe employment", while ensuring that the balance of risk and reward is tipped more in favour of the entrepreneur. Society currently holds largely negative perceptions in respect to entrepreneurship and business. Therefore, a medium to long-term campaign is needed, which counteracts the perception by presenting entrepreneurial role models or portraits of business success, on cooperation with the media. The mass media can bring about behavioural change in the business operation by influencing public and individual attitudes and behaviour through interventions applying for instance social marketing techniques. Mass media can also act as an agent to improve the policy and regulatory environments for small businesses, as well as a green mind-set.

Success in entrepreneurship is not widely publicly recognised in Bhutan. Despite previous attempts to establish them, there are currently no specific national awards for enterprise, as are common in many other countries, to raise the profile of successful entrepreneurs and create role models for young people. Therefore, providing a range of enterprise awards at a high profile event involving royal recognition would be an important component of developing a culture of entrepreneurship. The purpose of the awards would be to: i) identify and recognise successful entrepreneurial activities and initiatives; ii) create a higher awareness of the role entrepreneurs play in society; and iii) encourage and inspire potential entrepreneurs by the creation of role models, including eco/green-oriented innovators.

**Measures:**

- Entrepreneurship Awareness Raising Campaign to influence perceptions of society towards entrepreneurs, risk-taking and social responsibility in relation to business.
- Create the campaign with the integral involvement of the business community (associations, chambers, successful business persons, etc.), over the long-term at three levels:
    - o National media campaign (TV adverts, advertisements, brochures, posters, etc.): to change perceptions by emphasising entrepreneurs' contribution to employment, social welfare, environment protection and national growth. Market assessment and pilot programme design to determine: i) whether the programme shall be radio and/or TV; ii) preferred viewing/listening times and languages; iii) programme format; iv) technical requirements for production and broadcasting; v) human resource development requirements; and vi) advertising and sponsorship. Delivery of a Pilot Programme: delivery of the pilot programme (of several episodes) and subsequent assessment of its interest to the target group and potential sponsors. If the pilot is successful it will be rolled-out into a full-scale programme in the key languages.
    - o Development of entrepreneurship activities by business associations in relation to entrepreneurship (e.g. International Day of the Entrepreneur).
    - o Promotion of concepts that gain support and respect of society at large, such as corporate governance, social businesses, corporate social responsibility, environment protection awareness, health and safety at work, combating the informal economy, etc.
- Establish and Annual Enterprise Awards in the following types of categories:
    - o Entrepreneur of the Year
    - o Female Entrepreneur of the Year

- o Young Entrepreneur of the Year
- o GNH entrepreneur of the Year
- o And possibly other categories, such as exporter/ICT/IPR/innovator/green entrepreneur of the year.

#### 4.11.2 "Entrepreneurship/ Business" Skills

**Policy:** RGoB shall embed "entrepreneurship/ green business culture" awareness and skills at all levels of the education system. Promote innovation amongst students through provision of financial and technical resources for research and development.

**Analysis:** The education system aims to broaden the mental horizon of the students to understand life, appreciate and live in the changing world, as well as to provide them with skills that they can make use of later in life. The education system includes co-curricular activities that provide practical experiences in income generating activities, such as agriculture, gardening, horticulture, clubs (hair cutting, carpentry, masonry, electrician, mechanics, home science, indoor design, beautification, conversation of environment, arts and crafts, etc.). These ideas and skills are expected to stimulate entrepreneurial behaviour in the youth. However, more needs to be done to encourage entrepreneurship in general and more youth to establish industries, preferably ones paying due regard to the environment. According to the Enterprise Survey 2011, the average age of the CSMI entrepreneur is 44; young people are under-represented among enterprise owners; only 17% of them had tertiary level education; and almost half (46%) had absolutely no prior experience of enterprise/business when they started.

The educational system has a role in opening-up opportunities for young people that goes beyond salaried employment, particularly with Government. The educational system is also responsible for creating career aspirations amongst young people and has a duty to ensure that these are not mismatched with the realities of the job market that they face when leaving school. Enterprise education should encourage young people to be innovative, to take and manage risks, and to develop determination and drive. Enterprise education is not about a body of knowledge; rather it is about developing young people's ability to embrace change positively, show initiative and take responsibility. Developing enterprising and entrepreneurial qualities benefit young people in their personal and working lives, as well as the communities in which they live. The educational curriculum needs to develop so as to:

- Allow all students to experience enterprise activity during their school career: "entrepreneurship" would be established as a non-examinable subject in all schools. This would allow students to get involved in a range of enterprise activities, including business and community projects, simulations, work and community placements, and enterprise days
- Integrate enterprise learning into core subjects in the curricula. In order to help understand enterprise and develop entrepreneurial characteristics, they should have opportunities across the curriculum to take personal responsibility for their own actions through an enterprise process that involves various stages: i) stage 1 – tackling a problem or need: students generate ideas through discussion to reach a common understanding of what is required to resolve the problem or meet the need; ii) stage 2 – planning the project or activity: breaking down tasks, organising resources, deploying team members and allocating responsibilities; iii) stage 3 – implementing the plan: solving problems, monitoring progress; iv) stage 4 – evaluating the processes: reviewing activities and final

outcomes, reflecting on lessons learned and assessing the skills, attitudes, qualities and understanding acquired. The approach should emphasise learning by doing, by copying, by experimenting, by making mistakes, by problem solving and opportunity seeking and by innovating.

- This implies that students would: i) experience a range of teaching approaches in subjects across the curriculum that encourage active learning, including problem-based approaches, collaborative and cooperative activities, coaching and mentoring; ii) learn in an environment where they are given autonomy to tackle relevant problems or issues that involve an element of risk and uncertainty about final outcomes, as well as regard for their successful resolution; and iii) work to deadlines with limited resources, organising themselves to fulfil roles and complete tasks create and implement project plans that include setting targets, managing budgets and monitoring progress.

The MoEA will work with the MoE to ensure that a greater emphasis on entrepreneurship develops over time, such as introducing elements of business skills into existing curricula (such as economics, commercial studies, accounting, socially useful and productive work and community services), mobilising resources and providing know-how for the establishment of entrepreneurial-oriented competitions, events and days.

**Measures:**

- Promote private sector participation in the Curriculum and Programme Development Board
- Introduce entrepreneurial elements into parts of the national education curriculum, starting with subjects such as economics, commercial studies, accounting, socially useful and productive work & community services
- Encourage enterprise placements for teachers of enterprise-oriented curricula
- Promote entrepreneurial-oriented competitions, events and days at all educational levels
- Expand Entrepreneurship Development Cells from 5 to all 10 Royal University Colleges

### 4.11.3 Vocational Education and Training

**Policy:** RGoB shall raise the relevance and quality of Technical and Vocational Education Training (TVET) skills through closer links between technical training institutes and industries.
**Analysis:** The Labour Force Survey (LFS, 2011) shows that the unemployment rate was 3.1%, that it is much higher in urban (5.8%) than rural areas (2.1%) and that it affects women disproportionately (4.5% compared with 1.8% for men). It also shows that there are 4,900 unemployed people (15 – 24 year olds) out of a total of 10,500 unemployed nationally (46.7% of all unemployed). The National Youth Policy (MoE, 2010) makes a strong case for stimulating training, employment and self-employment through entrepreneurship development for this target group. Some of the 4,900 are listed in the MoLHR's Employment Register, which aims to place unemployed people in jobs. Many, if not most, have completed Class XII but have not obtained a degree so are young people with no vocational skills or technical skills who face a potentially grim future. Many of the unemployed people who do not register with MoLHR are probably too distant from the MoLHR's regional offices or lack Internet access. For those that do register, the chances of finding private sector employment through this route are slim: the MoLHR indicates that only a few jobs are registered with them by private sector employers. This suggests that private employers may have little faith in the system, as many are face labour shortages and are seeking employees. The fact that youth unemployment makes up almost half (47%) of all unemployed has led to initiatives such as the

Entrepreneurship Development Programme (EDP) and a credit guarantee scheme (CGS). Under the EDP, some 300 young unemployed people have been trained in the basic and advanced entrepreneurship courses since 2010 and approx. 85 have established a business activity under the CGS. The target is 400 such participants (50% basic entrepreneurship course of 30 days; 50% advanced entrepreneurship course of 40 days) per annum. However, there are significant doubts about the effectiveness of the CGS (see section 3.2.4.) and it is essential for MoLHR to evaluate the quality of the training and the effectiveness of the CGS as a basis for improving the initiative. Other types of support include the apprenticeship programme for industry (50% wage subsidy for 6, 9 or 12 months) and the pre-employment engagement programme (subsidy of approx. Nu. 3,000 per month for 3-6 months) designed to assist young people into employment. Both are also in need of review to assess whether they are working optimally or not.

The Report on National HRD Needs of the Kingdom of Bhutan in 2010 (HRD Policy) identifies one of the objectives as being to develop qualified manpower in line with future labour market demands (2010, p.xiv) and stresses that: "... relevance, quality and demand shall be the salient features of technical and vocational education and training in Bhutan. Vocational education shall be planned in line with the labour market demands. In addition the competencies of the students shall be developed in sync with industry requirements. The TTIs [Technical Training Institutes] shall introduce new courses that have market demand as well as that are attractive enough for the students. The TTIs shall also offer short-term, pre-service courses conducive for employment. Some of the courses shall be targeted at the specific needs of women students." (2010, p.xv). Furthermore, the HRD Policy calls for the establishment of different entrepreneurship development programmes and TTI graduates shall also be trained for self-employment. The six TTIs and Institutes of Zorig Chusum (2) are the major providers of vocational education in Bhutan. In 2010, there were 2,055 students registered with MoLHR for all typed of technical training institutes; 662 slots were available in the TTIs, but 122 (18.4 %) were vacant, indicating a lack of demand. In response, the TTIs were renamed (from Vocational Training Institutes to TTIs) and are moving towards a Competence Based Training (CBT) mode. The curricula are also in the process of being revised, starting with the Construction and Electronics curricula. The pilots will be reviewed and rolled out to all other curricula.

**Measures:**

- Undertake an annual labour market skills matching survey
- Establish on-line Labour Market Info System Employment Brokerage (job seekers / jobs)
- Convert all TTI curricula to Competence Based Training (CBT) mode
- Strengthen entrepreneurship / self-employment training at TTIs
- Evaluate entrepreneurship / self-employment programmes and the CGS component
- Establishment of a Careers Guidance Service (CGS) in all TTIs
- Enhance access to TTIs for females due to their relatively lower levels of enrolment (39%)

#### 4.11.4 Strengthening Educational and Vocational Boards

**Policy:** RGoB shall stimulate the participation of CSMI in School/Technical and Vocational Education Training Boards/Academic Boards generating greater linkage between the human capital demanded by the private sector and the skills supplied by the education system.

**Analysis:** There is a pressing need for the vocational educational curriculum to be better attuned to the needs of the labour market. The 2009 Labour Market Study states that: "the total availability of skilled graduates entering the workforce is estimated to be in excess of the total requirements of the industries in Bhutan covered by this study." This suggests that there is an oversupply of graduates but that these fail to meet the needs of the labour market / industries; a classic mismatch problem. Further, it forecasts that by 2020 about 50% of graduates will be unemployed, and forecasts gaps in skilled manpower, but oversupply in other areas with very substantial surpluses in graduates in the physical and social sciences, business management, IT and computing and teaching. At the same time, it forecasts under-supply in nursing, hotel management, civil engineers and electrical engineers. By ensuring that industries are part of the educational boards, there is a much greater prospect of demand and supply of education and vocational training being better balanced in future.

**Measures:**

- Encourage private sector participation in the Curriculum and Programme Development Board
- Encourage private sector participation in preparation of Competence Based Training curricula
- Encourage private sector participation in TTI Boards

### 4.11.5 Women Entrepreneurship

**Policy:** RGoB shall promote women entrepreneurship in CSMI to maximise the economic contribution of both genders.

**Analysis:** The Enterprise Survey (2011) shows the need for gender mainstreaming and a more effective use of human resources. There is an asymmetry in the ownership profile of CSMI in Bhutan. Twenty-nine percent of the surveyed industries were owned by women, though a slightly higher level of ownership of small and medium industries by women at 24 and 17% respectively. Notwithstanding this, female ownership of industries nevertheless extends across a wide spectrum of industries bodes well for female entrepreneurship given that women in Bhutan are not typically restricted to gender stereotyped business occupations. But in terms of labour participation, women's employment in the CSMI sector overall was at 28% as compared to 72% for men; their presence was most dominant in the indigenous crafts sector (61%), services (48%) and agro-processing (44%). Finally, the survey illustrated that the average salary is higher for males than for females. While there is considerable scope to enhance gender parity in the CSMI workplace both in terms of ownership and labour participation, these figures are still relatively better than what prevails in South Asia and a good sign of adequate entrepreneurial opportunities for women in Bhutan. The Investment Climate Assessment (World Bank, 2009) reports a similar difference in absolute terms of wages paid to men and women. However, after controlling for age, education, job category and firm size, women's wages were only approx. 10% lower and that firms provided non-wage benefits equally.

Moreover, a key finding from the ICA (World Bank, 2010) was the striking regional difference in female employee hiring trends among firms. It revealed that regions with the highest levels of enterprise concentration, such as Thimphu and Paro, had a higher percentage of firms that were "high" employers of women whereas the districts of Gelephu and Sarpang predominantly hosted firms that did not employ women. The prevailing socio-cultural norms in certain areas might have a strong bearing on these gender employment patterns.

Other findings from the ES 2010 are summarized below:

- The major constraints for female owned firms are: access to finance, transport and labour regulations (hiring foreign workers) and match the constraints perceived by all firms
- There is no evidence that firms with females owners are less productive vs. male owned
- There is evidence of underemployment amongst female workers

**Measures:**

- Prepare a regular report on female entrepreneurship: characteristics, barriers (economic, social and cultural), attitudes, needs, etc. and recommendations for policy development
- Establish a female entrepreneur of the year award (see Section 3.7.1. above)
- Stimulate participation by CSMI female entrepreneurs on Board of state owned companies
- Future Action Plans will seek to stimulate female participation in all Boards of companies
- Establish a sustainable Women's Business Association to promote female entrepreneurship
- Give preference to women in entrepreneurial training and education programmes
- Prepare a feasibility study for establishment of a women-oriented business incubator

### 4.11.6 Research-CSMI Linkages

**Policy:** RGoB shall stimulate the absorption of new technology (including clean technologies) and innovation through the development of Research-CSMI linkages.

**Analysis:** The Royal University of Bhutan (RUB) is a relatively young educational institution which has hitherto focused on teaching. However, this is changing; increasing attention is being devoted to research and development (R&D), as well as strengthening research-enterprise linkages more generally. The advantages of such linkages to CSMI focus primarily on issues such as raising productivity and quality, as well as generating greater levels of competitiveness and profitability through innovation. The Royal University already runs successful internship programmes, though these are oriented to large firms, rather than CSMI. There is scope to strengthen research-enterprise linkages through a two-way flow of industry experts (e.g. adjunct lecturers on specialist topics) and academics (currently constrained due to a shortage of personnel). There is also scope to further develop clean/green technologies for high value niche sectors and sub-sectors which can benefit from, for example in technologies highlighted by the Competitiveness Report (2012), such as vegetable dying, pre-weaving, grading and sorting technology, packing, storing and labelling, etc. is crucial for sectors such as the manufacture of traditional medicines, vegetable dyes and incense. RUB should also give due consideration to the possibility of stimulating start-ups from the post-graduate and academic staff through small scale start-up grants, business incubations, etc.

**Measures:**

- Develop an SME orientation to internship programmes
- Place academics in business, engineering, sciences, etc. in SMEs
- Develop R&D/IPR/start-up/spin-off/consultancy initiatives to strengthen CSMI links
- Undertake a feasibility study to establish a university-oriented business incubator
- (Depending on the outcome) Implement a business incubator

#### 4.11.7 Corporate Social Responsibility

**Policy:** RGoB shall generate greater awareness and commitment to Corporate Social Responsibility (CSR).

**Analysis:** CSR policy functions as a built-in, self-regulating mechanism whereby businesses monitor and ensure compliance with the spirit of the law, ethical standards and international norms. The goal of CSR is to embrace responsibility for the company's actions and encourage a positive impact through its activities on the environment, consumers, employees, communities, stakeholders and all other stakeholders. CSR urges private companies to re-define their boundaries of responsibility vis-à-vis society and come-up with a new "social contract." Therefore, CSR plays a role in the competitiveness agenda, however, awareness of CSR among both CSMI and large industries is still at the early stage and the majority of businesses consider it as an "external" issue, rather than something to be incorporated in their mission statement and strategic decisions. Industries introducing CSR would need to set out their CSR mission and monitor their performance (business, ethics, environmental impact, etc.) if they are to achieve their objectives. The focus of support would thus be in awareness raising of the value of CSR as part and parcel of profitable company development, as well as generating interest in CSR through dissemination of good practice examples of CSR initiatives among CSMI.

**Measures:**
- Implement awareness raising campaigns about CSR among companies and stakeholders
- Publicise and disseminate CSR good practice among CSMI

### 4.12 Conclusions

The preceding discussion has set out the vision, mission, targets and strategic objectives to be achieved by the CSMI Development Strategy. These are interpreted in detail by the first of three CSMI Action Plans to be developed and implemented by the MoEA In collaboration with other stakeholders. The remaining chapter of the CSMI Development Strategy sets out in detail how the implementation, monitoring and evaluation of the Strategy is to be achieved, including the resources that will be deployed for implementation.

## 5 Management, Coordination and Implementation

This section discusses the responsibility for the coordination of the implementation of the CSMI Development Strategy, the consultation process, how the policy will be monitored and evaluated, and finally identifies the sources of funding for its implementation.

### 5.1 Inter-related Instruments: CSMI Policy, Strategy and Action Plan

The CSMI development framework comprises three inter-related instruments:
- **CSMI Policy (2012-20): has been approved by the Government: it sets out the overall policy framework (policy measures) for CSMI development until 2020.**
- **CSMI Development Strategy (2012-20): (this document) sets out the vision, strategic objectives, targets, priority measures, etc. for achieving the CSMI Policy.**

- **CSMI Action Plan (2012-2014): sets out the activities, responsibilities, deadlines and resources for achieving the CSMI Development Strategy in three year phases; three CSMI Action Plans will span the timeline of the CSMI Policy and Strategy.**

### 5.2 Responsibility for Implementation

The **Ministry of Economic Affairs (MoEA)** in collaboration with the relevant stakeholders shall be responsible for the implementation of the CSMI Policy and Strategy 2012-2020, as well as the three related action plans.

Within the MoEA, the **Department of Cottage and Small Industries (DCSI)** is responsible for the management and coordination of the CSMI Policy, Strategy and Action Plans. The **Department of Industry** within MoEA also has partial responsibility since it is (currently) responsible for medium and large industries, within the overall coordination of DCSI.

Since CSMI development is horizontal or cross-cutting in nature, it is not only the MoEA that has responsibility to implementing the CSMI Policy, Strategy and Action Plans. **Other parts of government are also responsible**, especially for legislative and regulatory measures. These have been and will continue to be involved in the process of preparing and implementing the three CSMI instruments.

**Private sector stakeholders** also have a key role on achieving parts of the CSMI Policy, not least the individual businesses themselves, as well as representative organizations such as business associations and Business Development Service providers. These have been and will continue to be involved in the process of preparing and implementing the three CSMI instruments.

### 5.3 Coordination of Implementation

Given the horizontal or cross-cutting in nature of the CSMI Policy, Strategy and Action Plans, they can only be effectively implemented through two important coordination mechanisms, to be managed by DCSI:

- **Committee of Secretaries: MoEA will oversee and coordinate the implementation of the CSMI policy, strategy and action plan. However, since CSMI development is cross-cutting in nature, there is a need for an inter-ministerial mechanism to ensure effective implementation. The Committee of Secretaries will be the inter-Ministerial Coordination Committee and will oversee the implementation of the CSMI policy, strategy and action plans (through at least two meetings per annum and more if required). The DCSI will act as the Secretariat of the Inter-ministerial CSMI Coordination body and will prepare six monthly reports on the progress with implementing the CSMI Development Strategy and Action Plan.**
- **Public Private Dialogue Forum to ensure regular, proactive, two-way public private dialogue between the CSMI sector and RGoB through the PSDC.**

## 5.4 Monitoring and Evaluation

DCSI is responsible for Monitoring and Evaluation (M&E) of the implementation of the CSMI Policy, Strategy and Action Plans. This will be achieved by the following:

- **Six monthly Progress Reports for submission to Committee of Secretaries and Public Private Dialogue Forum.**
- **Annual Progress Reports for submission to the Committee of Secretaries.**
- **Independent evaluation of the Action Plan nine months before completion.**
- **In accordance with the National Monitoring and Evaluation System (NMES).**
- **Use of the independent evaluation to roll forward the subsequent three year Action Plan.**
- **Independent evaluation of the CSMI Policy, Strategy and Action Plans by mid-2019.**

## 5.5 Implementation Budget

The resources required for the implementation of the CSMI Policy will be determined according to the specification of the Action Plans. The resources will come from two principal sources:

- **State budget: the Action Plan will set out, on an annual basis, the resource envelope connected with the implementation of the CSMI Policy. The MoEA, as well as the respective implementing public sector agencies, will make annual requests for state funding for implementation of the CSMI Policy, Strategy and Action Plans.**
- **International donor community: not all required resources are expected to be provided by the state budget; competing policy priorities are likely to mean that only a sub-set of the necessary budget will be available from state funds. The MoEA will liaise closely and proactively with the GNH Commission in order to establish an efficient and effective resource mobilization process, thus ensuring that state funding is supplemented by resources from the international donor community in a timely and coherent manner, guided by the CSMI Policy, Strategy and Action Plan.**
- **Multi-lateral development agencies such as the South Asian Development Fund and bilateral agreements for aid and technical co-operation between Bhutan and other countries can be tapped for implementing CSMI development programmes.**

## References

AABS (2012) Accounting Standards

APIC (2011) Organizational Plan 2011-2016

DRC (2010) National Revenue Report 2009-2010

GNHC (2007) MDG Needs Assessment and Cost Analysis (2007-2015)

GNHC (2008) Tenth Five Year Plan (2008-2013) Vol. I

GNHC (2012) Framework to Mainstream Environment, Climate Change and Poverty (ECP)

GNHC (2012) Eleventh Round Table Meeting Report 2011

MoE (2010) National Youth Policy

MoE (2011) Annual Education Statistics 2010

MoAF (2010) Comprehensive Development Strategy for Farmers groups cooperatives in Bhutan vol. 1 & 2

MoAF (2012) Cooperative Development Fund of Bhutan (Concept Note)

MoEA (undated) Feasibility Study on Tax Free Zone in Phuentsholing

MoEA (2010) Economic Development Policy of the Kingdom of Bhutan 2010

MoEA (2012) CSMI Policy

MoEA (2012) CSMI Action Plan 2012-14

MoF (2011) Fiscal Incentives 2010 Notification

MoF (2011) Budget Policy and Fiscal Framework Statement (BPFFS) 2011

MoIC (2010) 2nd Annual Statistics 2010

MoLHR (2010) National HRD Needs of the Kingdom of Bhutan

MoLHR (2011) National Labour Force Survey 2010

NSB (2011) National Account Statistics 2010

NSB (2011) Statistical Yearbook of Bhutan 2010

OECD (undated) Discussion Paper on Credit Guarantee Schemes, mimeo

OECD and EBRD (2003) South East Europe Region Enterprise Policy Performance: A Regional Assessment, OECD-EBRD

PC (1999) Bhutan 2020: A Vision for Peace, Prosperity and Happiness

PCA (2010) Enterprise Survey 2010

PCA (2010) Informal Sector Survey

PCA (2010) The Analysis of the Current Legal and Regulatory Environment for MSME Development

PCA (2010) On the definition of Micro, small and medium-sized enterprises, White Paper

PCA (2010) The national MSME development strategy draft version II (Sep)

PCA (2010) White paper on enterprise registration in Bhutan draft

PCA (2010) White paper on development of cooperatives in Bhutan draft

PCA (2010) Discussion paper on credit guarantee funds, White Paper

PCA (2011) Bhutan BDS Demand and Supply Inventory

PCA (2011) Technical Report

PCA (2012) Competitiveness Report

PCA (2012) Enterprise Survey 2011

PCA (2012) Towards Public – Private Partnership for MSME Development, White paper

PCA (2012) Report on the Closure of the CSF Component of the MSME SDP

PCA (2012) RIA Report on Enterprise Registration in Bhutan

REC (2009) Bhutan Long Term Manpower Requirements

RMA (2010) Annual Report 2009/2010

RMA (2012) Draft Financial Inclusion Policy

RMA (2012) draft Financial Inclusion Policy of Bhutan

Scott Jacobs Associates (2010) Business Start-Up in Bhutan: Regulatory Impact Analysis

UNDP (2003) Business Development Services: How to Guide

UNIDO (2003) Credit Guarantee Schemes for Small Enterprises: An Effective Instrument to Promote Private Sector-Led Growth?, the United Nations Industrial Development Organization (UNIDO), A. Green, Working Paper No. 10

Word Bank (2008) The typology of partial credit guarantee funds around the world Policy Research Working Paper 4771

World Bank (2010) Bhutan Investment Climate Assessment (ICA)

World Bank (2011) Logistics Performance Index (LPI) 2010

World Bank (2002) Bhutan Private Sector Survey 2002

World Bank (2012) Doing Business 2012



85 World Bank, Toolkit for PPP in Highways, 1995

# Cottage, Small and Medium Industry Action Plan (2012-2014)

**Royal Government of Bhutan**

# Table of Contents

## Abbreviations

| | |
|---|---|
| AASB | Accounting and Auditing Standards Board of Bhutan |
| AP | Action Plan |
| APIC | Agency for the Promotion of Indigenous Crafts |
| BAS | Bhutanese Accounting Standards |
| BDS | Business Development Services |
| B2B | Business to Business |
| B2C | Business to Customers |
| BCCI | Bhutan Chamber of Commerce and Industry |
| BDFC | Bhutan Development Finance Corporation |
| BSB | Bhutan Standards Bureau |
| CGS | Credit Guarantee Scheme |
| CIB | Credit Information Bureau |
| CSMI | Cottage, Small and Medium Sized Industry |
| CSR | Corporate Social Responsibility |
| CR | Companies Registrar |
| DAMC | Department of Agricultural Marketing and Cooperatives |
| DCRD | Department of Curriculum Research and Development |
| DCSI | Department of Cottage and Small Industry |
| DHI | Druk Holding and Investments |
| DHR | Department of Human Resources |
| DoI | Department of Industry |
| DoE | Department of Employment |
| DoT | Department of Trade |
| IPD | Intellectual Property Division |
| DNP | Department of National Property |
| DRC | Department of Revenue and Customs |
| EDP | Enterprise Development Programme |
| FDI | Foreign Direct Investment |
| FI | Financial Institution |
| FIP | Financial Inclusion Policy |
| FMC | Financial Management Company |
| G2B | Government to Business |
| G2C | Government to Citizen |
| GNH | Gross National Happiness |
| GNHC | Gross National Happiness Commission |
| HRD | Human Resource Development |
| ICT | Information and Communications Technology |
| IFC | International Financial Corporation |
| IFI | International Financial Institutions |

| | |
|---|---|
| IPR | Intellectual Property Rights |
| IT | Information Technology |
| LFS | Labour Force Survey |
| MFI | Micro Finance Institution |
| LMIS | Labour Market Information System |
| MoAF | Ministry of Agriculture and Forests |
| MoE | Ministry of Education |
| MoEA | Ministry of Economic Affairs |
| MoF | Ministry of Finance |
| MoH | Ministry of Health |
| MoHCA | Ministry of Home and Cultural Affairs |
| MoIC | Ministry of Information and Communication |
| MoLHR | Ministry of Labour and Human Resources |
| NRDCL | Natural Resources Development Corporation |
| NBFI | Non-bank financial institution |
| NCWC | National Commission for Women and Children |
| NGO | Non-Government Organization |
| NSB | National Statistics Bureau |
| Nu. | Ngultrum |
| PPD | Policy & Planning Division |
| PPP | Public Private Partnership |
| PPPD | Public Procurement Policy Division (Under DNP) |
| PR | Press Relations |
| PSDC | Private Sector Development Committee |
| R&D | Research and Development |
| RGoB | Royal Government of the Kingdom of Bhutan |
| RIM | Royal Institute of Management |
| RMA | Royal Monetary Authority |
| RRCO | Regional Revenue and Customs Office |
| RTIO | Regional Trade and Industry Office |
| RUB | Royal University of Bhutan |
| SMI | Small and Medium Sized Industry |
| TA | Technical Assistance |
| TNA | Training Needs Assessment |
| TTI | Technology Training Institute |
| VET | Vocational Educational Training |

# Chapter 1: Introduction

The Ministry of Economic Affairs (MoEA) has produced three documents so as to establish a comprehensive framework for Cottage, Small and Medium Industry (CSMI) development:

- The CSMI Policy (see MoEA, 2012);
- The CSMI Development Strategy (see MoEA, 2012);
- The CSMI Action Plan 2012-2014 (this document).

Together, these documents are considered to be the fundamental building blocks necessary to strengthen and further develop the CSMI sector until the end of the decade.

The development of the CSMI sector in Bhutan is considered by both the Royal government of Bhutan (RGoB) and the wider CSMI stakeholders as being an important engine of growth in addressing the challenge of reducing the level of unemployment (especially youth unemployment), reducing migration from rural areas to urban centres and thus impacting on the levels of wealth and happiness of Bhutanese citizens.

However, CSMI development is a complex process that cuts horizontally through the various governmental structures of RGoB. Effective CSMI development this requires integration of the policies, strategies and plans of those ministries whose actions impact upon small business. Such integration can only effectively be brought about by inclusion of CSMI development as a cornerstone of overall national economic development planning.

The integration of CSMI development planning into national development planning needs to address such issues as how CSMI development impacts upon targets for: poverty reduction, job quality and quantity, productivity and business development, international competitiveness and exports, regional development, etc. These different aspects of CSMI development are not the responsibility of any one ministry; this means that an integrated approach to the preparation of a national CSMI development strategy and action plan is required.

Such integrated overall framework for development has already been agreed in the form of the CSMIPolicy 2012-2020 (MoEA, 2012), which focuses on providing an enabling policy, legal and regulatory environment for CSMI and Business Development Service (BDS) providers, as well as public goods such as basic CSMI infrastructure, education and information services. The CSMI Policy focuses on correcting or compensating for market failures, but not on the direct provision of private goods that can be more efficiently provided by the market.

The CSMI Development Strategy 2012-2020 creates the basis for operationalizing the approved CSMI Policy. It provides an overview of the CSMI sector in Bhutan (existing data, survey data SWOT analysis); it sets out the key CSMI policy and institutional context; the vision, strategic objectives and targets for the operationalization of the RGoB-approved CSMI Policy; and the implementation arrangements for the CSMI Development Strategy, including the coordination, monitoring and evaluation mechanisms, which are part and parcel of an effective CSMI Development Strategy.

The final piece of the jig-saw puzzle is the first three-year Action Plan 2012-2014, which basically sets out the framework for implementation of the CSMI Policy and Strategy. This document is the outcome of detailed discussions and agreement within the MoEA, as well as other governmental (ministries, agencies, etc.) and non-governmental (business associations, financial institutions, Business Development Service providers, etc.) about the priority actions to be implemented in the first three year period up to 2014.

The crux of the CSMI Action Plan 2012-2014 is a matrix of measures to be taken by all key Government ministries and agencies, as well as private sector stakeholders. The Action Plan also presents the responsibilities, budget estimates for each action, timetable for their implementation and indicators of success. The Action Plan is thus a critical tool for mobilisation of funds in support of CSMI development in the country. It will form the basis for the annual requests for state funding, as well as the foundation for structured mobilisation of donor/International Financial Institution funds, in support of the CSMI Policy and Strategy.

This document represents mere the first of the three, three-year CSMI Action Plans that will be prepared and disseminated by the MoEA. Each Action Plan's progress will be monitored and Progress Reports will be prepared on a six monthly basis. These will be presented and discussed at coordination / implementation forums.

Finally, to further ensure effective implementation, two types of evaluation are foreseen, both of which will be carried out by independent evaluators.

Through this interlocking process, the RGoB will not only have created a high quality CSMI Policy and Strategy using evidence based research and international good practice, but it will also have put in place structured mechanisms to ensure effective implementation through the rolling three year CSMI Action Plans.

# Chapter 2: CSMI Action Plan

## 2.1 Introduction

The CSMI Policy (2012-20) has set out the framework for CSMI development for the period until the end of the decade and involves six strategic priorities (MoEA, 2012):

I. Strengthen the Policy Environment and Institutional Framework.
II. Strengthen the Legislative Framework and Enterprise Environment.
III. Facilitate Access to Finance and Incentives.
IV. Enhance Competitiveness and Innovation.
V. Improve Market Access.
VI. Enhance Employment and Develop a Culture of Entrepreneurship.

Based on analyses and discussion between MoEA and the CSMI stakeholders, the CSMI Development Strategy (2012-20) has refined the above strategic priorities into policies, issues and measures to be implemented by RGoB (MoEA, 2012).

This document, the CSMI Action Plan (2012-4) converts the measures identified in the CSMI Development Strategy into a matrix of activities, responsibilities, deadlines and resources. The Matrix presented in this Action Plan covers the period up to and including 2014 (see Chapter 3). Future reviews will add depth to the future Action Plans, enabling the programme of measures to be rolled over until 2020.

## 2.2 Implementation Mechanisms

This section discusses the responsibility for the coordination of the implementation of the CSMI Development Strategy, the consultation process, how the policy will be monitored and evaluated, and finally identifies the sources of funding for its implementation.

### 2.2.1 Inter-related Instruments: CSMI Policy, Strategy and Action Plan

The CSMI development framework for Bhutan comprises three inter-related instruments:

- **CSMI Policy (2012-20):** has been approved by the MoEA, GNHC and Cabinet: it sets out the overall policy framework (ca. 60 policy measures) for CSMI development until 2020.

- **CSMI Development Strategy (2012-20):** sets out the vision, strategic objectives, targets, etc. for achieving the CSMI Policy.

- **CSMI Action Plan (2012-2014):** sets out the activities, responsibilities, deadlines and resources for achieving the CSMI Development Strategy in three year phases; there will be three such CSMI Action Plans covering the overall timeline of the CSMI Policy and Strategy.

### 2.2.2 Success and Failure

The CSMI Action Plan 2012–14 amounts to an extremely challenging agenda for the CSMI infrastructure of the Royal Government of Bhutan to implement. Although significant commitment was is often invested in the creation of the CSMI Policies, Strategies and Action Plans, their impact is often hindered by a number of factors, such as:

- Lack of *data and analysis*.
- Lack of *consultation* with the CSMI sector.
- Lack of adequate *time* for implementation.
- Lack of *political co*mmitment for implementation.
- Lack of capacity to *coordinate* implementation with stakeholders.
- Lack of capacity to *monitor* progress.
- Lack of *evaluation* to assess the impact.
- Lack of adequate *resources* from the state budget and other sources.

Below, we set out how the MoEA has sought to avoid these pitfalls in relation to the CSMI Policy, Strategy and Action Plan.

### 2.2.3 Evidence Based Policy Making

In preparing the CSMI Policy, Strategy and Action Plans, the MoEA's Department for Cottage and Small Industry (DCSI) commissioned detailed research on numerous aspects of CSMI development, including Enterprise Surveys (2010 and 2011), competitiveness reports (clusters and value chains), legal and regulatory assessments, and impact assessment. Additionally, other information was taken into account such as World Bank benchmarking and international good practice (see References). The key CSMI stakeholders were involved in the research and/or the consultation processes (see below). The overall measures fall within the priorities of the RGoB, as established by the GNH philosophy, the latest Five Year Plan (as well as being compatible with the forthcoming one), the Economic Development Plan and Bhutan Vision 2020. Finally, further discussions were held with public and private institutions on the specific measures, responsibilities and deadlines to be implemented in this Action Plan, so as to maximise the degree of ownership on the part of the MoEA, wider state bodies and CSMI stakeholders.

### 2.2.4 Consultation

The previously discussed background research led to a series of draft measures. These draft measures (Action Plans and the matrix) were first discussed, drafted and then have been circulated to various Departments within the MoEA, as well as all the relevant ministries and agencies for consultation. Moreover, they have been discussed in detail with the CSMI sector. The feedback obtained was incorporated into the final version of the CSMI Action Plans. This represents the outcome of this wide-ranging consultation process.

### 2.2.5 Implementation Period

The CSMI Policy, Strategy and Action Plan must be both aspirational and ambitious if they are to have the desired transformational impact. However, as the same time, it is critical for the time period to be realistic, so as to be capable of being implemented. The overall timeline for the Bhutanese CSMI policy is until 2020. This is considered to be a realistic time period within which to achieve meaningful CSMI development.

### 2.2.6 Political Commitment

The CSMI Policy, Strategy and Action Plan have been two years in the making. They have involved detailed analysis and discussion with the MoEA as well as wider state and private sector bodies. The CSMI Policy has been through the GNH Commission and the GNH Screening process, prior to being submitted to the Cabinet for approval. As such, the RGoB has demonstrated its commitment to the implementation. Other important issues demonstrate the political commitment to implementation: firstly, the RGoB is committed to providing an annual state budget for the implementation (see below); secondly, the MoEA will work closely with the GNH Commission to mobilise additional funds from donor and other sources (see below); and finally, an inter-ministerial coordination mechanism has been agreed to ensure effective progress, including problem solving, should this prove to be necessary.

### 2.2.7 Responsibility for Implementation

The MoEA has overall responsibility for the implementation of the CSMI Policy and Strategy 2012-2020, as well as the related Action Plans. Within the MoEA, the Department of Cottage and Small Industry (DCSI) is responsible for the management and coordination of the CSMI Policy, Strategy and Action Plans. The Department of Industry (as well as other departments) also has partial responsibility since it is currently responsible for medium and large industries, within the overall coordination of DCSI. The MoEA will be reformed to ensure that there is a single Department responsible for the CSMI Policy, Strategy and Action Plans.

However, since CSMI development is horizontal or cross-cutting in nature, it is not only the MoEA that has responsibility to implementing the CSMI Policy, Strategy and Action Plans. Other parts of government are also responsible, especially for legislative and regulatory measures. These have been and will continue to be involved in the process of preparing and implementing the three CSMI instruments.

Private sector stakeholders also have a key role on achieving parts of the CSMI Policy, not least the individual businesses themselves, as well as representative organizations such as business associations and business service development (BDS) providers. These will continue to be involved in the process of preparing and implementing the three CSMI instruments.

### 2.2.8 Coordination of Implementation

Given the horizontal or cross-cutting in nature of the CSMI Policy, Strategy and Action Plans, they can only be effectively implemented through two important coordination mechanisms:

- Committee of Secretaries: MoEA will oversee and coordinate the implementation of the CSMI policy, strategy and action plan. However, since CSMI development is cross-cutting in nature, there is a need for an inter-ministerial mechanism to ensure effective implementation. The Committee of Secretaries will be the inter-Ministerial Coordination Committee and will oversee the implementation of the CSMI policy, strategy and action plans (through at least two meetings per annum and more if required). The DCSI will act as the Secretariat of the Inter-ministerial CSMI Coordination body and will prepare six monthly reports on the progress with implementing the CSMI Development Strategy and Action Plan.

- Public Private Dialogue Forum to ensure regular, proactive, two-way public private dialogue between the CSMI sector and RGoB.

### 2.2.9 Monitoring and Evaluation

DCSI is responsible for Monitoring and Evaluation of the implementation of the CSMI Policy, Strategy and Action Plans. This will be achieved through the following tools:

- Six monthly Progress Reports for submission to Committee of Secretaries and Public Private Dialogue Forum.
- Annual Progress Reports for submission to the Committee of Secretaries, Public Private Dialogue Forum and Cabinet/Parliament.
- In accordance with the National Monitoring and Evaluation System (NMES) (M&E Manual and Planning and Monitoring System or PLaMS)
- Independent evaluation of the Action Plan nine months before completion.
- Use of the independent evaluation to roll forward the subsequent three year Action Plan.
- Independent evaluation of the CSMI Policy, Strategy and Action Plans by mid-2019.

### 2.2.10 Implementation Budget

The resources required for the implementation of the CSMI Policy will be determined according to the specification of the Action Plans. The resources will come from two principal sources:

- State budget: the Action Plan sets out (see Chapter 3) the resource envelope connected with the implementation of the CSMI measures. The MoEA, as well as the respective implementing public sector agencies, will make annual requests for state funding for implementation of the CSMI Policy, Strategy and Action Plans. This means that the resources highlighted in the action plan are only those that the MoEA itself will be mobilising. As such, it will be the custodian of the funds and will liaise with relevant stakeholders in the implementation of the various measures. This does not imply that the resources will be automatically allocated to the partner stakeholders. Rather, the most suitable method will be utilised for the implementation of each measure, taking into consideration the need for accountability in the use of state and/or international donor funds.

- International community: given the differing policy priorities, not all the necessary resources for CSMI development can be provided by the state budget; competing policy priorities are likely to mean that only a sub-set of the necessary budget will be available from state funds. The MoEA will liaise closely and proactively with the GNH Commission in order to establish an efficient resource mobilization process to ensure that state funding is supplemented by resources from the international donor community in a timely and coherent manner, guided by the framework created by the CSMI Policy, Strategy and Action Plan.

## Chapter 3: CSMI Action Plan (2012-2014): Matrix

Notes:

- Responsibility: this is distributed in such a manner that institutions are either the lead/implementer or partners/stakeholders. MoEA will normally be the coordinator of the activities, since it has overall responsibility for the implementation of the CSMI policy, strategy and action plan.
- Budget: this is an estimate of the likely budget envelope required, which the MoEA will seek to mobilise, together with the identified partners, for the relevant measures. Detailed budgets will be developed through the project development cycle, involving the preparation of specific programme/project proposals and budgets.
- Allocation of funds: Each governmental organisation is responsible for incorporating the CSMI Action Plan, including the resource requirements, into their annual plans. Each lead/implementer is responsible for mobilizing resources for implementation of the CSMI Action Plans, with MoEA support.
- Action Plans: most measures relate to activities to be carried out during the current Action Plan (AP 2012-4). However, in certain cases the measures will be implemented during AP2 (i.e. 2015-7) and/or AP3 (i.e. 2018-20). The planned reviews will enable the rolling forward of measures to AP2 and subsequently to AP3.

| Strategic Objective 1: Strengthen the Policy Environment and Institutional Framework | | | | | | |
|---|---|---|---|---|---|---|
| **Activity** | **Measure(s)** | **Lead** | **Partners** | **Timeline(s)** | **Indicator(s)** | **Budget ($)** |
| 1.1 | **CSMI Action Plans** | | | | | |
| 1.1.1 | Prepare and obtain approval for 1st CSMI Action Plan (2012-4) | MoEA:DCSI | | 2012 | Action Plan report | |
| 1.1.2 | Evaluate the CSMI Action Plan 2012-14 independently | MoEA:DCSI | | 2014 | Evaluation report | 10,000 |
| 1.1.3 | Prepare CSMI Action Plan 2015-17 | MoEA:DCSI | | 2014; AP2-3 | Action Plan report | |
| 1.2 | **Human Capacity Development** | | | | | |
| 1.2.1 | Undertake annual Training Needs Analysis (TNA) | MoEA:DCSI | | 2012-4 | TNA report | |
| 1.2.2 | Prepare annual Capacity Building Programmes | MoEA:DCSI | | 2012-4 | Training programme | |
| 1.2.3 | Obtain resources from RGoB for HRD for human capacity development | MoEA:DCSI | | 2013-4 | Annual budget | 10,000 |
| 1.3 | **CSMI Agency** | | | | | |
| 1.3.1 | Feasibility study on creation of an CSMI Agency/Bureau/Office or reorganisation | MoEA:DCSI | | 2013-4 | Feasibility study | 20,000 |
| 1.3.2 | Prepare a detailed specification of role, responsibilities, legal basis, budget, etc. | MoEA:DCSI | | 2014 | Agency specification | 10,000 |
| 1.3.3 | Establish and build the capacity of the CSMI Agency up to 2020 to maximise efficacy. | MoEA:DCSI | | 2014; AP2-3 | CSMI Agency active | |
| 1.4 | **Inter-Ministerial Coordination** | | | | | |
| 1.4.1 | DCSI to liaise with Committee of Secretaries (CoS) for meetings (meetings, agendas) | MoEA:DCSI | COS sec | 2012-4 | Agenda & minutes | |
| 1.4.2 | DCSI to prepare six monthly Progress Reports on implementation of CSMI Action Plan | MoEA:DCSI | COS sec | 2012-4 | Progress reports | |
| 1.4.3 | Committee of Secretaries to discuss CSMI Progress Reports at least twice per annum | COS sec | MoEA:DCSI | 2012-4 | Agenda & minutes | |
| 1.4.4 | Committee of Secretaries to act as a coordinator/problem solver for CSMI issues | COS sec | MoEA:DCSI | 2012-4 | Agenda & minutes | |
| 1.4.5 | Meetings of GNH Commission / Cabinet to be convened, if required | COS sec | MoEA:DCSI | 2012-4 | Agenda & minutes | |
| 1.4.6 | DCSI to prepare Annual Progress Reports for Committee of Secretaries / Cabinet | MoEA:DCSI | | 2012-4 | Annual report | |
| 1.5 | **Public Private Dialogue** | | | | | |
| 1.5.1 | Reform the PSDC into a two-way, broad-based PPD forum | MoEA:PPD | MoEA:DCSI/PSDC | 2013 | Amended PSDC | |
| 1.5.2 | Ensure that PSDC has an adequate annual budget | MoEA:PPD | MoF | 2013-4 | Annual budget | |
| 1.5.3 | Use the PSDC to the maximum extent for CSMI development purposes | MoEA:all | PSDC | 2012-4 | Agenda & minutes | |
| 1.6 | **Mobilisation of External Support** | | | | | |
| 1.6.1 | Organise meetings of resource mobilization coordinators at MoEA and GNHC | MoEA:PPD | GNHC/MoEA:DCSI | 2012-4 | Agenda & minutes | |
| 1.6.2 | Organise donor meetings to gain funds to implement the CSMI Development Strategy | GNHC | GNHC/MoEA:DCSI: | 2012-4; AP2-3 | Mobilisation events. | |
| 1.6.3 | Organise regular funding applications for CSMI development projects | MoEA:DCSI | GNHC/MoEA:PPD | 2012-4; AP2-3 | Project applications. | |

| Strategic Objective 2: Strengthen the Legislative Framework and Enterprise Environment | | | | | | |
|---|---|---|---|---|---|---|
| **Activity** | **Measure(s)** | **Lead** | **Responsibility** | **Timeline(s)** | **Indicator(s)** | **Budget ($)** |
| 2.1 | **Enterprise Registration Act** | | | | | |
| 2.1.1 | Draft the Enterprise Registration Bill | MoEA:DCSI | MoEA:CRD | 2012 | Preliminary RIA report | |
| 2.1.2 | Awareness raising campaign to ensure enterprise compliance with the ERA | MoEA:DCSI | MoEA:CRD | 2014- AP2 | ER Act becomes law | 20,000 |
| 2.2 | **Registration and Licensing** | | | | | |
| 2.2.1 | Company Registry made responsible for both Company and Enterprise Registries | MoEA:CRD | MoEA:CRD:DCSI | 2012 | Both Registries active | |
| 2.2.2 | Integrate Company and Enterprise Registry into a common database/platform | MoEA:CRD | G2C | 2014: AP2 | Database & procedures | 20,000 |
| 2.2.3 | Amend Companies Act, including international good practice on de/registration | MoEA:CRD | | 2013-4 | Amended Bill/Law | |
| 2.3 | **CSMI Definition** | | | | | |
| 2.3.1 | Introduce and implement a CSMI definition for MoEA | MoEA:DCSI | MoEA:DoT:DoI | 2012 | Definition widely in use | |
| 2.3.2 | Review the effectiveness of the definition (esp. turnover and autonomy) | MoEA:DCSI | MoEA:DoT:DoI | 2014 | Review report | 10,000 |
| 2.3.3 | Refine and finalize the CSMI definition | MoEA:DCSI | MoEA:DoT:DoI | 2014 | New definition in use | |
| 2.3.4 | Harmonize the CSMI definition across ministries | MoEA:DCSI | Ministries/NSB | AP2-3 | Single definition | |
| 2.4 | **Annual CSMI Reports** | | | | | |
| 2.4.1 | Introduce employment data during annual license renewal | MoEA:RTIO | MoEA:DCSI | 2012 | Revised certificate | |
| 2.4.2 | Build on the Establishment Survey (MoLHR), define and collect CSMI data | MoEA:DCSI | MoLHR/NSB | 2013-4 | Annual MoLHR survey | |
| 2.4.3 | Collect, analyse and disseminate Annual CSMI Report | MoEA:DCSI | MoLHR/NSB/MoF | 2013-4; AP2-3 | Annual CSMI report | 10,000 x2 |
| 2.4.4 | Improve CSMIdata collection, indicators and analysis (timeseries, benchmarking) | MoEA:DCSI | NSB | 2013-4; AP2-3 | New indicators, analysis | |
| 2.5 | **Insolvency and Bankruptcy** | | | | | |
| 2.5.1 | Review Companies Act to ensure that bankruptcy and insolvency are streamlined | MoEA:CRD | | 2013-14 | Amended Companies Act | |
| 2.5.2 | Study on companies'/enterprises' experiences with bankruptcy/Bankruptcy Act | RMA | MoEA:DoI | AP2 | Bankruptcy study | 20,000 |
| 2.5.3 | (Depending on outcome) Amend Bankruptcy Act and other related legislation | RMA | MoEA:DoI | AP2 | Amended Bankruptcy Act | |
| 2.5.4 | Awareness raising of the pros and cons of bankruptcy | MoEA:DoI | RMA/associations | AP2 | Workshops, presentations | 10,000 |
| 2.6 | **Tax Administration** | | | | | |
| 2.6.1 | Implement on-line tax reporting and payment for Customs, Revenue and Sales Tax | MoF:DRC | | 2013-4 | On-line systems live | |
| 2.6.2 | Establish consultation forum for reforms affecting CSMI | MoF:DRC | MoEA:DCSI/ associations | 2013-4 | Forum and meetings | |
| 2.7 | **Accounting Standards for SMEs** | | | | | |
| 2.7.1 | Raise awareness of importance of accounting and audit standards for SMI | AASB | MoEA:DoI:DCSI/associations | 2013-4 | Workshops, presentations | 5,000x3 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 2.7.2 | Select SMI to participate with AASB activities, based on MoEA's definition | AASB | MoEA:DSCI:DoI | 2013 | Agreed list of CSMI 147 SMI supported | |
| 2.7.3 | Capacity building for SMI in the first phase until 2014 on a cost sharing basis | AASB | MoEA:DSCI:DoI | 2013-4 | | |
| 2.7.4 | Select and support targeted SMI to introduce BAS for SMI until 2021 | AASB | MoEA:DSCI:DoI | 2014; AP 2-3 | Further SMIs supported | 30,000 |
| 2.8 | **Public Procurement** | | | | | |
| 2.8.1 | Establish a Central Procurement Website and require all agencies to use it | MoF:PPPD | | 2012 | Central procurement site | |
| 2.8.2 | Replace the 2% Earnest Money Deposit with Bid Securing Declaration | MoF:PPPD | | 2012 | Bid Securing Declaration | |
| 2.8.3 | Standard Bidding Document for Engineering, Procurement and Construction | MoF:PPPD | | 2012 | Standard Bid Document | |
| 2.8.4 | Translate / make available Small Value Procurement & other important documents | MoF:PPPD | | 2012-2013 | Translations available | |
| 2.8.5 | Amend work contracts (up to Nu. 1 mio.) to allow early payment of contractor | MoF:PPPD | | 2012-3 | Amendment | |
| 2.8.6 | Amend rule for interest free Mobilization Advance (10%) against bank guarantees | MoF:PPPD | RMA | 2012-3 | Amendment | |
| 2.8.7 | Abolish the requirement for establishment of Lists of Registered Consultants | MoF:PPPD | | 2012-3 | End of consultant lists | |
| 2.8.8 | Enforce bid and performance security for consultancy services be avoided | MoF:PPPD | | 2012-3 | No bid & perfor. security | |
| 2.8.9 | Raise the 5% margin of preference for national bidders and reduce discretion | MoF:PPPD | | 2012-4 | Margin raised e.g. to 10% | |
| 2.8.10 | Develop guidelines for CSMI bidders on drawing-up public procurement proposals | MoF:PPPD | | 2012-4 | Bidder guidance available | |
| 2.8.11 | Develop guidelines for Awarding Authorities re: small contracts (divide into lots) | MoF:PPPD | | AP2-3 | Lots guidance available | |
| 2.8.12 | Maximise the use of e-procurement for the benefit of all, especially CSMI | MoF:PPPD | | AP2-3 | E-procurement maximised | |
| 2.9 | **Proportionality for CSMI** | | | | | |
| 2.9.1 | Phase I: Labour Regulations | MoLHR | MoEA:DCSI | 2013-4 | Amendments | 50,000 |
| 2.9.2 | Phase II: Import/export | MoEA:DoT | MoEA:DCSI | AP2 | Amendments | 50,000 |
| 2.9.3 | Phase III: to be determined in consultation with CSMI sector | MoEA:DCSI | Associations | AP3 | Amendments | 50,000 |

| Strategic Objective 3: Facilitate Access to Finance and Incentives | | | | | | |
|---|---|---|---|---|---|---|
| **Activity** | **Measure(s)** | **Lead** | **Responsibility** | **Timeline(s)** | **Indicator(s)** | **Budget ($)** |
| 3.1 | **Commercial Bank Finance** | | | | | |
| 3.1.1 | Repeal Loan Act | RMA | | 2013 | Amended Loans Act | |
| 3.1.2 | Deliver capacity building programmes focusing on alternative methodologies | MoEA:DCSI | FIs/RMA | 2013-4 | Seminars, training, etc. | 25,000 x2 |
| 3.1.3 | Implement pilot initiatives to test alternative lending methodologies | MoEA:DCSI | IFIs/FIs/RMA | 2013-4 | Pilot initiatives | 150,000x2 |
| 3.1.4 | Establish new CSMI Credit line focusing on financial Institutions | MoF/DCSI | FIs/RMA | 2013-4 | Credit line disbursed | 5,000,000 |
| 3.1.5 | Implement an CSMI finance facility targeting competitive sectors | DCSI/MoF | FIs | 2014: AP2 | Facility active | |
| 3.2 | **Credit Guarantee Schemes** | | | | | |
| 3.2.1 | Pilot commercial CGS targeting existing/start-up CSMI using good practice | MoLHR:DoE | MoEA:DCSI/RMA/MoF/FIs | 2013-4; AP2-3 | Pilot commercial CGS | 3,000,000 |
| 3.2.2 | Review operation of CGS on annual basis to strengthen it | MoLHR:DoE | MoEA:DCSI/RMA | 2014; AP2-3 | Review reports | 10,000 |
| 3.3 | **Micro Finance Institutions** | | | | | |
| 3.3.1 | Implement FIP (e.g. deposit taking, MFI association, information on clients, etc.) | MoF | MFIs | 2013-4; AP 2-3 | Apex, MFI association | |
| 3.3.2 | Undertake a feasibility study to assess viability of for-profit MFI to develop new MFIs | RMA | MoEA:DCSI | 2013-4 | Feasibility study | 25,000 |
| 3.3.3 | (Depending on the outcome) Develop for-profit MFIs using IFIs / specialist MFIs | RMA | MoEA:DCSI/MoF/FIs | 2013-4 | For profit MFI(s) | |
| 3.4 | **Leasing and Factoring** | | | | | |
| 3.4.1 | Promote awareness of leasing and factoring as alternatives to loan financing | Associations | MoEA:DCSI | 2014; AP2 | Seminars, training, etc. | 10,000x2 |
| 3.4.2 | Issue Regulation on permitted financial leasing activities by banks and NBFIs | RMA | MoEA:DCSI | 2014; AP2 | Guidance on leasing | |
| 3.4.3 | Issue Regulation on the provision of factoring services by banks and NBFIs | RMA | MoEA:DCSI | 2014: AP2 | Guidance on factoring | |
| 3.4.4 | Pilot test agricultural and industrial leasing activities for CSMI | MoEA:DCSI | FIs | 2014; AP2 | Pilot leasing scheme | 2,000,000 |
| 3.4.5 | Pilot test factoring activities for CSMI | MoEA:DCSI | FIs | 2014; AP2 | Pilot factoring scheme | 1,000,000 |
| 3.4.6 | Create a Central Registry of Assets | RMA | FIs | 2012 | Registry active | |
| 3.4.7 | Create a Contract Law | MoEA:CR | | 2012-3 | Contract Law active | |
| 3.5 | **Credit Information Bureau** | | | | | |
| 3.5.1 | Improve effectiveness of CIB for CSMI (e.g. sliding fee depending on loan size) | RMA | FIs | 2012-3 | Reform to fees | |
| 3.5.2 | Add MFIs and other Financial Service Providers to CIB | RMA | FIs | 2013-4 | Additional functionality | |
| 3.6 | **Equity and Mezzanine Finance** | | | | | |
| 3.6.1 | Awareness raising of equity/venture/mezzanine finance among CSMI | MoEA:DCSI | RMA/licensed FMC/associations | 2014 | Seminars, training, etc. | 10,000 |
| 3.6.2 | Use the IFC SMI Ventures Fund as a piloting initiative to learn from and improve | DHI | RMA/IFC/MoEA:DCSI/DoI/FMC | 2014; AP2 | Evaluation report | 20,000 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 3.7 | **Business Networks** | | | | | |
| 3.7.1 | Awareness raising of Business Networks among CSMI / entrepreneurs | MoEA:DCSI | Associations | 2014 | Seminars, training, etc. | 5,000 |
| 3.7.2 | Stimulate the development a pilot Business Networks | MoEA:DCSI | Associations | 2014; AP 2-3 | Network(s) | 50,000 |
| 3.8 | **Public Private Partnerships** | | | | | |
| 3.8.1 | PPP pilots in i) rural cold chains ii) food processing iii) business services network | MoEA:DCSI | MoEA:DoI/MoAF | 2013-4; AP2 | Infrastructure active | 50,000x3 |
| 3.8.2 | Evaluate PPP CSMI pilots and amend approach to facilitate investment in CSMI | MoEA:DCSI | MoEA:DoI:DCSI | 2014 | Evaluation report | 25,000 |
| 3.9 | **CSMI Sector Incentives** | | | | | |
| 3.9.1 | Evaluate (cost-benefit analysis) CSMI incentives to optimise start-up/early growth | MoF:DRC | MoEA:DCSI | 2013-4 | CBA report | 30,000 |
| 3.9.2 | Refine and/or abolish incentives and replace with targeted ones | MoF:DRC | MoEA:DCSI | 2013-4 | Amendments | |
| 3.10 | **CSMI Non-fiscal Incentives** | | | | | |
| 3.10.1 | Evaluate (cost-benefit analysis) non-fiscal incentives to optimise start-up/early growth | MoF: DRC | MoEA:DCSI | 2014 | CBA report | 20,000 |
| 3.10.2 | Refine and/or abolish non-fiscal incentives not having impact with targeted ones | MoF:DRC | MoEA:DCSI | AP2-3 | Amendments | |

| Strategic Objective 4: Enhance Competitiveness and Innovation | | | | | | |
|---|---|---|---|---|---|---|
| **Activity** | **Measure(s)** | **Lead** | **Partners** | **Deadline(s)** | **Indicator(s)** | **Budget ($)** |
| 4.1 | **Business Development Services** | | | | | |
| 4.1.1 | Establish grant schemes / voucher schemes / challenge funds to promote BDS provision | MoEA:DCSI | | 2013-4; AP2-3 | BDS scheme active | 1,000,000 |
| 4.1.2 | Evaluate each round of BDS provision, develop good practice and refine the next round | MoEA:DCSI | | AP2-3 | Evaluation and refinement | 10,000 |
| 4.1.3 | Raise quality of individual business consultants via certification to international standards | MoEA:DCSI | | 2013-4; AP2-3 | International accreditation | 25,000 x2 |
| 4.2 | **R&D/Innovative Activities** | | | | | |
| 4.2.1 | Voucher scheme to stimulate R&D, innovation and technological absorption by CSMI | MoEA:DCSI | MoLHR | 2013-4 | Voucher scheme active | 100,000 x2 |
| 4.2.2 | Knowledge creators to organise fairs and forums to showcase products/ services | MoEA:DCSI | RUB | 2013-4 | Annual R&D event / fairs | 20,000 x2 |
| 4.3 | **Clusters and/or Value Chains** | | | | | |
| 4.3.1 | Develop clusters (apples, textiles, wood-based industries and incense manufacturing) | Various[1] | MoEA:DCSI/MoAF/others | 2013-14; AP2-3 | Clusters active | |
| 4.3.2 | Develop value chains (dairy, organic, wellness products based on traditional medicine) | Various[2] | MoEA:DCSI/MoAF/others | 2013-14; AP2-3 | Value chains active | |
| 4.3.3 | Cooperate with relevant stakeholders for implementation e.g. APIC for crafts | MoEA:DCSI | MoAF/various | 2013-4 | Agreements | |
| 4.3.4 | Evaluate cluster / value chain development and improvement of the process | MoEA:DCSI | MoAF/others | 2014 | Evaluation report | 20,000 |
| 4.4 | **Inter-Enterprise Networks** | | | | | |
| 4.4.1 | Establish a pilot Inter-Enterprise Network to facilitate development of CSMI | MoEA:DCSI | MoEA:DoI/associations | AP 2-3 | Pilot(s) active | |
| 4.4.2 | Assess impact and promote further development of Inter-Enterprise Networks | MoEA:DCSI | MoEA:DoI | AP 2-3 | Review report | |
| 4.5 | **Business Incubators** | | | | | |
| 4.5.1 | Develop model for the development of effective and sustainable incubators | MoEA:DCSI | DHI/others | 2013-4 | Incubator model | 15,000 |
| 4.5.2 | Establish a network of sustainable business incubators | MoEA:DCSI | MoEA/MoLHR/DHI | 2014; AP2-3 | Incubator(s) active | |
| 4.5.3 | Possible development of a women focused incubator | MoEA:DCSI | NCWC | AP2 | Incubator(s) active | see 6.5.7 |
| 4.5.4 | Possible development of University oriented incubator | RUB | MoEA:DCSI | AP2 | Incubator(s) active | see 6.6.5 |
| 4.6 | **Industrial Estates/Special Economic Zones/Technology Parks** | | | | | |
| 4.6.1 | Establish as specialist Management Authority for the estates/centres/parks/zones | MoEA:DoI | | 2013-4 | Authority active | 50,000 x2 |

[1] The key implementing agents are expected to be respectively: MoAF (apple processing), APIC (textiles), NRDCL (wood-based industries) and MoAF (incense manufacturing) (see final Competitiveness report, 2012).

[2] The key implementing agents are expected to be respectively: MoAF (dairy), MoAF (organic), MoH (wellness products based on traditional medicine) (see final Competitiveness report, 2012).

| | | | | | | |
|---|---|---|---|---|---|---|
| 4.6.2 | Establish a rental approach to maximise economic development, especially for CSMI | MoEA:DoI | MoEA:DCSI | 2013-4 | Rental approach | |
| 4.6.3 | Prioritise CSMI in the allocation of space in the estates/centres/parks/zones | MoEA:DoI | MoEA:DCSI | 2012-4 | CSMI space in IIP | |
| 4.6.4 | Prepare demand, supply and location feasibility study of small estates/centres for CSMI | MoEA:DoI | MoEA:DCSI | 2014 | Feasibility study | 50,000 |
| 4.6.5 | (Depending on the results) Implement small scale estates/centres for CSMI | MoEA:DoI | MoEA:DCSI | AP 2-3 | CSMI infrastructure active | |
| 4.7 | **Cooperatives, Farmers' Groups, etc.** | | | | | |
| 4.7.1 | Implement the Cooperative Development Strategy | MoAF:DAMC | | 2012-4 | Cooperative Strategy | |
| 4.7.2 | Establish the Cooperatives' Development Fund | MoAF:DAMC | | 2013-4 | Coop Dev. Fund active | |
| 4.7.3 | Register 600 farmers' groups / cooperatives by 2018 | MoAF:DAMC | | 2012-4; AP2-3 | 600 coops registered | |
| 4.7.4 | Support the capacity development of cooperatives and producers' groups | MoAF:DAMC | | 2012-4 | Seminars, workshops, etc. | |
| 4.7.5 | Implement pilot initiatives to test the Community Owned Company to promote export | MoAF:DAMC | MoEA:DCSI | 2013-4 | Pilot(s) active | |
| 4.7.6 | Support the development of Apex cooperatives in sectors / regions, national federation | MoAF:DAMC | | 2014; AP2-3 | Apex coops / federation | |
| 4.8 | **e-business / e-commerce** | | | | | |
| 4.8.1 | Update ICT Policy & Strategy Programme, strengthening E-Commerce and E-Business | MoIC | | 2013 | Updated Programme | |
| | Strengthen G2B (Government-to-Business activities), focusing on the following Ministries | | | | | |
| 4.8.2 | - MoEA (information provision, registration, licensing, renewals, etc.) | MoEA:DCSI | MoEA:CRD/G2C | 2013-4 | Online tools active | 25,000 x2 |
| 4.8.3 | - MoF (tax declarations and payments) | MoF:DRC | | 2012-4 | Online tools active | |
| 4.8.4 | - MoLHR (labour market information system, e.g. job brokerage, social security) | MoLHR:DoE | | 2012-4 | Online tools active | |
| 4.8.5 | Maximise B2B (business to business activities) & B2C (business to customers) via pilots | MoEA:DCSI | MoIC | 2013-4 | Pilot(s) active | 50,000 x2 |
| 4.9 | **Intellectual Property Rights** | | | | | |
| 4.9.1 | Raise awareness among scientists/ CSMI of IPR procedures, enforcement | MoEA:IPD | Associations/Others | 2013-4AP2 -3 | Seminars, workshops | 10,000x2 |
| 4.9.2 | Establishing an award scheme to recognise the innovator of the year | MoEA:IPD | MoEA:DCSI | 2013-4 | Awards given | see 6.1 |
| 4.9.3 | Annual event to promote creativity and innovation with a focus on CSMI e.g. IP Day | MoEA:IPD | MoEA:DCSI | 2012-4 | Annual event | 25,000 x3 |
| 4.9.4 | Establish an IPR Info Point network for CSMI, starting with one at Thimphu TechPark | MoEA:IPD | TechPark/Others | 2014- AP2 | IPR Info Points active | 50,000 x2 |
| 4.10 | **Technology Transfer through Franchising, Licensing, etc.** | | | | | |
| 4.10.1 | Awareness raising for CSMI & associations of franchising, assignments and licensing | MoEA:IPD | Associations | 2013-4 | Seminars, workshops | 50,000x2 |
| 4.10.2 | Streamline processing of applications for franchising, licensing and assignment | MoEA:IPD | MoEA:DCSI:DoT:DIT | 2013-4 | Faster procedures | |

| Strategic Objective 5: Improve Market Access | | | | | | |
|---|---|---|---|---|---|---|
| **Activity** | **Measure(s)** | **Lead** | **Responsibility** | **Timeline(s)** | **Indicator(s)** | **Budget ($)** |
| 5.1 | **Quality Standards, Testing and Compliance** | | | | | |
| 5.1.1 | Institutional development and strengthening of Bhutan Standards Bureau (BSB) | BSB | MoEA:DCSI | 2013-4 AP2-3 | Effective institution | |
| 5.1.2 | Develop standards cooperation and coordination between BSB and MoEA | BSB | BSB/MoEA:DCSI | 2013-4 | Cooperation & coordination | |
| 5.1.3 | Support standards prioritising CSMI sector's comparative advantages (high value niches) | BSB | BSB/MoEA | 2012-4 | Cooperation & coordination | |
| 5.1.4 | Develop testing infrastructure to allow conformity assessment to international standards | BSB | BSB/MoEA | 2012-4; AP2-3 | Stronger institutions | |
| 5.1.5 | Support CSMI, clusters and cooperatives to achieve quality standards for "Brand Bhutan" | MoEA:DCSI | MoEA/BSB | 2012-4; AP2-3 | CSMI using Brand Bhutan | see 5.2 & 5.3 |
| 5.2 | **Brand Bhutan** | | | | | |
| 5.2.1 | Implement the Brand Bhutan Strategy, once approved by GHNC | MoEA:DoT | | 2012-4; AP2-3 | Effective implementation | |
| 5.2.2 | Awareness raising among CSMI of the benefits of Brand Bhutan | MoEA:DoT | DCSI/associations | 2013-4 | Seminars, workshops, training | 5,000 x2 |
| 5.2.3 | Develop capacity of stakeholders to promote "Brand Bhutan" | MoEA:DoT | BSB/MoEA:DCSI | 2012-4; AP2-3 | Cooperation agreements | 25,000 x2 |
| 5.3 | **Seal of Excellence and Quality, and the Seal of Origin** | | | | | |
| 5.3.1 | Awareness raising among CSMI of benefits, procedures and costs of the Seals | MoEA:DoT | APIC | 2013-4 | Seminars, workshops, training | 5,000 x2 |
| 5.3.2 | Implement annual programmes of Seals of Excellence & Quality | MoEA:DoT | APIC | 2014 | Annual programme | 20,000 x2 |
| 5.3.3 | Close cooperation with Bhutan Standards Bureau (BSB) in the development of Bhutan's Seals | MoEA:DoT | BSB/Others | 2013-4 AP2 | Cooperation & coordination | 40,000 x2 |
| 5.4 | **B2B, Trade Fairs and Exhibitions** | | | | | |
| 5.4.1 | Develop a wider range of support measures, including trade fairs, exhibitions, stalls, B2B, etc. | MoEA:DoT | MoEA:DCSI/assoc | 2013-4 | Enhanced activities, budget | 30,000 x2 |
| 5.4.2 | Effective targeting of CSMI (e.g. growth-oriented, etc.) with sectoral associations | MoEA:DoT | MoEA:DoT:DCSI | 2013-4 | Cooperation & coordination | |
| 5.5 | **Product Development and Quality Improvement** | | | | | |
| 5.5.1 | Grant/voucher/CSF scheme to stimulate product development, design, packaging, labelling | MoEA:DCSI | APIC | 2013-4 | Enhanced activities | 100,000 x2 |
| 5.5.2 | Develop crafts clusters and value chains in cooperation with APIC | APIC | MoEA:DCSI:DoT | 2012-4 | New clusters / value chains | see 4.3 |
| 5.5.3 | Promotion and marketing of Bhutanese crafts (link to Brand Bhutan) | DoT/APIC | MoEA:DCSI:DoT | 2012-4 | Promotion campaign | see 5.2 |
| 5.5.4 | Extend activities to other sectors, such as tourism, textiles, culture and agro-produce | MoAF/Others | MoEA:DCSI/Others | AP2 | New sectors active | |

| Activity | Measure(s) | Lead | Responsibility | Timeline(s) | Indicator(s) | Budget ($) |
|---|---|---|---|---|---|---|
| **Strategic Objective 6: Enhance Employment and Develop a Culture of Entrepreneurship** | | | | | | |
| 6.1 | **Culture of Entrepreneurship** | | | | | |
| | Awareness Raising Campaign to influence perceptions towards entrepreneurs: | MoEA:DCSI | Associations | 2013-4; AP 2-3 | | |
| 6.1.1 | - National media campaign (TV adverts, advertisements, brochures, posters, etc.) | MoEA:DCSI | Assoc/media | 2013-4 | Media campaign active | 1,000,000 x2 |
| 6.1.2 | - Entrepreneurship activities by associations (e.g. Day of the Entrepreneur) | MoEA:DCSI | Assoc/media | 2013-4 | Entrepreneurship activities | 25,000 x2 |
| 6.1.3 | - Promote e.g. corporate governance, CSR, environment protection). | MoEA:DCSI | Assoc/media | 2013-4 | Concept promotion | 10,000 x2 |
| 6.1.4 | Establish and Annual Enterprise Awards (fronted by an esteemed personality).e.g.: Young / Female: Exporter: ICT; Innovator: GNH entrepreneur | MoEA:DCSI | Associations | 2013-4; AP 2-3 | Awards scheme active | 30,000 x2 |
| 6.2 | **"Entrepreneurship/Business" Awareness and Qualities** | | | | | |
| 6.2.1 | Promote private sector participation in Curriculum and Programme Dev. Board | MoE:DCRD | Entrepreneurs | 2012-3 | Membership of CPDB | |
| 6.2.2 | Introduce entrepreneurial issue into national curriculum (e.g. economics) | MoE:DCRD | MoE:DCRD | 2012-4; AP 2-3 | New curricula | |
| 6.2.3 | Encourage enterprise placements for teachers of enterprise-oriented curricula | MoE:DCRD | MoE:DCRD | 2013-4 | Placements active | 30,000 x2 |
| 6.2.4 | Promote entrepreneurial competitions, events and days at all educational levels | MoE:DCRD | MoE:DCRD | 2013-4 | Competitions held | 100,000 x2 |
| 6.2.5 | Expand Entrepreneurship Development Cells to 9 Royal University Colleges | RUB | Colleges | 2012-4 | 10 EDCs active | 25,000 x2 |
| 6.2 | **Vocational Education and Training** | | | | | |
| 6.3.1 | Undertake an annual labour market skills matching survey | MoLHR:DHR | DoE | 2012-4 | Annual report | |
| 6.3.2 | Establish on-line LMIS Employment Brokerage (linking job seekers with jobs) | MoLHR:DHR | DoE | 2013 | Jobs brokerage active | |
| 6.3.3 | Convert all TTI curricula to Competence Based Training (CBT) mode | MoLHR:DHR | TTIs | 2012-4 | All curricula CBT standard | |
| 6.3.4 | Strengthen entrepreneurship / self-employment training at TTIs | MoLHR:DHR | TTIs | 2012-4 | Emphasis in key curricula | |
| 6.3.5 | Evaluate entrepreneurship /self-employment courses and guarantee scheme | MoLHR:DHR | TTIs | 2013 | Evaluation report | 20,000 |
| 6.3.6 | Establishment of a Careers Guidance Service (CGS) in all TTIs | MoLHR:DHR | TTIs | 2012-4 | CGS active | |
| 6.3.7 | Enhance access to TTIs for females due to their relatively low enrolment (39%) | MoLHR:DHR | TTIs | 2014; AP 2-3 | Enrolment rate target 50% | |
| 6.4 | **Educational and Vocational Boards** | | | | | |
| 6.4.1 | Encourage private sector participation in Curriculum and Programme Dev. Board | MoE:DCRD | Entrepreneurs | 2012-4 | Private sector in CPDB | see 6.2 |
| 6.4.2 | Encourage private sector participation in dev. of Competence Based curricula | MoLHR:DHR | Entrepreneurs | 2012-4 | New CBT curricula | |
| 6.4.2 | Encourage private sector participation in TTI Boards | MoLHR:DHR | Entrepreneurs | 2012-4 | Private sector in Boards | |
| 6.5 | **Women Entrepreneurship** | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| 6.5.1 | Report on female entrepreneurship: characteristics, barriers, needs, etc. (3 yearly) | MoEA:DCSI | MoLHR:DoE/NCWC | 2013; AP 2-3 | Triennial report | 20,000 |
| 6.5.2 | Establish a female entrepreneur of the year award | MoEA:DCSI | NCWC | 2013-4 | Awards scheme active | See 6.1 |
| 6.5.3 | Female entrepreneurs' participation on the Boards of state-owned companies | MoEA:DCSI | NCWC/DHI/MoF | 2013-4 | Greater board presence | |
| 6.5.4 | Preference to a women in entrepreneurial training and education programmes | MoLHR:DHR | MoEA/NCWC | 2014 | Programme active | |
| 6.5.5 | Prepare a feasibility study for establishment of a women-oriented incubator | MoEA:DCSI | NCWC | 2014 | Feasibility study | 20,000 |
| 6.5.6 | (Depending on the outcome) Implement a women-oriented business incubator | MoEA:DCSI | NCWC | AP 2 | Incubator active | |
| 6.6 | **Research-CSMI Linkages** | | | | | |
| 6.6.1 | Develop an SMI orientation to internship programmes | RUB | Associations | 2012-4 | Coordination with CSMI | |
| 6.6.2 | Place academics in business, engineering, sciences, etc. in SMIs | RUB | Associations | 2013-4 | Placements in CSMI | |
| 6.6.3 | Develop a R&D/IPR/start-up/spin-off/consultancy initiatives to link with CSMI | RUB | MoEA:DCSI | 2014 | Policy approved | |
| 6.6.4 | Undertake a feasibility study to establish a university-oriented business incubator | RUB | MoEA:DCSI | 2014 | Feasibility study | 20,000 |
| 6.6.5 | (Depending on the outcome) Implement a business incubator | RUB | MoEA:DCSI | AP 2-3 | Incubator active | |
| 6.7 | **Corporate Social Responsibility** | | | | | |
| 6.7.1 | Implement CSR awareness raising campaigns among companies | MoEA:DCSI | Assoc/DHI | AP2 | Seminars, workshops, etc. | 10,000 x3 |
| 6.7.2 | Publicise and disseminate CRS good practice among CSMI | MoEA:DCSI | CSMI | AP2 | Publications | 5,000 x3 |

## References


- GNH Commission (2008) Tenth Five Year Plan (2008-13); Vols. I and II.
- MoEA (2012) CSMI Policy (2012-20).
- MoEA (2012) CSMI Development Strategy (2012-20).
- RGoB (1999) Bhutan 2020: A Vision for Peace, Prosperity and Happiness 1999, Planning Commission.