

# **COTTAGE, SMALL & MEDIUM INDUSTRY ACTION PLAN (2015-2018)**



**MINISTRY OF ECONOMIC AFFAIRS  
ROYAL GOVERNMENT OF BHUTAN**

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## Abbreviations:

1.	ABTO	Association of Bhutanese Tour Operators
2.	ADB	Asian Development Bank
3.	APIC	Agency for the Promotion of Indigenous Crafts
4.	AASB	Accounting and Auditing Standard Board
5.	AES	Annual Education Statistics
6.	BAS	Bhutanese Accounting Standards
7.	BBC	Better Business Council
8.	BOIC	Business Opportunity and Information Center
9.	BDS	Business Development Services
10.	BEA	Bhutan Enterprise Awards
11.	BEGIN	Business Entrepreneurship Growth and Innovation
12.	BEE	Business Enabling Environment
13.	BDBL	Bhutan Development Bank Limited
14.	BCCI	Bhutan Chamber of Commerce and Industry
15.	BNB	Bhutan National Bank
16.	BoB	Bank of Bhutan
17.	BSB	Bhutan Standards Bureau
18.	BTN	Bhutanese Ngultrum
19.	CBT	Competence-Based Training
20.	CEFE	Competency-Based Economies Formation of Enterprise
21.	COS	Committee of Secretaries
22.	CAL	Commercial Agriculture Loan
23.	CIB	Credit Information Bureau
24.	CCRA	Commercial Credit Reference Agency
25.	CGS	Career Guidance Services
26.	CGS	Credit Guarantee Scheme
27.	CR	Central Registry
28.	CRD	Company Registry Division
29.	CSOs	Civil Society Organizations
30.	CSI	Cottage and Small Industry
31.	CSF	Cost Sharing Facility (See EDF)
32.	CSR	Corporate Social Responsibility
33.	CSMI	Cottage, Small and Medium Industries
34.	DCRD	Department of Curriculum Research and Development
35.	DCSI	Department of Cottage and Small Industry
36.	DHR	Department of Human Resources
37.	DHI	Druk Holding and Investments

38.	DITT	Department of Information Technology and Telecom
39.	DoL	Department of Livestock
40.	DoA	Department of Agriculture
41.	DoI	Department of Industry
42.	DoT	Department of Trade
43.	DPT	Druk Phuensum Tshogpa
44.	DRC	Department of Revenue and Customs
45.	ERA	Enterprise Registration Act
46.	EU	European Union
47.	FDI	Foreign Direct Investment
48.	FDG	Focus Group Discussion
49.	FIS	Financial Institution
50.	FIP	Financial Inclusion Policy
51.	FYP	Five Year Plan
52.	GAB	Guide Association of Bhutan
53.	GNH	Gross National Happiness
54.	GNHC	Gross National Happiness Commission
55.	GNI	Gross National income
56.	G2B	Government to Business
57.	G2C	Government to Citizens
58.	GDP	Gross Domestic Product
59.	HACCP	Hazard Analysis and Critical Control Points
60.	HRD	Human Resource Development
61.	IPD	Intellectual Property Division
62.	IPR	Intellectual Property Rights
63.	IFC	International Finance Corporation
64.	ICT	Information and Communications Technology
65.	IFI	International Financial Institute
66.	IZCs	Institute for Zorig-Chusum
67.	ISO	International Standards Organization
68.	JICA	Japan International Cooperation Agency
69.	IT	Information technology
70.	KII	Key Informant Interview
71.	LFS	Labor Force Survey
72.	LMS	Labor Market Survey
73.	MAP	Market Access for the Poor
74.	MDGs	Millennium Development Goals
75.	M&E	Monitoring and Evaluation
76.	LPI	Logistics Performance Index
77.	MIPA	Movable and Immovable Properties Act of Bhutan

78.	MFI	Micro Finance Institution
79.	MoAF	Ministry of Agriculture and Forests
80.	MoEA	Ministry of Economic Affairs
81.	MoF	Ministry of Finance
82.	MoIC	Ministry of Information and communication
83.	MoLHR	Ministry of Labor and Human Resources
84.	NCS	National Competency Standard
85.	NCWC	National Commission for Women and Children
86.	NMES	National Monitoring and Evaluation System
87.	NBFI	Non-Bank Financial Institution
88.	NGO	Non- Government Organization
89.	NRDCL	Natural Resources Development Corporation Limited
90.	Nu	Ngultrum
91.	NSB	National Statistics Bureau of Bhutan
92.	NWAB	National Women's Association of Bhutan
93.	OSS	One Stop Shop
94.	OECD	Organization for Economic Co-operation and Development
95.	PPD	Policy and Planning Division
96.	PPP	Public Private Partnership
97.	PSDC	Private Sector Development Committee
98.	PLaMS	Planning and Monitoring System
99.	RBI	Reserve Bank Of India
100.	RGoB	Royal Government of Bhutan
101.	RIA	Regulatory Impact Assessment
102.	RICBL	Royal Insurance Corporation of Bhutan Ltd
103.	RIM	Royal Institute of Management
104.	RMA	Royal Monetary Authority of Bhutan
105.	RAMIS	Revenue Administration Management Information System
106.	RRCO	Regional Revenue and Customs Office
107.	RTA	Royal Textile Academy
108.	RTIO	Regional Trade and Industry Office
109.	RUB	Royal University of Bhutan
110.	SAARC	South Asian Association for Regional Cooperation
111.	SIYB	Start and Improve Your Business
112.	SMI	Small and Medium Sized Industry
113.	SWOT	Strengths, Weaknesses, Opportunities and Threats
114.	SYB	Statistical Yearbook of Bhutan
115.	TA	Technical Assistance
116.	TNA	Training Needs Assessment
117.	TCB	Tourism Council of Bhutan

118.	ToR	Terms of Reference
119.	TTI	Technical Training Institute
120.	TVET	Technical and Vocational Education Training
121.	UNDP	United Nations Development Programme
122.	UNCTAD	United Nations Conference on Trade and Development

## **Executive Summary**

### **1. Background and Context:**

The report has two parts, firstly, the evaluation of CSMI Action Plan (2012-2014), and secondly, the CSMI Action Plan (2015-2018) developed based on the evaluation results.

The CSMI Policy was launched by the Government *to create an enabling and conducive policy environment for promotion and development of CSMI in Bhutan*. The Policy identified six strategic areas: 1) Strengthening the Policy environment and institutional framework; 2) Strengthening the legislative framework and enterprise environment; 3) Facilitating access to finance and incentives; 4) Enhancing competitiveness and innovation; 5) Improving access to market; and 6) Enhancing employment and developing a culture of entrepreneurship.

Different ministries, departments and autonomous agencies had carried out forty three (43) CSMI fostering and supporting activities and 173 sub-activities for the last three years (2012-2014). coordinated by DCSI.

### **2. Methodology:**

The evaluation and impact assessment, where ever possible, were carried out based on:

- a. the stakeholders interviews, focus group discussion, stakeholders' meetings and semi-structured questionnaires; and
- b. the review of various reports, policies and action plans of the government.

### **3. Assumptions of the evaluation and subsequent action plan development (2015-2018):**

The evaluation team assumed that:

- a. All the measures and activities recorded in the CSMI Action Plan 2012-2014 were fully known and understood by the implementing agencies;
- b. The Action Plan was implemented successfully on the set measures and targets;
- c. The information on implementation of the Action Plan were readily available for assessment;
- d. The stakeholders had full knowledge of the CSMI action plan from its inception to the completion and were able to provide the required information; and
- e. The stakeholders share the information freely and openly.

### **4. Limitations of the Evaluation and Action Plan Report:**

The CSMI Action plan 2012-2014 evaluation & findings and the measures for CSMI action plan 2015-2018 are limited to the extent the information were provided and shared by the stakeholders, key informants, organizations and implementing agencies.

## **5. Findings, Analysis and Recommendations:**

The first CSMI Action Plan (2012-2014) was partially successful in achieving the six strategic objectives outlined in the CSMI Policy 2012. It had certainly guided the stakeholders to improve the policy environment, enterprise environment, institutional and legislative framework as expected. The development of new legislative framework like ERA and amendment of other relevant acts were dependent on the approval of higher legislative body, due to which many of the subsequent activities could not be executed. There were also many activities under different objectives which were either not initiated, or completed due to various reasons cited under each objective and sub- activities. In nutshell, CSMI action plan 2012-2014 had taken the policy at the brim of the performance stage but not at the stage of the impact assessment. Each objective is briefly explained below:

### **Objective 1: Strengthen the Policy Environment and Institutional Framework:**

The first strategic objective is aimed at setting up the policy environment and institutional framework to foster and ease the development and implementation of CSMI objectives, measures and activities. DCSI was the CSMI action plan coordinating agency. DCSI had been successful in developing the institutional framework like CSMI action plans, on which all the success of all the subsequent policy objectives, measures and activities were hinged.

The evaluation found out that the creation of additional CSMI agency duplicating its mandates with DCSI and BOIC would not add value. Thus formation of a separate CSMI agency is not recommended. The the modus operandi of the Committee of Secretaries to address the inter-ministerial issues and challenges were changed.

While setting the policy environment and institutional framework for CSMI, the implementing agencies expressed their views that there were coordination and communication gaps between the coordinating agency and the implementing agencies. Thus, it is recommended that the following measures be taken prior to execution of the subsequent action plan:

1. Each implementing agency should identify the CSMI action plan 2015-2018 focal person dedicated for three years and submit the name list to the coordinating agency.
2. Organize the quarterly meeting with the coordinating agency and the focal persons to sort out all the issues and problems regarding CSMI action plan implementation.
3. Evaluate CSMI AP 2015-18, and prepare CSMI Action plan 2018-2020.

### **Objective 2: Strengthen the Legislative Framework and Enterprise Environment**

The earlier studies recommended to strengthen legislative framework and enterprise environment to foster the growth and development of CSMTs especially in the areas of legalizing the small business entities Enterprise registration Act, , enabling the procurement rules and regulation to be more CSMI friendly, harmonizing the CSMI definition across the ministries to enable the uniformity in both the information generation as well as policy implementation based on the information, and finally, easing the business entities to reduce the administrative burdens through implementation of RAMIS and amendment of the specific yet conflicting bankruptcy Act as well as the labor regulations and import and export rules and regulations in the country. Within the

last three years, government had developed the Enterprise Registration Bill and submitted to the Parliament for deliberation. The online registration and licensing process are ready for the implementation. The procurement rules and regulations were simplified and made more CSMI friendly, RAMIS had been launched and the Bankruptcy Act was drafted. However, the CSMI definition harmonization process, amendment of the labor legislation specific to the clause reflected in the previous report, and the improvement of CSMI report generation were not been initiated.

Since all the activities to be implemented were at the out level, neither the outcome of the activities could be measured nor the impact seen. To foster the legislative framework and the enterprise environment during the subsequent action plan period, following measures are recommended:

1. Awareness raising campaign to ensure that enterprises comply with the ERA
2. Educate and train the implementing agencies on ERA
3. Integrate company and enterprise registry into one database, inclusive of proper reporting system
4. Harmonize the new CSMI definition (hybrid of investment, turnover, and employment)
5. Replace the 2% EMD by the bid securing declaration.
6. Impact studies of the RAMIS particularly for the CSMIs
7. To continue with the present system of usability-based data collection process and report generation – CSMI Report.
8. Bankruptcy and Insolvency Act, Labor Regulations and the import-export rules be reviewed.

### **Objective 3: Facilitate Access to Finance and Incentives:**

The government had initiated various measures to provide access to finance and incentives as highlighted in the CSMI action plan 2012-2014. The evaluation revealed that except for CGS, policy framework for MFIs and CIB and all other forms of business financing and incentives, including PPP and business networks were not carried out due to either the lack of budget or the policy and legal framework not in place. However, legal and policy framework for all the measures were either under progress (PPP for instance) or ready for implementation from the subsequent action plan. Therefore, to expedite the implementation of subsequent action plans following consolidated measures are recommended:

1. Hire financial consultant to develop alternative lending methodologies (*Equity, Mezzanine finance, Leasing & Factoring etc. through hiring of the financial expert*).
2. CGS be continued for it is one of the most successful venture-creation financing.
3. Implement CSMI finance facility targeting competitive sectors.
4. DRC must carry out detail cost-benefit analysis of the tax incentive for CSMI taxpayers.
5. Conduct feasibility study of PPP for a) rural cold chains; b) food processing; and c) business service network.
6. Seek expression of interest from the MFIs promoters, detail project feasibility report, evaluate, approve, and establish MFIs.

#### **Objective 4: Enhance Competitiveness and Innovation:**

The success and sustainability of CSMI in Bhutan is hinged on the competitiveness and innovation of the products and services. Thus, the government initiated to design and develop an infrastructure for startups and the existing one having potential of the profitability, employment and export orientated.

The government initiated the BDS infrastructure like incubation centers, industrial estates, parks, economic zones, cooperatives and farmers groups development, e-business and commerce, intellectual property rights, franchising and licensing process to enhance the competitiveness and innovation of the CSMI. Likewise, awareness on IPR is being rigorously pursued by IPD among different stakeholders, in both government and the private sectors.

However, on further analysis of the activities carried out for last three years, no significant development of the products and services both in terms of competitiveness and innovation were reflected as expected even though the number of business entities increased. BDS stimulants like the innovation voucher scheme did not get good response even with repeated advertisement in the national media. R & D activities were not understood properly by CSMI, the concept of clusters and value chains just started, incubation center was at the tendering phase, enterprise networking was not welcomed by the entities, e-commerce and payment system has been at the development stage, and the cooperatives & farmers groups brooded on carrying out their mandates. The real action would be carried out in the second phase of the action plan 2015-2018. To expedite the activities, following measures are recommended:

1. DCSI must liaise with MoLHR to avail the BDS services for CSMI from RIM
2. Alternative methods of business incubation in IT Park and other industrial estates to be explored.
3. Capacity development of clusters, value chains, cooperatives and farmers groups
4. Continue awareness on IPR, franchising and licensing concept and its business models.
5. Expedite and implement the online commerce and payment system

#### **Objective 5: Improve Market Access:**

Thimphu harbors the largest number of CSMI, followed by Chhukha and Sarpang Dzongkhag (CSMI reports 2013 and 2014). The competitiveness study (2012) showed that CSMI sectors suffer greatly from wide dispersed domestic market, high trading costs, extended transport time, unreliable source of supply, lack of product standardization process, lack of varieties and inadequate access to market information. Furthermore, the condition is further aggravated by the regional comparative advantages, competitiveness and technology development of the regional and international business entities who supply similar products and services equating to the demand side of the equation. In order to balance the demand and supply side of the equation, the government had initiated to strategically develop niche products (*improving product quality, product varieties, improving processing, grading, packaging & labeling*) and addressing the supply side constraints and position its products and services in the country and compete in the regional and international markets through various measures listed in the Action Plan 2012-2014 and beyond.

Various agencies were to carry out the measures firstly to improve the quality of products through standardization process, Brand Bhutan (*showing Bhutan's clean image to the outside world*) and Seal of Origin (*to show the organic content of the products*) on the demand side of the market. On the supply side of the market, the government initiated the product development and excellence through provision of grants, vouchers and CSF scheme to stimulate product development, design, packaging, labeling firstly among the artisans. The producers were also awarded the certificate of excellence and quality every two years.

However, it was found out that the objective of the CSMI Action plan 2012-2014 significantly suffered in achieving its intended goals due to poor coordination between key agencies for development of standards, financial support from the government and the proper guidance from the coordinating agency. Moreover, during the period, the Brand Bhutan was at the conceptual stage and the seal of origin, quality and excellence just commenced. Mostly, the cultural products were developed and certified under the various seals. On further queries and analysis, it was revealed that the scope of seals especially the seal of excellence and quality could have been spilled over to other services and construction industries (works). The promotion of the important seals had been limited to Bhutanese media and audiences only. Therefore, following of specific measures collectively has been recommended in the subsequent action plan:

1. BSB must spearhead in close consultation with the MoEA (DCSI & DoT) to identify the varieties of products, works and services to be standardized and certified to be sold both within and outside the country.
2. Promote and popularize the Seals and the Brand Bhutan focusing on the demand side of the demand and supply equation.
3. Institute and implement the awards system for the seal of excellence and quality, grants and vouchers schemes and B2B trade fairs and exhibitions for CSMI.

#### **Objective 6: Enhance Employment and Develop a Culture of Entrepreneurship:**

The sixth strategic objective aims to promote the entrepreneurship culture, both in the academia (*schools, colleges and technical and vocational training institutes*) as well as among the unemployed youths through measures and activities listed in the Action Plan 2012-2014.

Various implementing agencies had implemented the measures for the last three years. However, the impact was not much visible and some of the activities did not make much headways either due to the lack of budget, focus on target client in promoting the entrepreneurship culture, proper direction and communication between the coordinating agency and the implementing agencies or lack of competent human resources available in the agency. In order to achieve this objective, the following critical measures are recommended:

1. Create and promote the entrepreneurship culture objectively, focussed on the target-clients, using appropriate media after studying the effectiveness and efficiency of the media for the target group.
2. Educate, engage and include the various entrepreneurship development stakeholders, advisors, implementers, associations and student representatives in developing the curriculum and training.
3. Create and promote the research culture especially among the schools and colleges to create new and innovative products which have the potential of mass production in the

long run.

The above measures would enhance the growth and development of the CSMI, thus increasing the level of employment, reducing the poverty, thus contributing to GDP and the regional development of the country as envisioned in the CSMI Policy 2012.

## **1. Introduction**

### **1.1 Background**

The CSMI policy was adopted by *the government in 2012 as a first step towards providing enabling and conducive environment for the growth of Cottage and Small Industries*. The vision of the policy was to develop a dynamic, competitive and innovative CSMI sector in harmony with the GNH philosophy, thus promoting employment, poverty reduction and balanced regional development.

MoEA was bestowed with the overall responsibility for implementation of the CSMI policy 2012 and, in order to do so, produced the CSMI Development Strategy (2012-2020) and CSMI Action Plan (2012-2014) documents. The development strategy sets out clear strategies on how to operationalize and achieve the policy objectives. The Action Plan 2012-2014 (the first of the three such Action Plans referred in the strategy document) basically sets out the framework for implementation of the CSMI Policy and Strategy.

As mentioned in the policy document, independent consultant has to be hired to evaluate the status of implementation of the Action Plan for end of every period. The first Action Plan came into force in 2012 and has past almost three years of its implementation. Therefore, it is timely to evaluate the first Action Plan (2012-2014). Due to complexity and vastness of action plan implementation, the DCSI, as the coordinating agency, hired the consulting service to independently evaluate the CSMI Action plan (2012-2014), and based on the findings, to develop subsequent CSMI Action Plan (2015-2018).

### **1.2 Scope and the objectives:**

The scope and the objectives of the services were to:

- a. Review and evaluate the implementation status of the CSMI Action Plan (2012-2014);
- b. Review the impact of CSMI Action Plan (2012-2014) made so far;
- c. Develop a detail and clear CSMI Action Plan (2015-2018), prioritizing the actions that should be implemented within the three-year period - in the same format as CSMI Action Plan (2012-2014)

### **1.3 Assumptions of the Evaluation and Subsequent Action Plan Development (2015-2018)**

The evaluation team assumed that:

- a. All the measures and activities recorded in the CSMI Action Plan 2012-2014 were fully known and understood by the implementing agencies.
- b. The Action Plan was implemented successfully as per the set measures and targets
- c. The information on the action plan were readily available for the assessment; and
- d. The stakeholders had full knowledge of the CSMI action plan from its inception till the completion; and
- e. The stakeholders share the information freely and openly

### **1.4. Limitations of the Evaluation and Action Plan Report:**

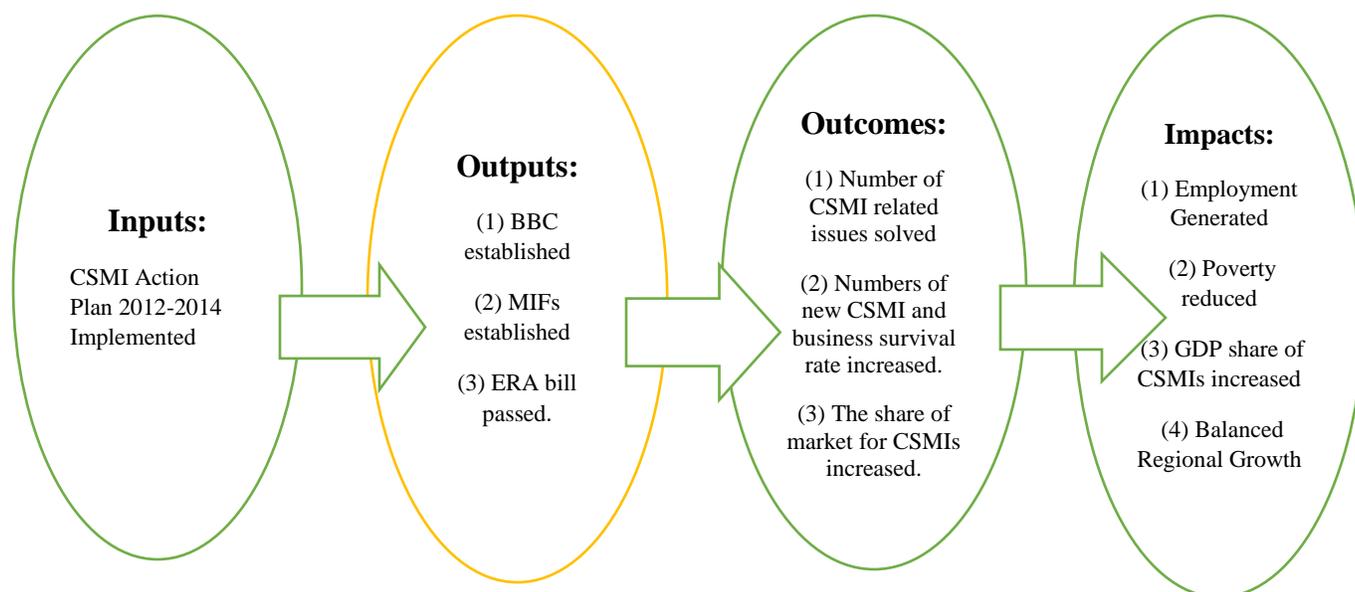
The CSMI Action Plan 2012-14 findings, evaluations and measures for 2015-2018 is limited to the extent the information were provided and shared by the stakeholders, key informants, organizations and implementing agencies

## 2. Evaluation Methodology

The main objective of the evaluation of CSMI action plan 2012-2014 was, firstly, to review the status of its implementation; secondly, to assess the impact of the action plan if any; and thirdly, based on the evaluation report and recommendation develop the subsequent action plan (2015-2018).

There were six objectives to be evaluated. Each activities, measures and objectives were passed through the following assessment process as mentioned in the Figure 1:

Figure 1: Overall Evaluation and Impact Assessment Process:



Source: Consulting firm

There were four stages of evaluation process each activity had to pass in order to qualify for the impact assessment. Whichever or measure reached the impact assessment level was assessed of its impact accordingly. Rest of the measures were left for review during the subsequent evaluation.. The primary and secondary data were gathered as follows:

### 2.1. Data collection methods

The data were gathered through interviews, observations, and group discussions from the following key persons:

- a) Key stakeholder and other relevant officials
- b) Focus group discussions;
- c) Document review (reports, office orders, memos, agenda and progress report).

### 2.2 Development of Action plan 2 (2015-2018)

The second Action Plan 2015-2018 was developed from the measures or the recommendations provided in the findings and analysis chapter of the CSMI AP 2012-2014 evaluation report.

### **3. Findings, Analysis and Recommendations (measures):**

The primary data were gathered through in-depth interviews with all the important stakeholders. Its main objective was to find out the “*overall objective of the CSMI policy to foster job creation and enhance income generation by promoting the creation of new CSMI and improving the performance and competitiveness of existing one to increase their participation and contribution to the Bhutanese economy*”<sup>1</sup>. The evaluation was more of policy evaluation instead of the success or failure of program or project or the results of policy interventions.

In order to authenticate and validate the impact of the policy interventions on the concerned strategic objectives and activities, the four winners of the Bhutan Enterprise Awards (including women entrepreneurs), seven Chairpersons of Yarn Bank Clusters and 50 CSIs were interviewed. There were six objectives to be reviewed and evaluated in light of the six strategic goals and set timelines which was evaluated in relation to its relevance to the CSMI policy and the expected outcomes or impacts. They are outlined below:

#### **3.1 Strategic Objective 1: Strengthen the Policy Environment and Institutional Framework**

##### **3.1.1 Description**

The first strategic objective was aimed to strengthen the CSMI's Policy Environment and Institutional Framework so that all the strategic plans and policies set for the growth and development of CSMI should be systematically implemented using both national and international good practices. The progress and status of each of the activities listed under the strategic objective were analyzed and evaluated based on the goals, targets and measures set against it as per the CSMI strategy document and the 11<sup>th</sup> Five Year Plan (2013-2018) (Gross National Happiness Commission, 2012). There were six broad activities carried out by various lead and other partner agencies to fulfill the mandates of strengthening the policy environment and institutional framework for CSMI in the country.

##### **3.1.2 CSMI Action Plans**

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

**Analysis:** The CSMI Strategic document stated that there were no policies, strategies, frameworks or action plans to further the development of the CSMI sector (Ministry of Economic Affairs, 2012) in the country prior to the establishment of CSMI policy, 2012. In the absence of such a strategic framework, the CSMI activities have been (1) ad hoc, (2) irregular and (3) the resources were mostly donor-driven. Hence, CSMI development was ineffective. In order to improve the effectiveness of the CSMI, government had approved the policy and the strategic document outlining the gaps through clearly stated Action Plans. In order to

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<sup>1</sup> Source: CSMI policy, Ministry of Economic Affairs, 2012.

successfully implement CSMI policy and Development Strategy, the action plan was developed in sequence. The Action Plan had three core elements: (a) specific tasks with allocated responsibilities; (b) deadline by which the tasks are to be completed; and (c) the approximate resources allocated against each task which was counted redundant and irrelevant by the implementing (stakeholders) agencies because each agency had to fund the tasks with their own 11 Five Year budget. The strategy document also stated that there should be three CSMI Action Plans spanning for the period up to 2020, with an interval of three years each starting from 2012. The Action Plans were to be reviewed and evaluated by an independent capable consultant(s) every nine months prior to the completion of the action plans. In order to achieve the goals of CSMI action plans, following seven measures were taken:

- Prepare and seek approval for CSMI action plan 2012-2014
- Evaluate the CSMI Action plan 2012-2014 independently
- Prepare Action Plan 2015-2018
- Evaluate CSMI Action Plan 2015-18 independently
- Prepare action plan 2018-2020
- Evaluate CSMI Action Plan 2018-20 independently
- Prepare new CSMI policy or strategic Action Plan for 2021+

As per the first progress report submitted by DCSI, dated February 14, 2013, it stated that the first CSMI Action Plan (2012-14) had been prepared and approval was obtained from the MOEA on September 5, 2012. Subsequently, all other activities were put in place like inter-ministerial coordination was carried out after obtaining the approval to implement the first CSMI Action Plan. The relevance and the impact of CSMI Action Plan implementation was flagged and measures on the stages of execution of all the subsequent strategic objectives and the activities carried out by the partner agencies for the last three years.

One of the important factors flagged in the CSMI Action Plan was the “coordination mechanism to implement the vision and strategic objectives” by the coordinating agency. The success of CSMI Policy, strategy and action plan (tactical) hinged on the right implementation mechanism adopted by the coordinating agency in association with the implementing agencies.

On evaluating the effective implementations of the first action plan, the evaluation team found out that there were communication gaps between the implementing agencies and the coordinating agency. It was mainly because of the change of focal persons of the implementing agencies. Moreover, the action plans which were included in the 11 Five year plan were more of general in nature than specifically targeted for the CSMI policy implementation and development. Some of the reasons expressed by the stakeholders were that they firstly did not understand their role in CSMI action plan implementation process and the impact they had to make in the system. The DCSI expressed that the implementation of the CSMI action plan had to be executed in their normal five year plan budget, because “*CSMI policy is the national policy*”. On the other hand, while consulting with the stakeholders, during the interviews, eighteen stakeholders out of twenty four, raised the problem of inter and intra coordination. Their problems were themed into three broad head as (1) lack of direction and coordination, (2) non-engagement or inclusiveness of the stakeholders in the implementation process; and (3) lack of technical or financial assistance or directions from the coordinating agency.

## **Measures recommended:**

1. Each implementing agency should identify the CSMI action plan 2015-2018 focal person (s) dedicated for three years and submit the name list to the coordinating agency.
2. Coordinate with the stakeholders, focal persons and sort out all the issues and problems regarding CSMI action plan implementation quarterly by the DCSI.
3. Evaluate CSMI AP 2015-18, and prepare CSMI Action plan 2018-2020.

### **3.1.3 Human Capital Development**

**Policy:** *RGoB shall reorganize 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 organizational perspective, the responsibility of the CSMI was split between two institutions at MoEA, namely the DCSI- responsible for cottage and small industries and 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 practices stress 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. Since there was no fund available to conduct such analysis, DCSI did not execute the activity. However, the entire capacity development program both long and short was inbuilt in the 11 Five Year HR master plan and submitted to the Ministry. Moreover, through proper recruitment process in place, right person were hired for the right job. Therefore, there was no dearth of any need for specialized person with the specialized knowledge on CSMI in the department to carry out the particular assignment. On further consultation with the management, it was revealed that no such TNA was required for the Department.

Therefore, it was recommended to shelf the activity in the subsequent action plan. However, depending on the need, this recommendation can be amended in the future.

### **3.1.4 CSMI Agency Creation**

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

**Analysis:** In 2013, the Programme Division, DCSI carried out an in-house study to assess feasibility of establishing CSMI agency- to find out whether or not the formation of a separate independent government entity- to implement the CSMI programs and projects determined by MoEA under the aegis of DCSI would help CSMI development in the country. The assessment

concluded that “the establishment of independent CSMI agency to implement specific programmes and projects within the framework of CSMI Development Strategy and Action Plan is not recommended”. The assessment report was presented to 12<sup>th</sup> GNH subcommittee meeting of the MoEA and was endorsed as recommended. Thus, subsequent action plans (*activity no. 1.3.2 and 1.3.3, page no. 8 of Action Plan 2012-2014*) were not carried out.

However, with the formation of BOIC on 27<sup>th</sup> August, 2014 by the government, the task of CSMI awareness raising (especially in Production and Manufacturing sector) programs, *removal of bureaucratic and legal impediments of the development of CSI* (production and manufacturing sectors) and business information sharing mentioned in the CSMI Policy document were taken care by BOIC. Further separate Business Steering Committee was formed and was chaired by the Honorable Prime Minister to bring Bhutan’s position in ease of doing business ranking from 141 (net reality in 2014) to 100 as promised. Therefore, non-formation of CSMI agency as stated in the CSMI policy 2012 has not created any negative impact in the growth and development of the CSMI in the country, rather the mandates overlapped with BOIC as per the newsletter published by BOIC, in December 2014. The report clearly stated that within very short span of time (one year), 304 new ventures were created creating 434 additional jobs in the country (BOiC, 2014), fulfilling the overall CSMI policy objectives.

Therefore, the study supports the non-formation of separate CSMI agency duplicating the mandates of DCSI and BOIC.

### **3.1.5 Inter-Ministerial Coordination**

**Policy:** *RGoB shall entrust 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:** The progress report of the CSMI AP (September 2012- December 2014) was submitted by the implementing agencies to the DCSI, which reported on regular intervals to the CoS. The report clearly highlighted all the cross-cutting problems and issues related to CSMI action plan. However, as per the progress reports and interviews, it was found that all the activities in the action plan (2012-2014) that were implemented by the agencies were carried out successfully without any intervention required from the CoS. *There were no executive orders or directions given to any of the implementing agencies about any of the issues or bottlenecks by the cabinet secretariat during the CSMI action plan implementation period 2012-2014.* This is a clear indication of the smooth implementation of the action plans between the implementing and the coordinating agency. However, with the discontinuation of committee of secretaries alternative mode of solving the inter-ministerial issues has been arranged as follows:

- 1. If the cross cutting inter-ministerial issues arise while implementing the CSMI policy 2012, Strategy and Action Plan, then the issue may be forwarded to the cabinet secretariat and then considering the severity and necessity of the issue the same may be discussed in the GNHC, to which all the government secretaries are the members.*

2. *If the CSMI policy, strategies and Action Plan require the intervention of the few Ministries, the same shall be forwarded to the Cabinet Secretariat for necessary action.*

However, GNHC committee discusses more of the policy level issues rather than implementation. Therefore, the following measures are recommended for implementation of Action plan 2015-2018:

**Measure:**

1. DCSI should coordinate and liaise with the concerned Ministries or agencies for implementation of the Action Plan 2015-18.
2. The progress report should be prepared half-yearly, synthesized and circulated to the concerned secretary of the relevant agency.
3. Should there be any issues, the same may be forwarded to MOEA.

### **3.1.6 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:** The PSDC was formed in 2005, as per the government executive order. Although the PSDC was effective, it was still in need of further development so as to ensure that it became a forum for regular, proactive and two-way public-private dialogue between the CSMI sector and RGoB. However, the committee then was unsure of the proper execution of their power. It was found that the cause was the ambiguity in execution due to unclear legal clarity in the Terms of reference (ToR) of 2005, when the PSDC was first formed. Ever since its formation, its legal standing, relevance in essence and effectiveness in addressing the critical issues, challenges and problems of the CSMI have been questioned by both the government and private sectors (Bhutan Chamber of Commerce and Industry, 2013 page 29-33). The result was that the PSDC remained defunct until the reconstitution of the committee on 2<sup>nd</sup> June, 2009 with its Secretariat moved to the BCCI. The Public-Private representation was 40:60.

From its establishment till 28<sup>th</sup> March, 2013, the PSDC conducted 7 consultative meetings, out of which they could address 43% of the issues raised during the meetings, 29% remained open and 34% remained as unresolved. (BCCI, 2013, p.29-33).

However, from 2013 till 2014, the status and functioning of PSDC remained unclear and dormant till the executive order from the cabinet, asking the PSDC to submit proposal for its revival. Following this, the BCCI submitted a proposal to the Cabinet Secretariat in October 2013. In return, the government issued an order vide C-2/39/469, dated July 21, 2014. The order dissolved the PSDC and established the BBC with clear objectives and responsibilities. The mandate of BBC (chaired by the Hon'ble Prime Minister) encompasses a much broader spectrum of the business framework than the earlier PSDC. It will serve as a forum for public private

dialogue and address matters relating to all the business entities in the country irrespective of the nature of business (Trading, Services and manufacturing etc).

Since CSMI issues will most likely be addressed by the BBC mandate, there is no need for separate action plans at the moment. Therefore in the subsequent action plans, such directions need not be reflected.

### **3.1.7 Mobilization of External Support**

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

**Analysis:** The PPD, MoEA executes diverse functions, with the primary function being to formulate, monitor and implement five year plans in collaboration with the sectors and the GNH Commission. Its roles and responsibilities are clearly stated in its mandates, one of which is to liaise with the line departments in planning and resource sourcing (finding both internal and external sourcing), in association with the GNHC.

The normal process of resource mobilization is that proposals from sectors based on their annual performance agreements is submitted to the GNHC for sourcing funds from the government budget or from other donors. The PPD in the last three years has ensured the availability of funds/support for the implementation of activities for DCSI within the overall resource basket of the RGoB and also based on support received from JICA, UNDP, under MoU with Austria and MoU with Bangladesh to name a few. Therefore, exclusion of a particular activity from the action plan would not impact the CSMI Action plan. It is recommended that separate directions need not be given to the PPD to find funds to support CSMI separately for activities outlined in the CSMI 2015-2018 Action Plan and should be removed from the future action plan as it is one of the mandates of the PPD.

## **3.2 Strategic Objective 2: Strengthen Legislative Framework and Enterprise Environment**

### **3.2.1 Description**

The second strategic objective was aimed to strengthen the Legislative Framework and Enterprise Environment of CSMI, so that all the strategic plans and policies set for the growth and development of CSMI may be systematically implemented using both national and international good practices. The progress and status of the activities listed under this strategic objective was analyzed and evaluated based on the goals, targets and measures set against it as per the CSMI strategy document and the 11<sup>th</sup> Five Year Plan (2013-2018).

### **3.2.2 Enterprise Registration Act (ERA)**

**Policy:** *RGoB shall prepare and implement an Enterprise Registration Act to ensure that all enterprise 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 business with either the same or very similar names, which is almost entirely comprised of CSMI. To address these stated issues, the MoEA, CRD in particular, was given the responsibility to prepare and implement an ERA with its objectives to:

- a. Register enterprises, thereby vesting them with legal status;
- b. Establish a one-stop-service (OSS) with respect to all matter of registration requiring clearances from various ministries and agencies within the government;
- c. Facilitate enterprises to enter their profile information in a business software application as provided under the OSS; and
- d. Regulate the establishment of the Enterprise Registry, maintenance and public access to the background information in the Enterprise Register. The ERA and its implications for CSMI were to be publicized through awareness raising activities.

Therefore, the CRD, MoEA in close coordination and association with the OAG and RMA developed the bill in 2013. The bill will be deliberated in the winter session of the Parliament and then will be put up to the National Council. The bill will be operational only from 2016.

However, the delay in enactment and implementation of the ERA has caused delay in:

- a. Registering a licensed entity as a separate entity from the owner, to avail the privileges of doing ease of business with respect to registration, getting clearances from various of ministries and agencies within the government,
- b. Facilitating enterprises to enter their profile information in a business software application as provided under the One Stop Shop; and
- c. Regulating establishment of the Enterprise Registry, including maintenance and public access to the background information in the Enterprise Register.

Therefore, it is recommended that with the enactment of the bill, the following measures are to be carried out:

**Measures:**

1. Awareness raising campaign to ensure that enterprises comply with the ERA.
2. Educate and train the employees of the implementing line agency (RTIOs) on ERA.

**3.2.3 Registration and licensing**

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

**Analysis:** Online registration system had been developed under G2C office. However it could not be executed due to the absence of legislative framework in place. New way of registration and licensing process will take place only after the enactment of Enterprise Registration Bill in 2016. Till then all the activities under the registration and licensing process will not be executed. However, integration of the company and enterprise registry into a common data base must be carried out once the Enterprise Registration bill is enacted.

**Measures:**

1. CRD to be responsible for Enterprise Registry.
2. Integrate Company and Enterprise Registry into one database/platform, inclusive of proper reporting system.

**3.2.4 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:** On reviewing the previous reports through which the definition of CSMI harmonization has originated, it was revealed that harmonization of the definition was needed to address (1) *CSMI data collection and information generation*, (2) *Consistent reporting of CSMI data on which several national policy decisions would be made, especially targeting the (a) Employment Generation by CSMI, (b) levels of contribution made by CSMI in GDP, (c) contribution of CSMI in reducing the rural and urban poverty etc. and (3) monitoring and evaluation of the CSMI.*

However, on inquiry, it was found out that a common and agreed definition of CSMI was missing. It was also found that the DRC uses two definitions separately (1) definition based on annual turnover for the taxation purpose as per the Income Tax Act 2001, and (2) other MoEA definition based on investment and number of employees while developing the fiscal incentives to the business entities.

No official document or office order could not be traced on the harmonization of the CSMI definition ever initiated. On logical and purposive analysis, CSMI definition has to be harmonized in the country if all the CSMI activities are to be *quantified* and reported to the nation. Current definition of CSMI suffers from dynamic adaptation to the needs of the action of the CSMI, both in report generation as well as in the effort of the government in providing support to the CSMI sector. Therefore, CSMI definition must be harmonized based on the long term usability of the definition rather than the initial investment of the CSMI. In order to harmonize the definition, following measure must be taken.

**Measure:**

1. Harmonize the new CSMI definition which should be more practical, usable and dynamic across the relevant agencies (*hybrid of investment, turnover and employment*).

### **3.2.5 Annual CSMI Reports**

**Policy:** *RGoB shall collect, analyze and disseminate Annual CSMI Report, 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 was rendered “blind” without regular analyses of the state of the CSMI sector. With the introduction of a common 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 the definition of Micro, small and medium-sized enterprise- white paper, 2010). In the meantime it would be possible to collect, analyse and publish information from DRC, MoF, CRD, MoEA and MoLHR (Labor Force Survey and Establishment survey), in collaboration with the NSB. This institutionalized process would, in due course of time, 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 armory of the CSMI sector and its stakeholders, and should be disseminated freely and widely.

The purpose of CSMI report is to provide information to the readers about new and potential developments taking place in the organization, and be of certain value addition to the readers. Looking at the reports for last three years (2012-2014), they lack proper design, proper understanding of audience, and exactly what information the organization wants the readers to get out of the report. Therefore, the annual CSMI report must be professionally designed to report and inform the users of their activities. In order to do this, the following measure can be undertaken:

**Measure:**

1. Continue with the *usability-based* present system of data collection process (RTIOs compile and submit to the Ministry), data analysis and report generation for the decision makers (individual or organizations) .

### **3.2.6 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 deployed as quickly as possible.*

**Analysis:** The Bankruptcy Act 1999 states, “This Act shall extend to the whole of the kingdom of Bhutan and applies to every person organized, doing business, having property, or domiciled in Bhutan”. The inclusion and amendment of Bankruptcy Act 1999 in the CSMI policy was to ensure that the assets of the failed industries are re-deployed as quickly as possible. However, on inquiry, it was found that only few reported cases of incorporated companies had been dissolved based on the bankruptcy procedure. The Act suffers from the 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 were let-go by the business, which in turn compel financial institutions such as bank to tighten their lending norms. Therefore, Bankruptcy Act 1999 was reviewed jointly by OAG and RMA. The draft amendment bill had been developed and submitted to the cabinet to discuss in the parliament. Furthermore, the enforcement of the bankruptcy law is within the domain of Judiciary.

In the stakeholders’ interview, it was revealed that the Insolvency Act had been like any other dormant acts like the Tenancy Act, or the Contract Act, because even after enactment of the Act for last sixteen years, no private enterprises had sought shield against the Insolvency Act. Just one company had requested the company registry to assist on dissolution of the companies as per their Memorandum of Understanding, but this was not exactly the case of seeking protection of the assets against creditors.

Therefore, it is evident that the awareness campaign on the pros and cons of the Insolvency Act must be conducted and then the implementation of the Act must be done accordingly. The following measure is recommended:

#### **Measure:**

1. Create awareness program on Insolvency Act and assist CSMI to get the shelter under the Act.

### **3.2.7 Tax Administration**

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

**Analysis:** According to Enterprise Survey Report 2010, Bhutan Investment Climate Assessment Report 2010, Enterprise Survey Report 2011, tax administration system was flagged as one of the key barriers to CSMI development in the country. The CSMI policy also highlighted the problem of proportionality not made between the larger companies and the CSMI. Therefore, in

order to segregate and identify the CSMI from the larger public and private companies, and provide cost effective business establishment and operation system, the DRC was responsible to segregate and simplify the existing tax administration system especially for CSMI. This was done to reduce burden in:

- a. Registration of the newly formed business entities online;
- b. Filing the tax online; and
- c. Educate on customs duties exemptions and the other privileges and incentives provided to the CSMI in the country.

In the month of January 2015, the DRC launched a new system called RAMIS. This system is expected to benefit the taxpayers in many fronts, the easy registration from anywhere in the world, filing the tax online and getting tax clearance online to mention a few. This system is expected to help the CMSIs by reducing the cost in filing of business tax.

Even though there were some technical hitches at the initial launching of the RAMIS program by the Department, the initiative of changing from the manual tax administration to online administration had greatly impacted in the personal and business tax management system. It was estimated that more than 26,000 entities registered online and filed their taxes for the year 2014. However, on interviewing the business entities especially CSMI in and around the localities, they have raised the common issues of “(1) multiple supporting documents to be submitted while filing the BIT; (2) frequent breakdown of the server; and (3) taking long time to upload the documents”. Moreover, many of the business entities owners are illiterate and they are not able to use the facilities as intended.

Therefore, furthermore simplification and ease of using the RAMIS should be developed to acquaint the users (CSMI) to capitalize the intended benefits of the technology. The following measures can be looked into to bring improvement in the existing system:

**Measures:**

1. Impact studies of the new system particularly for the CSMI, information analysis as well as direct interviews with the CSMI taxpayers have to be done.

### **3.2.8 Accounting Standards for SMEs**

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

**Analysis:** AASB needs to carry out its mandate to raise awareness on importance of accounting and audit standards for small and medium industries as well as to select CSMI to participate in AASB activities. However, while consulting with the AASB, it was found that the CSMI does not fall under the definition of BAS. Further as per the definition of BAS of SME, it states that the following definition shall apply on the basis of BAS:

- a. Section 1.2 (BAS for SME) describes SME as: entities that (a) do not have public accountability and (b) publish general purpose financial statements for external users like

proprietors who are not involved in managing the business, existing and potential creditors and credit rating agencies.

- b. Section 1.3 defines public accountability as: (a) if its debt or equity instrument are traded in a public market.....OR (b) if it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. Examples are banks, credit unions, insurance companies, security brokers/dealers, mutual funds and investment banks.

Furthermore, it is not legally mandatory to disclose the financial statements to the owners of the business (separate entities) or to any other creditors and the government entities. Therefore, the application of the CSMI policy and actions plan on accounting standards on SMEs may be ignored in the subsequent action plan because it is not relevant to the CSIs.

### **3.2.9 Public Procurement**

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

**Analysis:** Public Procurement Policy Division was mandated to develop the procurement rules and regulations in the country. As per the progress report all the listed activities in the Action Plan 2012-2014 were carried out to address the barriers to respond to tenders, except (1) launching of the public procurement web portal which was developed in 2013 (2) the initiative to replace 2% bid security by bid securing declaration and (3) in-country manufactured goods against the imported one. The concerned agency had translated the Procurement rules into Dzongkha and circulated widely the hard copy of the procurement rule in the dzongkhags, Gewogs and other relevant agencies. Moreover, they also developed the procurement guidelines for both the procuring agency as well as for the bidders.

On interviewing the contractors and consultants it was found out that translation of Procurement Rules and Regulations into Dzongkha has not affected much on the tendering process. Moreover, in country manufacturer of the construction goods (bricks, etc.) do not directly deal with the government, but through the contractors. Therefore, the language was not a significant barrier to the tendering process, but administrative burden of EMD, Bid security and multiple documents preparation and submission was. Moreover, the stringent rule on procurement process was mainly to protect government agencies from buying spurious and substandard works, services and goods. The agency is also liable for the loss of the goods and properties purchased by the government agency.

Though there was no direct means to gauge the economic and financial impact of procurement rules and regulations among the CSMI, it was perceived that it created and eased the way to participate in the tendering process more easily by the CSMIs as compared to the past. It also created an enabling business environment as articulated in the CSMI policy. The following measures are recommended:

#### **Measures:**

1. Replace 2% EMD by securing declaration.

### **3.2.10 Proportionality for CSMI**

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

**Analysis:** DoL, MoLHR was assigned with the responsibilities of amending the labor regulation in the country.

The following areas were reflected for amendment of the labor regulation

- a. *Working hours*
- b. *Financial implications to provident fund, gratuity, insurance etc.*
- c. *Termination of the non performing of employees*
- d. *Frequent inspection of by the labor inspectors*
- e. *Numerous stringent penalties etc.*

As stated by the concerned agency, the activity was not carried out during the plan period. It was revealed that since the labor regulation has several topics, they were not sure about which areas they should have amended and why.

Similarly, the improvement of import and export regulation was not executed because it was kept to be implemented in the action plan 2015-2018. Under this, the following areas were targeted to change:

- a. *Import license*
- b. *Import of raw materials*
- c. *Remittances*
- d. *Inconsistency with the import of goods and sales tax etc. ( see page 52, CSMI strategy 2012-2020)*

On further validation, it was confirmed that the above activities should be carried out for the positive growth and development of CSMI. Therefore, the following measures are recommended;

#### **Measures:**

1. Labor Regulation should be amended
2. Import-Export Regulation should be amended.

### 3.3 Objective 3: Facilitate Access to Finance and Incentives

#### 3.3.1 Description

The third strategic objective is aimed to facilitate access to finance and incentives, so that all the strategic plans and policies set for the growth and development of CSMI may be systematically implemented using both national and international good practices. The progress and status of activities listed under the strategic objectives were analyzed and evaluated based on the goals, targets and measures set against it as per the CSMI strategy document and 11<sup>th</sup> Five Year Plan (2015-2018).

#### 3.3.2 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:** The policy was to address the three greatest constraints to growth and development of the CSMI in the country. They were:

1. Bank's emphasis on collateral as lending security and borrowers' inability to provide such asset;
2. Inadequate financial accounts held by many CSMI; and
3. Limited branch network of most banks and Non-bank Financial Institutions in the rural areas.

In order to address those three broad financial constraints faced by CSMI and in their development and growth, the government had proposed five measures to increase the financial outreach to the CSMI to carry out in the year 2012-2014 as follows:

- Repeal Loan Act 1981
- Deliver capacity building programmes focusing on alternative lending methodologies
- Implement pilot initiatives to test alternative lending methodologies jointly with International Financial Institutions
- Implement a CSMI credit line, focus on commercial banks
- Implement a CSMI finance facilities targeting competitive sectors worth potential for growth

Repeal of Loan Act 1981 had been initiated to streamline the clauses in the Act which were hindering the financial institutions to adopt the alternative methods of lending to the business entities in general and CSMI in particular. Since repeal of Loan Act was beyond the mandates of the RMA, the same measure was redirected to DCSI. The DCSI then carried out an in-house study on the highlighted issues of Loan Act, 1981 with regard to the CSMI. Their study found out that the relevant clauses in the Acts especially the collateral part affecting the CSMI on getting the finance from the banks were taken care of by the *MIPA*, 1999 and the Financial Services Act 2011. The report was presented to the 12<sup>th</sup> GNH committee, which subsequently approved not to further pursue repealing of the Loan Act, 1981.

On further validation, through review of documents, consultation with the relevant stakeholders and the study of current situation, it is found that the additional unimplemented activities are to be carried out to facilitate CSMI to access the finance. In order to do so the following measures are recommended:

**Measures:**

1. Hire financial consultant to develop the alternative lending methodologies (Equity, Mezzanine Finance, Leasing and Factoring etc.).
2. Develop capacity building programs focusing on alternative methodologies.
3. Pilot initiatives to test alternative lending methodologies.
4. Develop CSMI credit line focusing on financial institution.
5. Implement CSMI finance facility targeting competitive sectors.

**3.3.3 Credit Guarantee Schemes (CGS)**

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

**Analysis:** The government in association with the commercial banks since 2010 had implemented CGS. Compared to other forms of business financing to the startups, CGS had been the most successful (*82% of the business exist*) startups and overdraft mode of finance in the country. According to the stakeholders, after the formation of the BOIC, all the manufacturing related proposals were being forwarded to BOIC while that of service industries to the Financial Institutions. The operation of CGS is being reviewed annually by the Board.

Further, inclusion of existing small industries was approved during the 2<sup>nd</sup>CGS Board Meeting for which the DCSI had submitted terms and conditions and shall be put up to CGS Board for final approval. Despite the success story of the scheme, 18% of the business supported by the scheme failed (35 entities). The three prominent reasons were (1) insufficient monitoring and mentoring program from both the lending agencies as well as from the ministry (MoLHR) once the capital was released; (2) the absence of guidance by the government in proper distribution of responsibility and accountability between the lenders and the ministry; and (3) the absence of proper legal framework for the borrowers.

However, the scheme had provided employment to more than 450 unemployed youths in the country contributing to reduction of the poverty and increase in the GDP. Therefore, it is recommended to continue for CGS with the following measures in place:

**Measures:**

1. EDP must find Business Mentors to effectively implement the programs supported by Credit Guarantee Programs or any other public funded programs.
2. Capacity building of the officials in terms of Entrepreneurship delivery methodology like CEFE of *CEFE Net Sri Lanka and Germany*, *SIYB of ILO* and many others could be implemented.
3. Create Bhutan Business Start-up Fund to have less dependency on Financial Institutions.

### **3.3.4 Micro Finance Institutions**

**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:** RMA approved the regulations on MFI (Non-Deposit-Taking MFI). The regulatory framework had been adopted and is ready for implementation. RMA is waiting for the potential MFI promoters to express their interests prior to the feasibility report to be submitted to RMA. Since the activities were just carried out when the consultancy happened, the impact assessment could not be carried out.

Formation of the MFI would greatly benefit the small and cottage industries in the country henceforth, because with the formation of BBC, many of the legal, economic and the policy framework will be sorted out instantly favoring the ease of doing business in Bhutan. Therefore, it is recommended that the RMA expedite to promote the establishment of MFI in the country (starting with non-deposit-taking) and migrate towards deposit-taking institution like Grameen Bank in Bangladesh with the following measures:

#### **Measures:**

1. Seek expression of interest from the MFI promoters, detail feasibility project report (DPR), evaluate, approve and establish MFI(s).

### **3.3.5 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.*

**Analysis:** Currently, the concept of business finance through Leasing and Factoring is entirely new and complex. However, if understood its essence by the lenders and borrowers, and if supported by legal framework, it is one the best alternative method of financing the business. However, bringing new and complex concept of financing in the financial institutions and the financial illiterate borrowers (CSMI) would create more confusion than clarity. Therefore, the concept of Leasing and Factoring activities were to be carried out in 2014 through creation awareness programs. However, the activity remained at halt because there is no guiding legal framework under which such alternative methods of business financing were to be operated so far in the country. Therefore, there was no area for the impact assessment.

However, on reviewing the documents relevant to the policy, and its earlier impact on other countries, through proper drawing of the policy, legal and business framework, the alternative mode of financing “leasing and factoring” could be very useful to the capital starving business entities, thus benefiting the CSMI. Moreover, the Contract Act 2014, has been enacted to strengthen the agreement and most importantly RMA has established the Central Registry (CR) in 2012 with the assistance from ADB and is in operation since July, 2014 for movable properties under CIB, through which Leasing and Factoring could operate more easily. This

alternative method of lending or financing activities for the CSMI should be clubbed with the Commercial Bank Finance (section 3.3.2) for more effective planning and execution in the subsequent action plan.

### **3.3.6 Credit Information Bureau**

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

**Analysis:** Following are some of the activities to be carried out under this Programme:

- a. To improve effectiveness of CIB for CSMI (e.g. sliding fee depending on loan size).
- b. CIB to revise the fee structure for the clients availing loan up to Nu. 100,000.
- c. To add MFIs and other financial service providers to CIB.

CIB is a separate entity in the country responsible for compiling and generating the credit information from different financial institutions that receive and lend money to the borrowers. On consultation with the key person handling the CIB, it was found out that the sliding fees for the borrowers below Nu.100, 000 had been reduced from Nu.500 to 100. There were a few other CSOs like Loden Foundation and Tarayana Foundation which currently provide micro loans, but it was found out that that these foundations did not have adequate IT Systems to support reporting of credit information to CIB. The concerned agencies are working on the IT systems so that it would be compatible with the CIB system database. Without a thorough study, we cannot, at this point of time, attribute that with the reduction of the sliding fees it directly impacted on the borrowers to borrow more money from the banks. It had definitely reduced the financial burden in getting the combined information from one place (CIB) at nominal fees of Nu.100. The service is being effective and efficient to both the borrower and the lender, hence reducing the credit risks. Moreover, CIB is mainstreaming the credit information from the CSOs and the MFIs in due course of time. Therefore, it is recommended that the measure should not be reflected in the subsequent action plan.

### **3.3.7 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:** The following were some of the activities to be carried out under this Programme:

- a. Awareness raising of equity/venture/mezzanine finance among CSMI
- b. Use the IFC SMI ventures Funds as a piloting initiative to learn from and improve

The concept of business finance through the equity and mezzanine finance is entirely new in Bhutan. Given a sound legal framework, equity and mezzanine finance could be viable alternative source of financing for the CSMIs. However, bringing new and complex concept of

financing in the financial institutions and the financially illiterate borrowers (CSMI) would create more harm than good.

The Equity and Mezzanine Finance could not be introduced in absence of guiding legal framework under which such alternative methods of business financing were to be operated. Therefore, there was no area for the impact assessment.

Furthermore, as was the understanding, if the International Financial Corporations (IFC-SMI) venture funds, had supported the DHI with funds, the DHI wanted to test the market, but since the DHI did not get any fund from the IFC, this activity could not be carried out. It was also indicated by the IFC that they would not support such endeavor in the near future. Therefore, it is recommended that the concept of equity financing, venture capital and Mezzanine finance may be studied, tested and promoted (after getting the legal stand) through the government or donor funding for the CSMI business financing and the activity is to be carried out and mainstreamed with the Commercial Bank Finance (Section 3.3.2).

### **3.3.8 Business Network**

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

**Analysis:** The idea of business network development among the business entities was to find an alternative business finance methodology especially from the business angels (investors) who would like to invest for the growth and development of the CSMI. However, the concerned agency had conducted an in-house feasibility study (focused on the furniture manufacturing industry) on such financing methodology. The study recommended that such business networks comprising high net worth individuals willing to invest in and develop CSMI was not feasible currently. Furthermore, personal interview was made with both the private and public investment institution as well as the business entities to share the business equity (ownership). The greatest concern was the autonomy and ownership of the business at this particular point of time. The concept of business angels and investment process is new to the system, thus it is looked at by both the parties (*investors and CSMI*) as skeptical and unprepared. Therefore, it is recommended not to pursue the matter further in the subsequent action plan.

### **3.3.9 Public-Private Partnership (PPP)**

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

**Analysis:** Though the PPP policy was initiated since 2011, it had not been completed and was still at the testing and policy approval stage. In the absence of the policy and legal framework, all activities especially to pilot the (a) rural cold chains, (b) food processing and (c) business services network could not be carried out and the impact assessment not possible. However, it is recommended to once again carry out the activities which were left out due to the absence of

PPP legal framework in the action plan 2012-2014, evaluate it and then promote if successful among the CSMI with the following measures:

**Measures:**

1. Feasibility study of PPP model in the development of (a) rural cold chains; (b) food processing; and (c) business services network

**3.3.10 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:** Due to lack of fund in the organization, DRC could neither carry out the evaluation of CSMI incentives to optimize the startup or early growth of the CSMI nor could they refine or abolish non-fiscal incentives not having impact on the targeted CSIs.

The Fiscal Incentive 2010 (Second edition) provides opportunity for CSMI to benefit certain period of tax holiday upon fulfilling the eligibility checklists. For instance, any CSI can avail 10 years Income Tax Holiday provided its business establishment is from 1<sup>st</sup> January 2010 and 31<sup>st</sup> December 2015. However, the study to ascertain the actual benefits in relation to enabling early growth or providing incentives to the entrepreneurs is yet to be done.

During the stakeholders' interview, it was informed that such study is yet to be carried out and will be implemented in the subsequent action plans.

**Measure:**

1. DRC must carry out a detail cost-benefit analysis of the tax incentives for CSMI taxpayers.

## **3.4 Enhance Competitiveness & Innovation**

### **3.4.1 Description**

The policy is designed to enhance the competitiveness and innovation of the CSMI in the country, so that CSMI becomes innovative, self-sustaining and competitive in the international market. Various measures were to be carried out to develop the competitiveness and innovation of the CSMI in the country as mentioned below.

### **3.4.2 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:** DCSI was the leading agency to carry out BDS with following activities that had to be implemented during the year 2012- 2014:

1. Establish grant schemes/vouchers schemes/ challenge funds to promote DBS provision
2. Raise the quality of individual business consultants via certification to international standards and finally,
3. Evaluate each round of BDS provision, develop good practice and refine the next round of BDS provision.

The progress report as well as the discussion with the stakeholders, it was revealed that no grant or voucher schemes or challenge fund were established to promote BDS for the CSMI for last three years. However, the agency initiated the *in-house study* to find whether or not the quality of individual business consultant via certification to international standards was required at this particular point of time or not in the country.

The study revealed that currently there was no requirement for such certifications of the consultants in Bhutan. However, on interviewing 10 consulting firms (*Architecture, Civil, Environmental, Social Science consulting firms and individual consultants*), they expressed their opinion that if the certification would provide added advantage of getting priority in tendering process or direct contract from the government or other agencies, the certification initiative would be welcomed by all the firms and the individuals. Otherwise, it would be only a loss of time and resources for the organization. Thus, it is recommended not to pursue for certification of the consulting and consultants to provide BDS to the CSMI and uphold the findings of the in-house study carried out by the DCSI.

On further analysis on BDS infrastructure *which is supportive of CSMI development*, it has been found out that even though the concept of voucher schemes, grants and challenge fund etc. practiced in other developed countries to stimulate the BDS has been a new and foreign concept to the Bhutanese CSMI, yet essential. For example, MoLHR has established BDS in association with the RIM to provide free BDS services to the business entities.

Therefore, it is recommended that the DCSI should work with MoLHR and relevant stakeholders like DHI, BDS providers, BCCI etc. to avail the BDS provided by MoLHR at RIM for CSMI.

### **3.4.3 R & D/Innovative Activities**

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

**Analysis:** For last three years (2012-2014), the concerned agency initiated and promoted R & D voucher scheme through various mediums (*National Television, Newspaper etc.*) for CSMI development. The main objectives of the scheme were to:

- a. Enable Cottage and Small Industries (CSI) to seek and buy innovative ideas/ technical solutions which can be achieved/ addressed through research, from research institutions and knowledge providers.
- b. Encourage businesses to invest and engage in R & D to improve their efficiency.
- c. Assist financially challenged CSMI interested to pursue R&D to enhance their efficiency

On publicity done by DCSI, for the voucher scheme, following were the output:

- a. Two rounds of announcements done via Kuensel, BBS TV, FAQs - ministry's website, FAQs distributed through six RTIOs.
- b. A total of 3 and 6 applications received respectively
- c. Two were conditionally approved after second round and one was awarded.
- d. Response was poor and proposals received did not meet the *requirements* of the scheme. Thus, *the Department had stalled the scheme for now.*

The study found that only one of the voucher schemes was initiated during the year 2012-2014. Many of the business entities did not understand the value of the schemes. Further, after interviewing more than 20 numbers of CSMI business entities in Thimphu about the schemes (*list enclosed*), only one entity gave positive response. 95% of the respondent stated that they didn't know anything in detail about the scheme. They had only heard about it.

On further interviewing the coordinating agency and the award winner, it was found out that the concept of R & D among the CSMI is almost non-existent due to the low literacy and out-moded technology in use. Synthesizing the information provided by the CSMIs, award winner and the agency concerned, that there is strong co-relation between the ways of information dissemination by the agency for CSMI, level of understanding of the R & D concept and the current outcome (lack of participation from the CSMI). Therefore, the concept of R & D among the CSMI should be promoted and educated by way of providing financial incentives like voucher schemes etc.

#### **Measures:**

1. Create awareness campaign R & D and voucher schemes concept to the CSMI

### **3.4.4 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:** The following programmes were to be carried out under this activity:

- a. Develop clusters (apple, textiles, wood based industries and incense manufacturing)
- b. Develop value chains (dairy, organic, wellness products based on traditional medicine)
- c. Cooperate with relevant stakeholders for implementation e.g.APIC for craft
- d. Evaluate cluster/value chain development and improvement of the process

The idea of formation of clusters and value chains were mainly to develop the competitiveness and market access for the CSMI. It was expected that the clusters and value chains be formed especially in apple, textiles, wood based industries and incense manufacturing and dairy, organic, wellness products based on tradition medicines respectively during the year 2012-2014.

Meeting with different stakeholders responsible for the formation of the clusters and value chains (*Department of Agriculture, Department of Livestock, Natural Resources Development Corporation, National Institute of Traditional Medicine etc.*) revealed that clusters and value chains for all other products were not formed except for the cultural products under the aegis of APIC. Moreover, there were missing linkages between the coordinating agency and the implementing agencies while implementing the action plan. On interviewing the chairpersons of the Yarn Bank clusters and other cooperatives, they expressed their skepticism over such government initiatives without competent business managers and technical advisors in the long run. According to a stakeholder;

*“Though the cooperatives and clusters for various entities were formed and were impactful for a season, but due to lack of literate and skilled person to lead the business during the difficult phase of business time had been in question”.*

Therefore, in order to stimulate the development of business clusters and value chains with the potential to increase the competitiveness (Quality and Costs) of CSMI products and services, DCSI in association with partner agencies must develop the :

#### **Measures:**

1. Human Capacity Development of the clusters and value chains.
2. All the information about the cluster formation should be shared to Tourism Council of Bhutan, ABTO and GAB to improve their scope of tourism products in the country, especially the Craft sector.

### **3.4.5 Inter-Enterprise Networks**

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

**Analysis:** Following are some of the programmes to be carried out under this activity:

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

An in-house study by the DCSI was conducted to see whether inter-enterprise network amongst wood-based industries is necessary for the growth and development of the CSI and it was found that such activity was not necessary on the part of the government to initiate since the network has to grow on its own. Hence, the activity has been dropped for now. Moreover, inter-enterprise network creates unhealthy business environment and monopoly in the market through collusion except in case of cluster and value chain formation. Therefore, the process of inter-enterprise network to facilitate development of CSMI has to be dropped in the subsequent action plan.

### **3.4.6 Business Incubators**

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

**Analysis:** The business incubation model had been already developed for implementation but for its application there is a need of infrastructure in place. On this, management had already tendered out for the construction of a business incubation center in Changzamtog, Thimphu. Therefore it would be possible to carry out incubation activities only during the period of third Action Plan (i.e. Action Plan 2018-2020). However, the agency must optimize existing incubation centers in the country to promote and pilot CSMI incubation process (*Thimphu Tech Park and Industrial Estate at Chamzamtok, Jemina, Pasakha*) in association with the DOI. Furthermore, the agency must monitor the incubation process of the CSMI, so that business entities under CSMI definition are not encouraged to avail the subsidize house rent facility and other facilities provided in the Centers for long duration, as it is practiced currently.

#### **Measures:**

1. Alternative methods of business incubation in IT Park and other Industrial Estate should be explored and implemented till the incubation center is ready for operation.
2. Establish the assessment and monitoring system to graduate the CSMI from incubation center as per the initial agreement drawn between the government (MoEA and the CSI availing the incubation facility).

### **3.4.7 Industrial Estates/Special Economic Zones/Technology Parks**

**Policy:** RGoB shall strengthen the network of Industrial Estates or service centers or special economic zones or technology centers or parts with a focus on CSMI (see EDP-2010)

**Analysis:** Government had envisioned an establishment of an independent management institution to govern all the Industrial Estates or Special Economic Zones or Technology parks in the country in the long run. However, the idea could not be materialized so far due to various reasons stated in the report like land ownership, lack of financial and human resources etc. Thus, the development of three industrial estates has been handover to MOEA. On close scrutiny it was found out that the industrial estates in Jemina and Chamzamtok have been supporting CSMI growth and development by providing subsidized rental space ever since its commencement. Moreover, the government policy of expansion of mini industrial estate in each Dzongkhag already has the provision for CSMI. Therefore, there is no specific directions or recommendation to be provided to the concern agency. Thus, this sub-activity may not be pursued in the subsequent action plan.

### **3.4.8 Cooperatives, Farmers' Groups etc.**

**Policy:** RGoB shall support the development of cooperatives, Framers associations, community based initiatives and similar mechanism.

**Analysis:** All the Federations, cooperatives, Farmer's Groups and community initiatives are guided by the Cooperatives (Amendment) Act 2009. The activities mentioned in the Action Plan 2012-2014 were successfully carried out as these were their regular planned activities to be implemented.

The main reason for the inclusion of cooperatives and farmers groups in the CSMI policy statement was that it creates business opportunities both in the rural as well as in the urban areas in long run. The cooperatives and farmers groups would provide the economics of scale through joint purchase by the cooperatives and economics of scale (group production will have regular supply of goods at the lower costs), etc.

DAMC had commenced to implement the development strategy, development fund and had registered 257 farmers groups and 38 cooperatives in the country. Each activity mentioned, especially the development fund for cooperatives, had been instrumental in promoting the cooperatives in the country. The fund provides the principle of ploughing back of the profit to produce more products as required by the cooperatives.

However, the few concerns raised both by the cooperatives and the farmers groups were the competencies and the leadership of the groups. The capacity development provided were more of record keeping and this alone was not sufficient, but more so they required other knowledge on Market intelligence, Finance and the Leadership etc. Therefore, considering the present scenario of the CSMI status, cooperatives and the market situations, it is recommended to take the following measures:

**Measures:**

1. Support the capacity building of the cooperatives and farmers groups in marketing strategies, financial management and leadership.

**3.4.9 E-business/e-commerce**

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

**Analysis:** MOIC is the partner agency to implement the above-mentioned activity in partnership with the lead agency MOEA and G2C. The activities were to be carried out within 2013.

Bhutan E-government master plan was approved by the government wherein the framework will put in terms the laws and regulations to govern the plan. Further, to facilitate commercial transactions online, the Master plan has recommended RMA to lead in development of the National e-Payment Gateway.

Furthermore on enquiry with the *payment and settlement system department*, under RMA, it was found out that the letter has been written to RBI to assist to develop the E-payment gateway. All the activities aligned to assist the promotion and development of CSMI like E-commerce (supply and demand of the goods and services) and E-payment system will be commenced as per the stakeholder's interview at the earliest from 2016.

All the activities mentioned in the CSMI policy were either at the conceptual or on the verge of application. The policy of G2B and G2C and [www.citizenservices.gov.bt](http://www.citizenservices.gov.bt) etc. were launched by the government. The services are used by the citizens to get information for their assignment. As per the record, for last five years (2010- 2015) 108,939 web visitors visited the website. Moreover, the G2C poll carried out monthly indicated that the 80% of the visitors liked the G2C initiative. However, B2B and B2C online activities could not be carried out so far due to the lack of legal framework and ICT infrastructure in place like online payment system (E-gateway etc.). The scope and extent of impact on the targeted clients at this point was not possible.

Therefore, it is recommended that online E-commerce and E-Business has to be expedited to optimize the power of online business. In order to carry out the above recommendations following measure be taken:

**Measures:**

1. Expedite and implement the online business system

### **3.4.10 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:** IPD had conducted awareness and tailor-made program to almost **1112** various agencies, entities and individuals in the country. In addition to general IP, the participants were educated on the importance of registration of IP, how to exploit for the commercial purpose.

Survey (30 participants) from different Dzongkhags (*Bumthang, Paro, Samdrupdzongkhar, Sarpang, Thimphu, Tshirang, Trongsa,*) were conducted to see the impact of the awareness of IPR. The finding was that firstly, the attendee were either semi-literate or the representative of the business entities, students and other institutional heads and secondly, contacts of the concerned attendees were either changed or not in use. Furthermore, it was revealed that all the activities (*awareness and workshops*) had been just carried out for the first time and at the most basic level, therefore, neither the stakeholder, nor the attendee could comment on its impact. On positive note, all the attendee expressed one common voice that the IP is useful for effective product or service marketing tool. Therefore, it is recommended that the awareness program on IPR should be carried out with the assessment measures (*target clients (numbers), outputs, outcomes and impact of the program*) put in place beside the other activities.

#### **Measures:**

1. Create IPR awareness program (measurable) relevant to CSMI
2. Promote and popularize the importance of IPR info point among the CSMI

### **3.4.11 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 lists).*

**Analysis:** In addition to general IP awareness program conducted by IPD, the action plan recorded that the agency was to conduct the awareness program on (a) Licensing, (b) Assignment and (c) Franchising etc. in the country. As per the 5<sup>th</sup> progress report submitted to DCSI, it was stated that the first BEGIN program held at tech park were made aware of the information on licensing, assignment agreement. During the period, 11 applicants were received for Assignment. Information on process of IPRS was shared with the officials of UNCTAD and DOI. On further discussion with the stakeholders it was found out that such new invention of products or services to be franchised, assignment or licensing is rare. Therefore, the concept of licensing, assignment and franchising may be shared along with the IP awareness program. But separate implementation direction or action plan may not be pursued in the subsequent action plan.

## 3.5 Objective 5: Improve Market Access

### 3.5.1 Description

Strategic location of the country, population, transportation systems (roads, rope ways, airways, water ways and ICT highways), level of development and comparative advantage of the country are some of the critical function of the supply side of the supply chain management systems. The equation is further aggravated by the regional comparative advantages, competitiveness and technology development of the regional and international business entities who supply the similar products and services equating to the demand side of the equation. In order to balance the demand and supply side of the equation, the government had initiated to strategically develop as niche products, improving product quality product varieties, improving processing, grading, and packaging, labeling and addressing the supply side of the constraints and position its products and services in the country and compete in the regional and international markets. In order to achieve those objectives, CSMI Policy, 2012 has come up with five tactical plans as mentioned below to address the current CSMI problems.

### 3.5.2 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:** BSB is responsible for development and facilitation of the implementation of Standards, Testing and their Compliance. Through the ADB fund, institutional development and capacity building of BSB was supported. The bureau had tried to find the financial source and stakeholder's cooperation to carry out the activities mentioned in the action plan 2012-2014.

In order to address the cited problems, the bureau had come up with the 9 Technical committees, however, as of today, no specific actions attributable to CSMI products and services standards were charted or developed due to the shortage of financial resources, infrastructure and testing equipment.

Because of which there are no specific standardized and internationally recognized additional products and services attributable to CSMI listed or registered and displayed for information to the general public has been materialized. However, following measures have to be carried out if the government has to improve the market access for Bhutanese products (*substitute or capture the market*).

#### **Measures:**

1. BSB must spearhead in close consultation with the MoEA (DCSI) to identify the varieties of products, works and services to be standardized and certified to be sold both within and outside the country.

### **3.5.3 Brand Bhutan**

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

**Analysis:** The activities mentioned under the Brand Bhutan were not carried out because the “Brand Bhutan” was on the process of making and approving. On detail discussion and interviews, it revealed that the report on 'Formulating a strategy to develop Brand Bhutan' was presented to the 20<sup>th</sup> GNH Committee of the MoEA on July, 2012. However, the DOT wanted to further develop the Brand Bhutan Strategy and make it more strategic and implementable. In order to undertake the task to finalize the Brand Bhutan Strategy, the Department, with financial support and consultation with UNDP, Bhutan recruited an international consultancy firm. After working for over 6 months, the Brand Bhutan Strategy is now finalized. As per the directives of the Ministry, the Department would be putting up to the Government for approval and subsequently for implementation.

Both the Brand Bhutan awareness program and capacity development program will start from the subsequent action plan (2015-18) once approved.

#### **Measures:**

1. Create awareness program among CSMI to promote Brand Bhutan
2. Capacity development of strategic CSMI to promote Brand Bhutan

### **3.5.4 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 Labeling.*

**Analysis:** The DOT has introduced the ‘Bhutan Seal’ also called as ‘The Seal of Excellence and the Seal of Quality,’ specifically designed and developed for the handicraft sector as an initiative to further develop and strengthen the sector and bring it into the mainstream of the economic activity. The primary objective of the Programme is to enhance the quality of Bhutanese craft products and to benchmark the products with the international quality standards. It is also aimed to uphold the traditional craft knowledge and skills of our artisans and making it more relevant and sustainable, while promoting innovations and quality to keep the products competitive in the market. Besides, it is also expected to help the producers in marketing, ensure fair production, and provide confidence to buyers as an authentic product from Bhutan.

Mini survey was conducted to see the effect and impact of seal of origins on the purchasing and selling dynamics of the buyer and seller. Out of 30 respondents all of them responded that the goods bearing the seal of origin (*made in Bhutan*) was preferred over the other products especially by the foreigners and equally by the Bhutanese who would like to use the goods as the gift.

Furthermore, the DOT with financial support from UNDP organizes the Seal award Programme once in two years. As of date, the Department has successfully conducted three rounds of award. Besides awarding cash prize and certificates, the Department also provides support in marketing and promotion of the selected products through various advertising media.

So far the award had been skewed towards the cultural products (Handicraft). The seal of origins could have been promoted towards other manufacturing sectors (construction materials etc.) and the seal of excellence toward the service sectors like in Hospitality, Construction and Consulting Industries. Therefore, it is recommended that the department should diversify the areas to promote the seal of origin and excellence in other sectors or industries with the following measures:

**Measures:**

1. Promote Seals of Excellence, Origins and Quality in association with the Brand Bhutan to the targeted audiences both in Bhutan as well as in International market. (Both Producers and buyers).
2. Conduct the annual Programme of seals of excellence and quality with a wider scope.

**3.5.5 B2B, Trade Fairs and Exhibitions**

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

**Analysis:** The DOT coordinates and organizes the participation in trade fairs, exhibitions, and market missions for the private sector, mostly on cost sharing basis. The DOT, through its linkages with other international bodies and organizations also help private sectors to showcase their products and establish B2B links with potential traders. The Department works in close coordination with BCCI and other relevant agencies.

However, for last three years DOT had not conducted any of the fairs. Furthermore, CSMI may not be able to participate in such B2B fairs outside the country, because of the cost sharing of the events. Moreover, participation in such regional trade fair was mostly cross sectional rather than specific to the CSMI. Currently, the Department has been approving the trade fair proposals from BCCI with the instruction to invite local industries (especially handicrafts) to showcase their products. Furthermore, there was no record of the number of CSMI participation and the incentives provided by the agency both internal and external trade fairs. Therefore, it is recommended that DOT conduct the study specific to the needs of the CSMI to promote, showcase, linkage and sale their products in the national and regional fairs and develop the mode of financing the fairs. Based on the result, DOT develop the support measures to CSMI as mentioned below:

**Measures:**

1. Conduct Need Analysis of the CSMI for the promotion and showcase of the products in the B2B trade fairs and exhibitions.
2. Develop numbers of B2B trade fairs, exhibitions, stalls etc. for CSMI both in and ex country.

### **3.5.6 Product Development and Quality Improvement**

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

**Analysis:** Government has initiated to provide the Grant/voucher/CSF scheme to stimulate product development, design, packaging, labeling firstly among the artisans.

Under the support of UNDP, APIC developed new innovative wood products and metal products. Packaging products out of recycled hard boards and indigenous papers like bags, boxes was also developed for various handicrafts purposes. Moreover, APIC initiated the development of craft clusters and value chains through which Bjokha Cane & Bamboo Cluster and Tsebar Metal Crafts Cluster have been established. Further, 15 applications from shazops of T/Yangtshé was received to form the Chorten Kora shazopa Group (Cooperatives) in the wood works. Currently, by-laws and business plan formulation is under process. The group identified 20 decimal of land (on lease at Chorten Kora) for construction of the Lacquering shed for the artisans. The architectural drawing for the shed is completed.

The synopses of the cultural product development progress for last three years are as follows:

- Total numbers of Clusters with Raw Materials Bank: 7 numbers
- Total numbers of Household set up for Craft Clusters and Raw Materials Banks: 662 households
- Total investment for raw materials bank and clusters: Nu. 10.6 Million
- Total numbers of beneficiaries trained in arts and crafts: 731 participants
- Total numbers of employment for clusters and raw materials bank: 6

Furthermore, APIC under the seal of origin has been marketing the handicraft products in the country. So far APIC is working on Brand Bhutan for crafts products.

The evaluation team conducted an interview with the artisans, handicraft vendors, and the chairperson of the clusters with the objective to know how efficient and effective was their products when (1) sold in the aegis of the seal of origins and (2) competitiveness of the products and its efficiency. 80% of the respondents stated that under the seal of origins, if packed well, the returns are high as compared to other products without such seal. However, further asking the questions on product competitiveness and its efficiency before and after the cluster formation, they could not comment anything because the works just started. Therefore, it was clear that the seal of origins has impact in the minds of the customers in their purchasing decision as compared to the imported once. As in case of the product competitiveness of the products produced through the clusters have to be measured in the subsequent plan of actions.

All the products be it be cultural or others will be marketed under the broad and bigger seal of “Brand *Bhutan*” once approved by the Government. In order to enhance the quality and the competitiveness of the products, and to add new product development etc. following measures should be taken.

#### **Measures:**

1. Providing grant to stimulate product development, design, packaging, labeling, branding, marketing support services for both handicrafts and other indigenous products.

2. Support the promotion and marketing of Bhutanese products focused in cultural, export promotion and import substitutions products.
3. Expand the product development and quality improvement activities to other sectors like tourism, textiles, culture (APIC should continue as it is) and agro produce.

## **3.6 Objective 6: Enhance Employment and Develop a Culture of Entrepreneurship**

### **3.6.1 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 and developing a green mindset.*

**Analysis:** The goal of the policy was to bring entrepreneurship awareness among all levels of Bhutanese society in general and in particular to the unemployed youths who were opting for “safe employment over self-employment” (Yeshey, 2013). In order to imbibe and inculcate the culture of entrepreneurship amongst the Bhutanese society, DCSI as the coordinating agency in association with business and media associations used various communication mediums like: *Television Advertisement, Print media advertisement like K2 weekly magazines, brochures, posters etc.* Furthermore, DCSI had instituted annual programs like Bhutan Enterprise Award (BEA) to encourage and inspire the entrepreneurs to take up the lead role in the enterprise development in the country. Moreover, the promotion of the entrepreneurship culture is an ongoing process and it cannot be promoted and achieved overnight. Since, the growth and promotion of the entrepreneurship is dependent on other factors like the political, socio-economic and the cultural effect, it would be too early to gauge the impact of the entrepreneurship growth in the country. However, interview was conducted to see the outcomes of the award winners to see what were some of the changes or development of the business initiatives taken after the receipt of the award. The outcomes were:

- a. They either increase product line or expansion of the business.
- b. Expand the market areas through marketing process
- c. Creation of the employment
- d. Invest in capital asset (procurement of computers, peripherals and equipment) and more importantly they were more motivated.

Therefore, the DCSI must continue to promote the culture of entrepreneurship amongst the targeted entrepreneurs through various mediums (*TV, Radio, newspapers etc.*) and continue with the BEA system with increased financial incentives.

#### **Measures:**

1. Inspirational talk and panel discussion by various successful entrepreneurs in media like Radio and Television etc.

### **3.6.2 'Entrepreneurship/Business' Awareness and Qualities**

**Policy:** *RGoB shall embed “entrepreneurship or 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 DCRD, MoE was the lead agency to implement the CSMI policy (Entrepreneurship awareness and qualities) for the year 2012-2014 in association with entrepreneurs and colleges under Royal University of Bhutan. The goal of the policy was to embed the entrepreneurship and green business culture in the academic system so that at the end of the academic learning, students will be aware of pros and cons of entrepreneurship and green business.

The progress report submitted by the DCRD clearly stated that in the first curriculum development process for class 9 and 10 text books, they could not involve the private entrepreneurs to develop the curriculum related to CSMI because it was already developed before the CSMI policy 2012 was approved. Furthermore, the department had included CSMI chapter in class 11 and 12 economics book which carries 8% weightage. On further enquiry, the department could not encourage enterprise placements for teachers of enterprise oriented curricula in the various agencies due to lack of the mode of operation developed between the enterprises and the agency. Moreover, promotions of entrepreneurial competitions, events and days at all education levels were beyond the mandates of the DCRD and hence the agency had not implemented so far.

The evaluation team could not see the impact of the action plan on curriculum development fulfilling the objectives and goals of the CSMI policy 2012 because the new curriculum would be implemented from the academic year 2017. Therefore, the evaluation of the impact cannot be ascertained in the short run. Thus, the activities to be carried out in the subsequent action plan may not be pursued.

### **3.6.3 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 CSMI policy 2012 was aimed at promoting greater linkages between TVETs and the CSMI, so that the competency and productivity of the industries are enhanced. The DHR, MOLHR, in association with TVETs and DoE was the lead agency to implement the activities under the action plan.

The progress report submitted by the department revealed that five trades were converted to CBT mode as of December 2013 and the remaining was supposed to be implemented by the end of 2014. As per the 2<sup>nd</sup> Progress Report, 9 out of 12 Curricula were already implemented and converted to CBT mode. Further 15 TVETs and IZCs courses were also converted to CBT mode and so were ready for the implementation. Furthermore, annual labor market survey (tracer studies), development of the job portals, strengthening the entrepreneurship trainings for TVETs, evaluation of entrepreneurship course and guarantee scheme, establishment of career guidance

services to all the TVETs and enhance access to TVETs for female candidates were further discussed with the stakeholders.

The department had trained two batches of private institutes' training developers and trained TVETs focal persons on entrepreneurship development Programme. Moreover, the entrepreneurship curriculum had been developed and was ready for implementation from the forthcoming academic year in 2015. The focus on career guidance services was not ready due to manpower shortage. However, training was provided to the focal person of the institutes under the sponsorship of NCWC. TVETs and the Ministry could not increase intake of female TTI trainees under the special provision, because the recruitment process was based on the academic rankings and qualifications.

It is evident that almost all the activities related to TVETs and CSMI have been met, however, the real work of entrepreneurship training to the TVETs students will start from academic year, 2015, as well as career guidance services will have to start by 2015.

**Measures:**

1. Entrepreneurship Training at TVETs must be strengthened through the provision and of supply of required teaching training materials and technical assistance.
2. Develop a dialogue between the entrepreneurs and the trainees for both business partnership as well as campus recruitment process.
3. Career Guidance Services must be intensified in the TVETs and IZCs to influence the trainees to take the path of self-employment rather seeking for safe employment.
4. The duration of entrepreneurship courses developed for different categories of the potential entrepreneurs should be revisited and changed
5. The courses were developed as per the core competencies of the applicant, therefore, competency based recruitment for the training should be carried out, and the recruitment should not be gender biased.

**3.6.4 Educational and Vocational Boards**

**Policy:** *RGoB shall stimulate the participation of CSMI in school/ technical and vocational education training boards or academic boards generating greater linkage between human capital demanded by the private sector and the skills supplied by the education system.*

**Analysis:** TVETS and IZCs involvement to the training and curriculum development with the private entrepreneurs had changed the training programs from academic phase to more of competencies and market phase. Experts from the private sector constituted about 20% and the remaining 80% participants were from the Institutes during the curriculum development workshop. The CBT curriculum was in place since 2010 and it is being implemented accordingly. But with the change in the labor market needs, the CBT curricula was reviewed and revised based on the revised National Competency Standard (NCS).

In order to further enhance the competency of the institute and align core competencies of the trainees into the demand of the labor market, the DHR and TVETs had established the Advisory Body for Construction Institute; wherein the private entrepreneurs and the government are

represented in the ratio of 90:10. However, on further enquiry, it was revealed that quality contribution from the private entrepreneurs on CBT curriculum development suffered due to the absence of government's compensation system.

Therefore, following measures are recommended:

**Measures:**

1. Develop compensation plan for entrepreneur's participation in competency based curriculum for TVET.

### **3.6.5 Women Entrepreneurship**

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

**Analysis:** The DCSI and the DHR, MOLHR were the lead agency to implement this sub-activity in association with NCWC, DHI, MOF etc. As per the CSMI Action Plan 2012-2014, there were some activities, which were to be repeated and continued (report on female entrepreneurship: characteristics, barriers, needs, etc. (3-yearly), beyond the first action plan. However, on review of the documents, and discussion with the stakeholders it was found out that sub-activity 6.5.1 (*report on female entrepreneurship: characteristics, barriers, needs, etc. (3-yearly)*) were not carried out by DCSI due to the lack of fund. In order to encourage more women entrepreneurs to join the entrepreneurial activities in the country, DCSI had instituted a female entrepreneur of the year as an annual event as mentioned in the activity 6.1 (culture of entrepreneurship) and awarded to Mrs. Tshewang Dem, the owner of M/s Tshejor's Ayzey on April 26, 2014.

The consulting team interviewed the award winner and other young women entrepreneurs, with an objective to see the impact of such award on both the recipients, and other women entrepreneurs in and around Thimphu region. The success and the failure of the entrepreneurial activities by the female entrepreneurs hinged on not only the amount of prizes that were awarded, but also on amount of value creations (on advertisement, and promotions) supported by the government on the promotion of their business over time.

Regarding women's representation in the State Owned Companies board, the evaluation team did not find any relevance both in cost as well as in value additions to the decision making process. The numbers of female board members are only 11 out of the total of 175 board members. However, DCSI had requested various state owned companies to bring on board many women entrepreneurs in the state owned companies' board (letter enclosed).

Furthermore, DHR, MOLHR could not implement the preferential entrepreneurship training programmes so far focusing only on women entrepreneurs, but through EDP Programme, women entrepreneurs were encouraged to take up more business suitable to their competencies. As mentioned in the CSMI action plan 2012-2014, the feasibility study on the incubation center had been carried out and subsequently implemented once the center became operational.

The objectives of encouraging the women entrepreneurs to take up the entrepreneurial activities mentioned in the CSMI policy were partially achieved because without proper studies made on the expectations, needs, problems and challenges of the women entrepreneurs, correct evaluation could not be made. Therefore, the evaluation team recommends that

**Measures:**

1. The study on the Female Entrepreneurship: Characteristics, Barriers, needs etc. should be carried out in the year 2015-2018
2. Female entrepreneur of the year award should be continued with the change on the values and the recognition for the award through promotion of the enterprises at national and international level.

**3.6.6 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 RUB in association with business associations and DCSI had to implement this sub-activity. Going through the progress report of the last three years submitted by the stakeholders, it was stated that *“The colleges place their students as interns in cottage and other allied industries as part of the academic Programme initiated even before the approval of the CSMI policy 2012. With the support of DCSI, RUB has been able to connect with BCCI for internships. RUB is currently in the process of working out the logistics. Hopefully, internships for students will be implemented from next semester”.*

On discussion with the stakeholders it was revealed that all the activities listed under action plan (2012-2014) were implemented by the University independently without any consultation with other partnering organizations (DCSI). It was found out that since RUB being the autonomous agency with its own independent national mandates and targets to be fulfilled, they could not over emphasize those activities during the year and report as required by the coordinating agency (DCSI). Furthermore, they would not like to carry out any of the sub activities listed under the Activity “Research –CSMI Linkages” and report the same to the coordinating agency. Therefore, the activity may not be pursued in the subsequent action plan.

**3.6.7 Corporate Social Responsibility**

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

**Analysis:** The CSR section was to be implemented by DCSI in association with DHI, CSMIs and other business association. The timeline for the implementation of this sub-activity was planned for the year 2015-2018. Therefore, DCSI had not carried out the action plan during the year 2012-2014. Business dictionary defines CSR as *“A company’s sense of responsibility towards the community and environment (both ecological and social) in which it operates. Companies express this citizenship (1) through their waste and pollution reduction processes, (2) by contributing educational and social programs and (3) by earning adequate returns on the employed resources.”* Even though the concept of CSR is important to be understood by the CSMIs, but not mandatory for the CSMI to carry out the CSR. Therefore, in the interest of ease of doing business, the activities under CSR by CSMI may not be pursued in the subsequent action plan.

#### 4. CSMI Action Plan- 2015-2018:

<b>Strategic Objective 1: Strengthen the Policy Environment and Institutional Framework</b>					
<b>Activity</b>	<b>Measure(s)</b>	<b>Lead</b>	<b>Partners</b>	<b>Timeline(s)</b>	<b>Indicator(s)</b>
<b>1.1</b>	<b>CSMI Action plans</b>				
1.1.1	Identify the CSMI action plan 2015-2018 Focal Person (s) and submit the name list to DCSI	DCSI		2015	Lists of focal persons
1.1.2	CSMI action plan 2015-2018 coordination stakeholder meeting quarterly	DCSI	Stakeholders/Focal Person	2015	Minutes
1.1.3	Evaluate the CSMI Action plan 2015-18 independently	DCSI		2018	Evaluation report
1.1.4	Prepare CSMI Action plan 2018-2020	DCSI		2018	Action plan report
<b>1.2</b>	<b>Inter-ministerial Coordination</b>				
1.2.1	DCSI to liaise with the concerned agencies for meetings(meetings, agendas)	DCSI		2015-2018	Cabinet Secretariat
1.2.2	DCSI to prepare six-monthly Progress Report and circulate to the concerned Secretary of the relevant agency and sort out the issues during the quarterly stakeholders meeting if any.	DCSI		2015-2018	Progress & Evaluation reports
<b>Strategic Objective 2: Strengthen the Legislative Framework and Enterprise Environment</b>					
<b>2.1</b>	<b>Enterprise Registration Act</b>				
2.1.1	Awareness raising campaign to ensure that enterprise compliance with the ERA.	CRD	DCSI	2016	Report
2.1.2	Educate and Train the implementing line agency (RTIOs) on ERA	CRD	DCSI	2016	Training Report
<b>2.2</b>	<b>Registration and licensing</b>				
2.2.1	Company Registry Division to be responsible for Enterprise Registry	CRD	DCSI	2016	Final ERA manual
2.2.2	Integrate Company and	CRD	DCSI	2016	Both Registries

	Enterprise Registry into one database/platform, inclusive of proper reporting system.				active
<b>2.3</b>	<b>CSMI Definition</b>				
2.3.1	Harmonize the new CSMI definition which should be more practical, usable and dynamic across the relevant agencies ( <i>hybrid of investment, turnover and employment</i> ).	DCSI	DOT, DOI, DRC	2015	Harmonize Report/Minutes
<b>2.4</b>	<b>Annual CSMI Reports</b>				
2.4.1	Collect, Analyze and disseminate annual CSMI Report	DCSI	RTIO	2016-2018	Yearly report
<b>2.5</b>	<b>Insolvency and Bankruptcy</b>				
2.5.1	Awareness program on Bankruptcy Act to CSMI and relevant stakeholders (Banks and Creditors)	CRD	DCSI	2017	Report
<b>2.6</b>	<b>Tax Administration</b>				
2.6.1	Impact studies of the new system particularly for the CSMI, information analysis as well as direct interviews with the CSMI taxpayers have to be done	DRC		2015	Report
<b>2.7</b>	<b>Public Procurement</b>				
2.7.1	Replace 2% EMD by securing declaration	PPPD		2015	Rules Amended
<b>2.8</b>	<b>Proportionality for CSMI</b>				
2.8.1	Labor Regulation should be amended ( <i>Working hrs. Financial implications, termination, inspections &amp; penalties</i> ).	DOL		2016	Updated Rules
2.8.2	Import-Export Regulation should be amended ( <i>Import licenses, import of capital equipment, remittances, ban on import of second hand equipment etc.</i> )	DOT		2015-16	Updated Rules

<b>Strategic Objective 3: Facilitate Access to Finance and Incentives</b>					
<b>Activity</b>	<b>Measure(s)</b>	<b>Leads</b>	<b>Partners</b>	<b>Timeline</b>	<b>Indicators</b>
<b>3.1</b>	<b>Commercial Bank Finance</b>				
3.1.1	Hire a competent Financial Expert and develop the alternative lending methodologies ( <i>Leasing, Factoring, Equity and Mezzanine finance etc.</i> )	DCSI		2015	Report
3.1.2	Develop capacity building programs focusing on alternative Financing methodologies.	DCSI	FIS/RMA and CSMI	2015-2018	Seminars, workshop & training
3.1.3	Pilot initiatives to test alternative lending methodologies.	DCSI	FIS	2015-2018	Pilot initiative
3.1.4	Develop CSMI credit line focusing on financial institution	DCSI	MOF	2015-2018	Credit line disbursed
3.1.5	Implement CSMI finance facility targeting competitive sectors.				
<b>3.2</b>	<b>Credit Guarantee Schemes</b>				
3.2.1	Business Mentors to effectively implement the programs supported by Credit Guarantee Programs or any other public funded programs.	EDP	FIS	2015-16	CGS report
3.2.2	Capacity building of the officials in terms of Entrepreneurship delivery methodology like CEFE of <i>CEFE Net Sri Lanka and Germany, SIYB of ILO</i> and many others could be implemented.	EDP	FIS	2015-18,	Review Reports
3.2.3	Create Bhutan Business Start-up Fund to have less dependency on Financial Institutions	EDP	FIS	2015-18	Reports
<b>3.3</b>	<b>Micro Finance Institutions</b>				

3.3.1	Seek expression of interest from the MFI promoters, detail feasibility project report (DPR), evaluate, approve and establish MFI(s).	RMA		2016	
<b>3.4</b>	<b>Public Private Partnerships</b>				
3.4.1	Feasibility studies on PPP (a) rural cold chains, (b) food processing and (c) business services network	DCSI	PPD	2015-16	Completion Report
<b>3.5</b>	<b>CSMI Sector Incentives</b>				
3.5.1	Carry out a detail cost-benefit analysis of the tax incentives for CSMI taxpayers.	DRC		2015-18	Report
<b>Strategic Objective 4: Enhance Competitiveness and Innovation</b>					
<b>Activity</b>	<b>Measure (s)</b>	<b>Lead</b>	<b>Partner (s)</b>	<b>Deadline</b>	<b>Indicator (s)</b>
<b>4.1</b>	<b>R and D/Innovative Activities</b>				
4.1.1	Create awareness campaign R & D and voucher schemes concept to the CSMI	DCSI		2015-18	Reports
<b>4.2</b>	<b>Clusters and /or value chains</b>				
4.2.1	Capacity Development of the clusters and cooperatives	DCSI	Clusters and Cooperatives	2015-2018	Report
4.2.2	Clusters and Value Chain Information share with TCB, ABTO and GAB for Tourism product development.	DCSI	<i>APIC, DOA, DOL(Livestock), NRDCL &amp; NITM</i>	2015-2018	Report
<b>4.3</b>	<b>Business Incubators</b>				
4.3.1	Alternative methods of business incubation in IT Park and other Industrial Estate should be explored and implemented till the incubation center is ready for operation.	DCSI		2015-17	Report
4.3.2	Establish the assessment and monitoring system to graduate the CSMI from incubation center.	DCSI		201-2018	Report

<b>4.4</b>	<b>Cooperatives, Farmers' Groups etc.</b>				
4.4.1	Support the capacity building of the cooperatives and farmers groups in marketing strategies, financial management and leadership.	DAMC		2015-2018	Training Report
<b>4.5</b>	<b>E-business/e-commerce</b>				
4.5.1	Expedite the online business system	DITT	RMA & FIS	2015-2018	Online tools active
<b>4.6</b>	<b>Intellectual Property Rights</b>				
4.6.1	Create IPR awareness program (measurable) relevant to CSMI	IPD	Stakeholders	2015-2018,	Report
4.6.2	Promote and popularize the importance of IPR info point among the CSMI	IPD	DCSI	2015-18	Report
<b>Strategic Objective 5: Improve Market Access</b>					
<b>5.1.</b>	<b>Quality Standards, Testing and Compliance</b>				
5.1.1	BSB must spearhead in close consultation with the MoEA (DCSI) to identify the varieties of products, works and services to be standardized and certified to be sold both within and outside the country.	BSB	DCSI	2015	Report
<b>5.2</b>	<b>Brand Bhutan</b>				
5.2.1	Create awareness program among CSMI to promote “Brand Bhutan”	DoT	Relevant stakeholders	2016-18,	Report
5.2.2	Capacity development of strategic CSMI to promote Brand Bhutan	DoT	Relevant stakeholders	2016-18	Report
<b>5.3</b>	<b>Seal of Excellence and Quality, and the Seal of Origin</b>				
5.3.1	Promote Seals of Excellence, Origins and Quality in association with the Brand Bhutan to the targeted audiences both in Bhutan as well as in International market. <i>(Both</i>	DoT	APIC & DCSI	2015-18	Report

	<i>Producers and buyers).</i>				
5.3.2	Conduct the annual Programme of seals of excellence and quality award Programme with a wider scope.	DOT	APIC, DCSI	2015-18	Report
<b>5.4</b>	<b>B2B, Trade Fairs and Exhibitions</b>				
5.4.1	Conduct Need Analysis of the CSMI for the promotion and showcase of the products in the B2B trade fairs and exhibitions	DoT	DCSI & BCCI	2015-2018,	Report
5.4.2	Develop numbers of B2B trade fairs, exhibitions, stalls etc. for CSMI both in and ex country.	DoT	DCSI/Association	2015-18	Report
<b>5.5</b>	<b>Product Development and Quality Improvement</b>				
5.5.1	Providing grant to stimulate product development, design, packaging, labeling, branding, marketing support services for both handicrafts and other indigenous products	DCSI	APIC & BCCI	2015-2018	Report
5.5.2	Support for the Promotion and marketing of Bhutanese products focused both in cultural and export promotion and import substitutions product	DCSI	APIC, DOT, DOI & BCCI	2015-18	report
5.5.3	Expand the product development and quality improvement activities to other sectors like tourism, textiles, culture (APIC should continue as it is) and agro produce.	DCSI	APIC, DOI, TCB & RTA	2015-2018	Report
<b>Strategic Objective 6: Enhance Employment and Develop a Culture of Entrepreneurship</b>					
<b>Activity</b>	<b>Measure (s)</b>	<b>Lead</b>	<b>Partner (s)</b>	<b>Deadline</b>	<b>Indicator (s)</b>
<b>6.1</b>	<b>Culture of Entrepreneurship</b>				
6.1.1	Inspirational talk and panel discussion by various successful	DCSI		2015-18	Report

	entrepreneurs in Media like BBS radio and Television				
<b>6.2</b>	<b>Vocational Educational and Training</b>				
6.2.1	Supply Entrepreneurship Training materials to TVETs	DHR	TVET	2015-2018	Report
6.2.2	Develop a dialogue between the entrepreneurs and the trainees for both business partnership as well as campus recruitment process	DHR		2015-18	Report
6.2.3	Career Guidance Services (CGS) must be intensified in the TVETs and IZCs to influence the trainees to take the path of self-employment rather seeking for safe employment	DHR	TVET	2015-2018	CGS report
6.2.4	The duration of entrepreneurship courses developed for different categories of the potential entrepreneurs should be revisited and changed	DOE	DHR	2015-18	Curricula
6.2.5	Competency based recruitment for the training should be carried out	DHR	TVET	2015-2018,	Recruitment criteria
<b>6.3</b>	<b>Educational and vocational Boards</b>				
6.3.1	Develop Compensation Plan for Entrepreneurs participation in competency based curriculum for TVETs.	DHR	TVET	2015-2018,	Approved Compensation plan
<b>6.4</b>	<b>Women Entrepreneurship</b>				
6.4.1	The study on the Female Entrepreneurship: Characteristics, Barriers, needs etc. should be carried out.	DCSI	DoE/NCWC	2015-2016,	Report
6.4.2	Female entrepreneur of the year award should be continued.	DCSI	NCWC	2015-2018,	Awards scheme active

### Annexure I: List of Stakeholders interviewed

Sl No	Agency	Name	Designation
1	DHI	Mr. Chencho T Namgay	Associate Director
2	RUB	Mr. Changa Dorji	Research Officer
3	DOE	Mr. Ram Badadur Gurung	Head, EDP
4	DHR	Mr. Wangchuck	HR Officer
5	DHR	Mr. Tandin Dorji	CHRO
6	DRC	Mr. Ugyen Norbu	Dy. Chief Commissioner
7	APIC	Mr. Pema Loday	Adm. Officer
8	RMA	Ms. Sonam Peldon	Legal Officer
9	PPPD	Mr. Karma Wangdi	Chief
10	BSB	Mr. Phuntsho Wangdi	Director General
11	DAMC	Mr. Thinley Wangchuck	Sr. Marketing Officer
12	CRD, MoEA	Mr. Karma Yeshey	Registrar of Companies
13	DOT, MOEA	Mr. Tashi Dorji	Dy, Chief Trade Officer
14	DOT, MoEA	Mr. Sonam Gyeltshen	Chief Trade officer
15	DOI, MOEA	Mr. K. B. Biswa	Chief Engineer
16	DOI, MoEA	Mr. Loknath	Specialist
17	ODI, MOEA	Mr. Tashi Wangdi	Industry Officer
18	IPD, MOEA	Mr. Tempa Tshering	Dy. Chief Intellectual Officer
19	IPD, MOEA	Ms. Tshering Wangmo	Chief Intellectual Officer
20	PPD, MoEA	Mr. Mindu Dorji	Planning Officer
21	DCRD., MOE	Mr. Thukten Jamtsho	Education Officer
22	BSB	Mr. Karma Tshetrim	Dy. Chief Engineer
23	MoH-Traditional Medicine	Ms. Tenzin Wangmo	
24	DCSI, MOEA	Mr. Jambay Yeshe	Chief Industry Officer
25	DCSI, MOEA	Mr. Tandin Wangdi	Chief Industry Officer
26	AASB	Mr. Loknath Sharma	Dy. Chief Accounts Officer
27	BCCI	Mr. Chandra	Dy. Secretary General
28	DCSI	Ms. Pem Bidha	Dy. Chief Industry Officer
29	DCSI	Ms. Sherub Zangmo	Industry Officer
30	DCSI	Mr. Prem P. Adhikari	Dy. Chief Industry Officer
31	PDSC	Mr. Kezang Wangdi	
32	Cabinet Secretariat	Mr. Duba	Chief Program Officer
33	MOIC	Ms. Dorji Wangmo	Chief PO

<b>34</b>	MOIC	Ms. Sangay Choden	IT Officer
<b>35</b>	MOIC	Ms. Rinzin Om	IT Officer
<b>36</b>	G2C	Mr. Tashi Dawa	ICT Officer

## Annexure II: List of Beneficiaries interviewed

Sl.No.	Category	Particulars
1	Beneficiaries from the program	Goenpa Kabab Cholling Yarn Bank
		Radhi Yarn Bank
		Yurung Yarn Bank
		Tsebar Raw Materials Bank
		Dorji Bi Yarn Bank
		Kabesa Raw Material Bank
		Tsebar Raw Materials Bank
2	Bhutan Enterprise Awards winners	M/s Kuengachholing Poezokhang
		M/s Athang Training Institute
		M/s Kuenphen Dewachen Incense Making Unit
		M/s Tsejors Azey
3	Technical Training Institute	Rangjung Technical Training Institute
4	School and Students	Lungtenzampa Middle Secondary School
5	Business Units	World Travel Services
		Career win Education Consultancy
		Namgyel Collection
		Tandin Hotel
		Hotel Galinkha
		Chopstick
		Druk Pizza
		Rice Bowl
		Hotel New Grand
		Hotel river view
		Hotel Gashel
		Hotel Holiday home
		Hotel Kisa
		Hotel Gashel

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