

Contents

Acronyms	ii
1. Introduction	1
2. Vision	2
4. Objective	2
5. Context	3
6. CSI Policy Objectives	4
6.1. Policy and Legislative Framework	5
6.2. Entrepreneurship Culture and Human Capital Development	7
6.3. Business Development Support and Infrastructure	9
6.4. Enhancing Access to Finance and Incentives	10
6.5. Innovation and Technology Adoption	11
6.6. Access to Market	12
7. The way ahead	14

Acronyms

B2B	Business to Business
CSI	Cottage and Small Industry
CSR	Corporate Social Responsibility
DCSI	Department of Cottage and Small Industry
FDI	Foreign Direct Investment
FIs	Financial Institutions
GNH	Gross National Happiness
GNHC	Gross National Happiness Commission
GNHCS	Gross National Happiness Commission Secretariat
IPR	Intellectual Property Right
IZC	Institute of Zorig Chusum
MFI	Micro Finance Institutions
MoEA	Ministry of Economic Affairs
PSL	Priority Sector Lending
RGoB	Royal Government of Bhutan
R&D	Research and Development
TTIs	Technical Training Institutes
TVET	Technical and Vocational Education Training

1. Introduction

Cottage and Small Industries account for more than 95% of the total number of industries in the country thus playing a critical role in the industrialization of the economy. The underlying factors such as mountainous topography, scattered population, small domestic market and nascent stage of industrial development makes CSIs more suitable for establishment in the economic context as compared to larger industries.

The RGoB designated CSIs as one of the five economic jewels and accorded priority for development due to its high potential and positive impacts on rural development, employment generation, value addition to local resources and building up of entrepreneurship that is necessary for the expansion and diversification of the economy.

Thus, towards strengthening and building up on the past initiatives to promote and develop CSIs, the Cottage and Small Industry Policy 2019 realigns the provisions to the changing business environment to stimulate the growth of cottage and small industries in the country.

2. Vision

- A dynamic, competitive and innovative CSI sector in harmony with the GNH philosophy.

3. Mission

- To nurture a culture of entrepreneurship that encourages innovation, creativity and competitiveness.
- To make the CSIs more dynamic, outward looking and capable of generating profits and wealth across the country.
- To enhance CSIs contribution to employment generation.
- To contribute to alleviation of poverty, especially in rural areas.

4. Objective

The overall objective of the policy is to promote establishment of new CSIs and improve the performance and competitiveness of existing CSIs to enhance their participation and contribution to the Bhutanese economy.

5. Context

The CSIs consists of economic activities covering production and manufacturing, construction and service sector. There is no universally accepted definition of CSI as different countries use various measures of size, depending on their level of development. The commonly used yardsticks are total number of employees, total investment and sales turnover.

In the context of Bhutan, cottage industries are defined as those industries with an investment of less than Nu.1 million and engaging up to 4 people. Small industries are those under-takings engaging between 5 to 19 employees with investment in the range of Nu.1 million to Nu.10 million.

The RGoB accords high priority to the development of CSIs as they play a crucial role in employment creation, income generation and in bringing regional balanced development. CSIs are more easily established since their requirements in terms of capital, technology, management and even utilities are not as extensive as it is in the case for large industries. The RGoB's initiatives such as, entrepreneurship development programs and special loan schemes, to provide a focused intervention to develop CSI sector commenced since the early nineteen nine-ties. In the year 2010, the Department of Cottage and Small Industry was established as a premier agency to ensure dedicated focus to the development of the CSI sector.

6. CSI Policy Objectives

The objectives of CSI Policy 2019 comprise of six strategic domains of entrepreneurship ecosystems namely:

1. Policy and Legislative Framework
2. Entrepreneurship Culture and Human Capital Development
3. Business Development Support and Infrastructure
4. Enhancing Access to Finance and Incentives
5. Innovation and Technology Adoption
6. Access to Market

The six strategic domains as detailed below are envisaged to alleviate the constraints and enhance the pace of development of CSIs in the economy.

6.1. Policy and Legislative Framework

The role of the RGoB is to create an enabling policy environment that addresses the challenges and fosters growth of CSIs in the changing business environment. The policy provisions hereunder are intended to develop the necessary policy environment and institutional framework to ensure that it is systematically implemented, using both international and national good practices.

The RGoB shall:

- 6.1.1 Prepare a strategy to establish the vision, targets and strategic objectives based on the CSI policy.
- 6.1.2 Develop action plans to establish the specific activities, responsibilities, time scales and coordination mechanisms to implement the Policy.
- 6.1.3 Pursue development of CSI as a flagship program in five-year plans.
- 6.1.4 Build forum for CSIs to ensure regular, proactive, two-way public private dialogue between the CSI sector and the relevant RGoB agencies.
- 6.1.5 Adopt and implement the Rules and Regulations for the Establishment and Operation of Commercial and Industrial Ventures in Bhutan, 1995.
- 6.1.6 Adopt an integrated business licensing system - end to end automation for CSIs to ease doing business.
- 6.1.7 Establish integrated e-platform for tax filing and licensing and registration.
- 6.1.8 Adopt registration system for cottage scale industries with validity of 3 years for those activities not requiring any sector clearance and those not in the restricted category.
- 6.1.9 Develop e-commerce regulatory framework and provide necessary support to use e-commerce platforms by CSIs.
- 6.1.10 Assess the feasibility of providing protection to CSIs under the Bankruptcy Bill.
- 6.1.11 Establish consultation forum for tax administration reforms affecting CSIs to bring about ease in tax filing by the CSIs.

- 6.1.12 Encourage corporate entities to support CSI development as part of their CSR.
- 6.1.13 Prepare satellite CSI accounting to account the contribution of CSIs to the economy.

6.2 Entrepreneurship Culture and Human Capital Development

Bhutan has envisioned for an economic self-sufficiency by the year 2020 and in this spirit, high importance has been accorded to the development of an entrepreneurial society.

Emphasis to develop a culture of entrepreneurship at all levels of the education system and all spheres of economic activity will reinforce the importance of entrepreneurship and its contribution to socio-economic development of the nation.

Moreover, the advent of the knowledge economy and rapid development in consumer preferences, product life cycles, etc. necessitates development and enhancement of a deep and diverse talent pool, combined with a capacity to match labour market demand with the supply of human capital, with an emphasis on gender equality. Thus, the RGoB shall give due priority to the development of entrepreneurship culture and human capital to foster growth of CSIs in the country.

The RGoB shall:

- 6.2.1 Develop an advocacy program for promotion of entrepreneurship culture.
- 6.2.2 Integrate entrepreneurship learning and culture at all educational levels.
- 6.2.3 Encourage entrepreneurship competition and fairs at all educational levels.
- 6.2.4 Create platform to recognize promising and successful entrepreneurs.
- 6.2.5 Support the winning ideas of various entrepreneurship competitions.
- 6.2.6 Develop and institutionalize support professions such as mentors to guide and advise entrepreneurs.
- 6.2.7 Conduct skills needs assessment of the CSIs for TVET curriculum revision and development.
- 6.2.8 Review, monitor and evaluate TVET curricula to keep pace with changing market needs and standards.
- 6.2.9 Map and match CSI skills database with Bhutan Labor Market Information System, Job Portal System, Employment Registration System for coordinated demand and supply of workforce.

- 6.2.10 Promote industry collaboration and linkages between TVET institutions and CSI in implementation of TVET programmes.
- 6.2.11 Promote private sector participation in entrepreneurship curriculum review and development boards to foster greater linkage between the human resources demanded by the economic sectors and the skills supplied by the training and education institutions.
- 6.2.12 Ensure collaborative and synchronized efforts amongst agencies in providing skills development training with a focus to encourage women and youth entrepreneurship.
- 6.2.13 Promote women entrepreneurship in CSIs to maximize the economic contribution of both genders through provision of preferential business development services.

6.3. Business Development Support and Infrastructure

The definition of “business development services” includes a wide array of business services, both strategic and operational. BDS are designed to serve individual businesses, as opposed to the larger business community (CDASED 2001). Operational BDS services are needed for the day to day management of an industry, while strategic BDS services are those needed for medium or longer-term growth, such as innovation and infrastructure. Thus, BDS forms one of the critical interventions for the development of the sector.

The RGoB shall:

- 6.3.1 Set up Business Incubation Centers, Startup Centers, Fablabs to facilitate the growth of CSIs.
- 6.3.2 Establish CSI estates in Dzongkhags which are not catered by the industrial estates/parks.
- 6.3.3 Designate space for Startups in the industrial estates/parks.
- 6.3.4 Stimulate the development of business cluster and/or value chains to increase competitiveness of CSI products and services.
- 6.3.5 Facilitate establishment of market infrastructure such as warehouses, cold storage facilities, naturally ventilated store, pack house, etc. for CSI products.
- 6.3.6 Facilitate establishment of market linkages to link producers to market.
- 6.3.7 Develop and strengthen cooperatives, farmers groups, clusters and community-based initiatives.
- 6.3.8 Design and implement schemes for technological upgradation of the CSIs.
- 6.3.9 Provide preferential procurement for locally produced CSI products.
- 6.3.10 Invest in areas that will support and facilitate the growth of CSIs with a provision for gradual transfer of ownership to the private/communities.
- 6.3.11 Identify and institute support measures for informal sector development.

6.4. Enhancing Access to Finance and Incentives

Investment Climate Assessment Report 2015, highlights easing access to finance as the priority by enterprises generally and CSIs specifically. Whilst acknowledging the high interest rate and demanding collateral policy of the financial institutions, the RGoB recognizes that the market must determine the cost of finance. The policy of the RGoB is to facilitate access to finance through the development of a range of financial tools and intermediaries. Such financial tools and intermediaries will make good use of Bhutanese examples, where these exist, as well as international good practice, customized to the local specifics. By improving access and outreach to finance, the cost of finance will also be reduced over time.

Towards addressing these issues, the RGoB shall:

- 6.4.1 Strengthen the PSL scheme and apply the coordination mechanism to other credit sources for lending to CSIs.
- 6.4.2 Incentivize CSI bank and FIs to lend at affordable rates to CSI.
- 6.4.3 Expand the coverage of MFIs in rural areas consistent with the RGoB's Financial Inclusion Policy.
- 6.4.4 Explore means to de-risk lending to CSIs through measures such as adoption of alternate credit scoring models.
- 6.4.5 Provide incentives in the form of seed money to TVET and tertiary institutions to promote innovation and R&D.
- 6.4.6 Increase access to finance for CSIs by adopting various financing mechanism that address both the equity and debt financing needs of CSIs and Startups at various stages and leveraging financial technology.
- 6.4.7 Periodically review and provide fiscal and non-fiscal incentives for the development of the CSI sector.
- 6.4.8 Ensure proactive and effective mobilization of donor funds to complement and supplement the state funds devoted to CSI sector development.

6.5. Innovation and Technology Adoption

In the fast-changing global business landscape driven by innovation, the future development of CSIs in Bhutan depends largely on the ability of these industries to increase their competitiveness and innovation capacities. This shall be stimulated through a palette of infrastructure designed to assist both start-ups and established CSIs with potential for growth, profitability, employment generation and export orientation. This will include an emphasis on assessment and adoption of emerging technologies through access to technology resources and support.

The RGoB shall:

- 6.5.1 Foster collaboration between incubation unit and entrepreneurship development cells of TTIs and IZC and tertiary institutions with Startup Centers, FIs and CSIs to encourage innovation.
- 6.5.2 Develop database for up to date information on appropriate technologies for CSIs.
- 6.5.3 Foster greater Intellectual Property adoption among CSIs through enhanced awareness activities and capacity building programs.
- 6.5.4 Provide CSIs with access to global patent (invention), design and brand databases and related services, through the Technology and Innovation Support Centers.
- 6.5.5 Provide advisory services and related assistance in franchising and licensing of IPR in permissible areas, which offer potential for rapid business development and employment generation.
- 6.5.6 Allow FDI in select small industry sector.
- 6.5.7 Encourage innovation and creativity through Innovation Voucher Scheme.

6.6. Access to Market

Bhutan in general faces, difficulties in accessing international market owing to its geographical location. It continues to experience market concentration in the region. Given that the domestic market is small and to gain economies of scale, CSIs have to access the export market.

CSIs will require suitable government intervention in product development as well as accessing the market. Participation in regional and global trade agreements will help CSI gain better access to overseas markets, but much will depend on the extent advances are made in the development of niche products, product variety and quality, packaging and labelling as per international standards, adopting e-commerce and addressing supply-side constraints.

The RGoB shall:

- 6.6.1 Facilitate industries to improve the quality of products and services through promotion of standards, facilitation of conformity assessment services including calibration.
- 6.6.2 Create awareness on standards and conformity assessment including metrological services.
- 6.6.3 Encourage public and private entities to use and promote CSIs products and services.
- 6.6.4 Promote and market Brand Bhutan.
- 6.6.5 Facilitate the participation of CSIs in targeted B2B events, fairs, roadshows, and exhibitions.
- 6.6.6 Identify regional and international markets for CSI products.
- 6.6.7 Organize fairs at the domestic and international level to promote CSI products.
- 6.6.8 Establish dedicated sales outlets for CSI products.
- 6.6.9 Leverage mission, consulates, embassies in promoting and marketing of CSIs products.
- 6.6.10 Facilitate use of e-commerce platforms including e-payment systems by CSIs for greater market access.
- 6.6.11 Support launching of new CSI products in the market.

6.6.12 Conduct product mapping/resource inventory of business opportunities for CSIs.

7. The way ahead

- 7.1 As a premier agency for the development of the CSI sector, the DCSI, MoEA will lead and in collaboration with relevant stakeholders monitor the action plans and its indicators of the policy and submit six monthly Progress Report for submission to Committee of Secretaries. The DCSI shall act as the Secretariat.
- 7.2 CSI Policy sets out the overall policy framework for CSI development until 2030.
- 7.3 CSI development strategy and the action plans sets out the measures for achieving the CSI Policy.
- 7.4 The CSI Flagship Program will be the 1st action plan (2019-2023) of the revised Policy.
- 7.5 There will be three such CSI action plans covering the overall timeline of the CSI Policy.
- 7.6 GNHC Secretariat shall ensure that the specified activities for agencies involved are incorporated in their Annual Performance Agreement and also secure adequate resources to implement the Policy.
- 7.7 GNHC shall also monitor the Policy according to the GNHCS Policy Monitoring Framework and carry out post adoption evaluation.
- 7.8 The DCSI, MoEA shall review the policy when required.