



BCCI

PRIVATE SECTOR DEVELOPMENT – THE  
WAY FORWARD

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## EXECUTIVE SUMMARY

The overriding objective of the Private Sector Development (PSD) is to enhance private-sector growth and competitiveness that will then contribute to the country's medium-term objectives as outlined in the document Vision 2020. The purpose of the PSD is hence, to catalyze the provision of an enabling environment which will enhance private sector growth and competitiveness.

The Way Forward highlights the importance of private sector for overall economic development of Bhutan. The report includes the analysis of current situation of Bhutanese economy and the gaps viz. policy coordination and implementation including resource mapping. The report aims to show the clear directions for development of private sector and unlock the potential of private sector for economic development.

Private sector's contribution to economic growth in Bhutan is very limited. This is due to strict government control over private sector business activities, lack of access to credit, limited entrepreneurial skills, and an inefficient government-controlled financial system that does not meet private sector credit needs. Also, Bhutan's financial system is heavily burdened with nonperforming loans that, on average across all financial institutions, were close to 40%. It was therefore imperative to strengthen the financial institutions in many basic ways, to move toward a market-based system as distinct from a centrally administered system, and to establish an effective banking supervision system.

The future Bhutan's economic growth and Bhutanese communities is closely tied to the growth of private sector. Private sector contributes significant percentage to the Bhutanese GDP every year. However, the primacy of the private sector in growth must be seen in context. The public sector still needs to create an environment in which the private sector can thrive and the two must work together to deliver services and opportunities to the society.

The private sector faces many obstacles in Bhutan, including restrictive policies, poor infrastructure (particularly in industry and transport), severe skills shortages and mismatches between employers' needs and available workers (particularly those just out of school), trade restrictions, tariff and non-tariff barriers to exports, difficulties in obtaining medium- and long-term finance on affordable terms, and a large informal sector.

Business has also harmed itself when companies have failed to recognize the need for, and the potential of, widening their activities. Private sector growth in Bhutan, where it has occurred, has often been uneven, and exploitation of natural resources – the country's largest area of growth – has failed to create enough new jobs.

This paper's overriding vision is of a competitive private sector that will be an engine of sustainable economic growth, employment and poverty reduction in the next decade and beyond.

The Way Forward looks at growth of private sector in its entirety along with sector specific growth like education, tourism, construction etc. It promises significant support to small businesses – key elements of any economy – while not ignoring larger ones. It is carefully aligned with the BCCI's overarching vision, by putting two objectives at its core: the quest for inclusive-

ness (that growth and opportunity should be shared by all – women and men, young people and old, rural communities and urban) and the gradual transition to green development as Bhutan commits to moving toward environmentally sustainable growth. The BCCI will strive towards the implementation of the way forward to reinvigorate private sector development as a priority throughout Bhutan.

The Way Forward is built around three pillars of activity that combine analysis and advice.

**First**, the way forward aims to improve Bhutan’s investment and business climate by supporting governments’ efforts to streamline the business and corporate laws, policies, tax systems, rights, regulations and procedures that govern business and domestic private sectors.

**Second**, it aims to expand business access to social and economic infrastructure. ‘Hard’ infrastructure (transport, telecommunications, water, power systems, and fixed assets needed to provide education, health and sanitation) and ‘soft’ infrastructure (legal and regulatory frameworks, payments clearance and settlement systems, financial intermediaries and capital markets, collateral registries, and skills development) are prerequisites for business as much as for society. It will also use its resources to attract private investment to fill the infrastructure gap, supporting both public and private sectors to do so, knowing this will stimulate business activity.

**Third**, it aims to promote enterprise development by helping business gain access to finance, building its skills, and helping to add value to its activities. It will also encourage investing in technology that can stimulate agricultural businesses.

The Way Forward has also taken the inventory of prospective products, services and industries that can be promoted in Bhutan. A vibrant private sector is both an engine of growth and an agent for development through eroding poverty, strengthening communities and societies, and providing services to all.

**Lastly** BCCI foresees the requirements of structural changes in public investments patterns giving more attention in agriculture, domestic manufacturing industries, and ancillary industries like manufacturing of construction inputs within construction and manufacturing sector.

# PRIVATE SECTOR DEVELOPMENT - A WAY FORWARD

## 1. INTRODUCTION

Ever since Bhutan opened its economy to the world for its aggressive economic development, Bhutan has in principal given the priority to the private sector for development and identified as the “engine of economic growth”.

The mission is to reduce poverty through sustainable economic growth driven by the principles of GNH. Fostering the growth of private sector is an integral part of the private sector development strategy. In addition, Bhutan has been active in promoting private sector development through building of pan-Bhutan road network to increase the flow of people, goods, information, the ramping up of generation capacity of hydro electricity, the handmaiden of industrialization and complementary private sector investment, capacity building, in and out country training, other projects of public infrastructure to spur opportunities of private investment. As well, the RGoB has enacted local governance and fiscal federalisms two critically important props of economic governance.

The objective of this document is to highlight the opportunities and challenges that stand in Bhutan’s road towards sustainable economic development led by the private sector. The main purpose of this document is to put forward concerns, identify opportunities and associated challenges that are faced by the private sector and suggest a ‘way forward’. The Way Forward does not provide a cookie-cutter approach to developing partnerships; rather, it intends to stimulate creative thinking based on several available approaches to involve the private sector.

### 1.1 Why Involve the Private Sector?

A thriving private sector is an important precondition to improving income and employment prospects and thus the eradication of poverty. International trade too is part of the path to sustained economic growth and development, but many nations need support and assistance to be able to fully reap the benefits of developed private sector.

Private sector has demonstrated commitment to policy implementation that fosters private sector-led growth. They are selected as high performers among their peers and can use this asset to attract more private sector investment and greatly accelerate their rate of economic growth.

Bhutanese private sector has significantly contributed to the GDP of Bhutan over the years. As per the annual report published by RMA, construction sector constituted 16% of total GDP and ranked second largest contributors to GDP. Similarly, mining and quarrying sector contributed 2% of the GDP in 2012. Over the years tourism sector has been one of the largest contributor to GDP.

Private sector has also contributed significantly in employment generation, building national infrastructure, information technology, education and building knowledge based Bhutanese society.

## 1.2 Justification for the Private Sector Development

Bhutan does not derive all the benefits that it should from its private sector, due to the absence of a clear strategic direction for the Sector.

Bhutan needs to participate more actively in the global economy. As a producer, Bhutan needs to diversify more beyond commodity supplies to manufactured goods and services. As a consumer, the country has to be more open to inflows of goods and services, capital and technology. Increasing production for the global market will aid in expanding employment and raising productivity, both of which are key goals of PSD. This can be achieved by increasing openness, applying measures that limit the Government's economic activities to public goods, and pursuit of market-friendly policies. In addition, the Government has to deliver on its public responsibilities such as provision of infrastructure, security, transparency and a conducive, legal and regulatory environment.

The Private sector has therefore been reactive rather than purposefully directed. This Way Forward will help to catalyse private sector development efforts by the government (with its partners) so that these efforts can have maximum impact on development of the Sector. The Way Forward therefore provides an instrumental and institutional framework:

- i) For catalysing interventions in support of private sector development by the government and development partners.
- ii) For deepening partnership with the private sector and building confidence through constructive dialogue between the two Sectors.
- iii) Within which the government will carry out public sector reforms to provide an enabling environment for private sector growth and competitiveness.

This Way Forward is an attempt of the BCCI to provide the feedback of private sector on elements essential for the growth of private sector development and achieve its goals of building a self reliant economy. In this regard, the document put forward the role of government as the primary facilitator of private sector development.

In addition, the Way Forward brings together interventions that can improve the business environment and markets that are of interest to Bhutanese businesses. It further affirms the Government's policy stance that sees the Private Sector as the main actor in the future development of Bhutan, and provides a mechanism through which this shift would begin to bear fruit.

### 1.3 Who is the Private Sector?

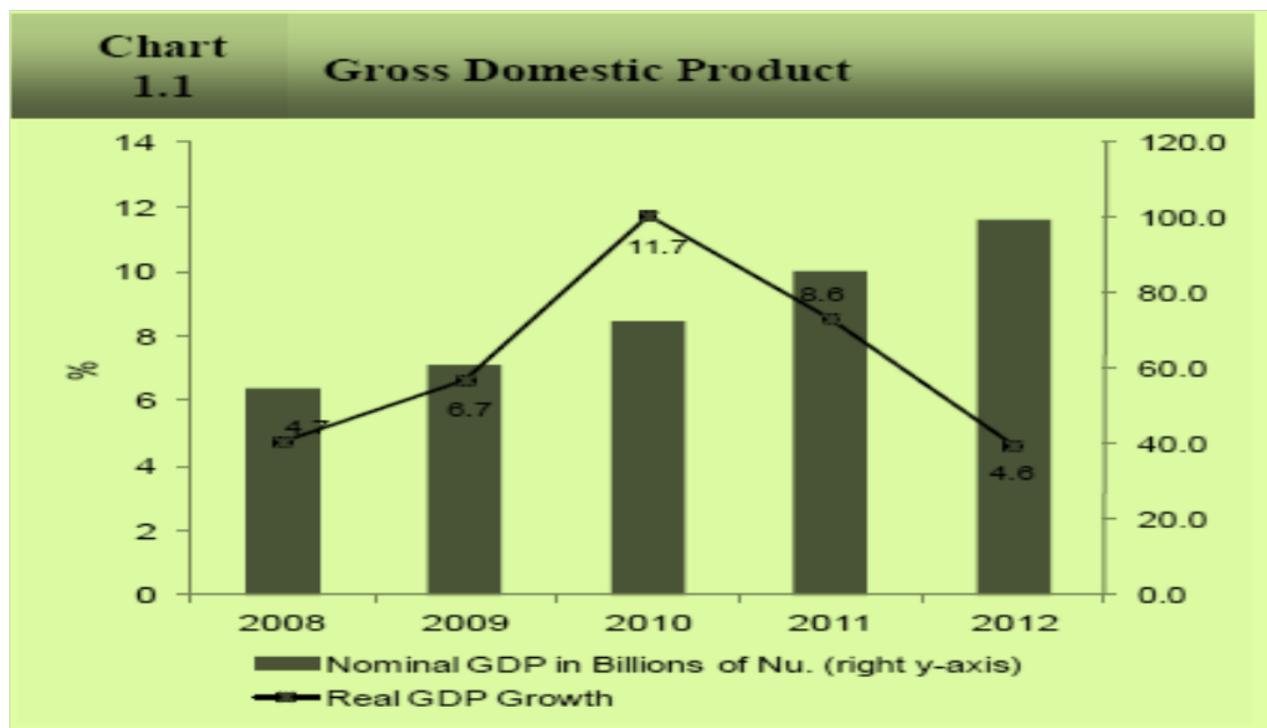
The private sector includes the indigenous, regional, and international firms and non-governmental organizations (NGOs) that do business in the country or that might do business. While multinational corporations bring opportunities for large-scale investment, indigenous and regional investors play an increasingly critical role in stimulating economic development.<sup>1</sup>

## 2. THE CURRENT ECONOMIC SITUATION

As per the Annual Report published by RMA, it is witnessed that there is decline in GDP for the last three years pushing Bhutanese economy in a difficult situation. The below table highlights the trends of GDP over last three years:

Items/Year	2010	2011	2012
Gross Domestic Products	11.7	8.6	4.6
Primary sector	0.9	2.4	3.4
Secondary Sector	12.5	4.1	2.9
Tertiary sector	15.2	15.5	6.6

Source: RMA annual report 2012-2013



<sup>1</sup> The Private sector for this report is considered as all the sectors and business enterprise excluding government and government owned companies and corporations operating in Bhutan.

## **Sector-wise contribution to GDP**

### 2.1 Real contribution to GDP growth

Sectors	2010	2011	2012
Primary sector	0.1	0.3	0.5
Secondary sector	5.5	1.8	1.2
Tertiary sector	6.1	6.4	2.9
Total GDP	11.7	8.6	4.6

Source: RMA Annual Report

The report highlights that there is constant decrease in Bhutanese GDP over last three years. Looking closely the reason of such decrease is due to decrease in performance of secondary sector and tertiary sector. There is negative growth even in the primary sector which constitutes agricultural production forestry and mining.

The above table indicates that Bhutan needs to give extra effort to achieve the mission of building self-reliant and sovereign economy, the objective coined by the document Vision 2020.

Bhutan's agriculture is predominantly rain-fed and highly susceptible to the vagaries of weather. Agricultural production is also undermined by lack of a clear land policy, retrogressive inheritance practices, poor management of seed bulking and management, and inadequate access to agricultural credit. Key constraints within the sector include poor governance, limited access to credit, low public funding, inappropriate agricultural policies, and poor international terms of trade, adverse weather conditions and inappropriate technology.

Ministry of Agriculture (MoA) has aimed to increase self-sufficiency in food commodities through domestic production. One of the objectives of MoA is to reduce the food poverty from 23% to 15% of the population by the end of 2013. Agricultural production has an important role to play in meeting this objective since more than 90% of the population under poverty lives in rural areas. The food grain Self Sufficiency Rate (SSR) for 2011 was recorded at 51% for paddy and 64% for total cereal. (*Agriculture, Bhutan RNR Statistics, 2012*)

The above fact invites the greater attention for public investments in agriculture and encouragement of private sector investment to achieve the target of food sufficiency. The total budget outlay for agriculture for the last five years is depicted by the below table. It has been witnessed that the national budget allocation has not crossed the limit of 13%.

Fiscal year	Current	Capital	Amt	% on total
2009-2010	1,446.00	3,392.00	4,838.00	11.20
2010-2011	1,560.00	3,548.00	5,108.00	10.00
2011-2012	1,814.00	5,362.00	7,176.00	13.00
2012-2013	1,848.00	4,552.00	6,400.00	12.00
2013-2014	1,970.00	2,162.00	4,132.00	10.00

Among the 10% budget for agriculture 50% is spent on current expenses and only 50% is spent on capital expenditure. The low level of capital investment depicted above is the result of decrease in its contribution on percentage share of total GDP from agriculture sector. The table below shows the sector wise contribution in GDP from 2001 to 2010.

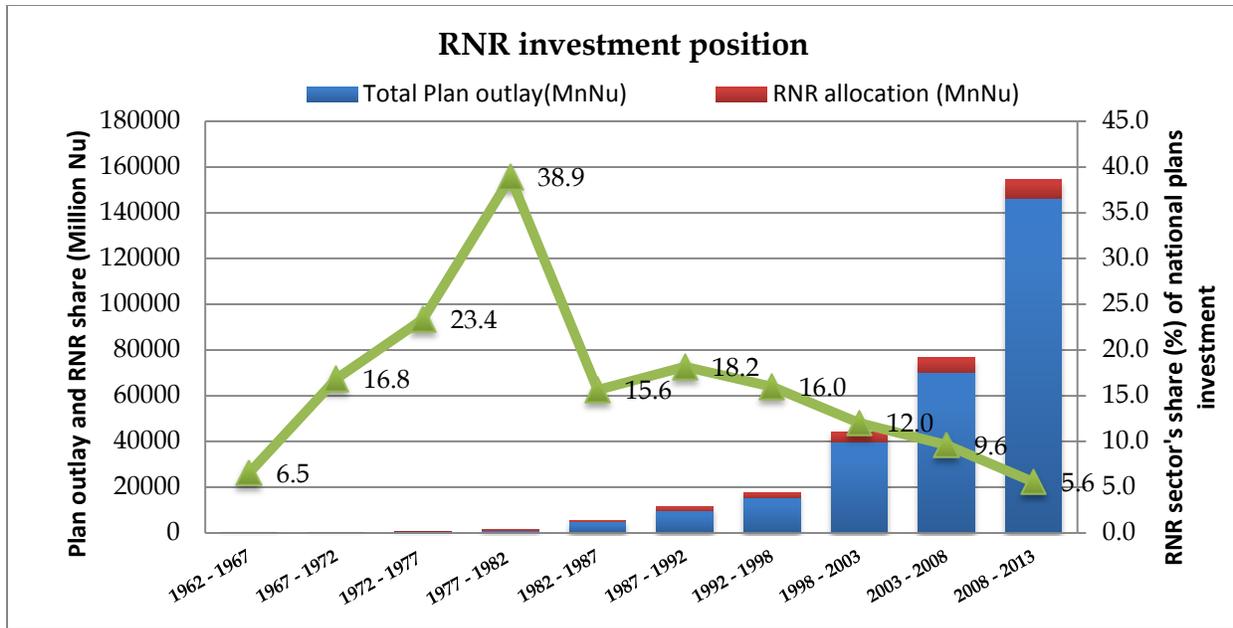
Sector	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Agri, livestock, forestry & mining	28.2	27.8	26.8	25.7	24.1	23.7	20.5	20.7	20.5	19.0
Manufacturing	8.1	7.4	7.2	7.3	7.0	7.1	8.2	8.4	8.2	8.7
Electricity and water	10.0	10.1	11.4	9.5	10.0	12.4	20.4	21.1	19.3	17.6
Construction	16.7	17.8	17.1	17.8	17.0	14.5	13.7	11.4	12.2	14.2
Services	34.7	33.7	33.8	35.3	37.5	38.0	34.2	35.4	37.1	36.5
(+) indirect taxes (-) subsidies	2.4	3.3	3.6	4.3	4.5	4.3	2.9	2.9	2.8	4.0
<b>Gross Domestic Product</b>	<b>100</b>									

Source: MDG Accelerated Framework: Youth Employment in Bhutan.

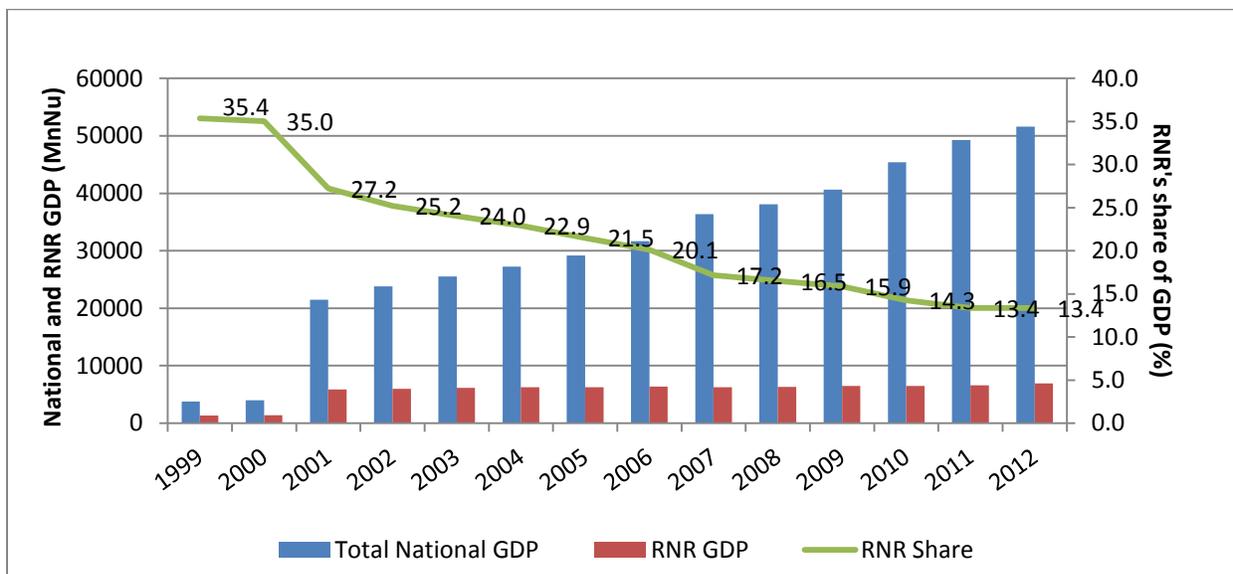
As per the RMA's Annual Report the loans exposure to agricultural sector for three years shows the negligible amount of loan investments within agriculture. The common conclusions that can be drawn from the table below are the lack of investments in agriculture both from public and private sectors. This can also be the reason for low productivity in agriculture resulting in increase in import of essential commodities. The loan disbursed to agricultural sector constitutes only 1.6% in 2011 increased to 2.2 and 2.7 in 2012 and 2013.

Loan disbursement	2011 (million Nu)	2012	2013
Absolute figure	657.5	1116.10	1514.00
Percentage on total	1.6%	2.2	2.7

The investment in RNR sector has significantly declined over the year. The below table depicts the budget allocations to RNR sector for different year.



### GDP Growth trend in RNR Sector



### Food Trade Balance

The trade deficit with India increased by 34.9 percent in FY 2012/13 as exports experienced negative growth of 0.1 percent in the fiscal year compared to an 11 percent growth in imports.

Bhutan imported essential food items worth Nu.5.1 billion in 2012, with the overall food trade deficit increasing from Nu.2.9 billion in 2011 to Nu.4.2 billion. While Bhutan remains an agrarian economy with over 65 percent of the labor force engaged in farming, food sufficiency looms as a major issue of concern to policy makers, due to its vast socioeconomic implications for the

nation. Further, continued escalation in food prices across the border as well as rise in global food and energy prices make food security an important concern for the country.<sup>2</sup>

The above challenges can be overcome only by increasing the public investments in agriculture, encouraging private investments and making agriculture sector an attractive investment destination.

## 2.1 Economic Opportunities

Bhutan is endowed with natural resources which are exported without economic value addition every year to India and countries other than India. The principle items of export and its Weight-age excluding hydropower are as under:

Sl. No	List of Items	% share 2012	% share 2011
1	Ferro Alloys	23	19.9
2	Carbides (calcium silicon others)	5.3	4.7
3	Bars and Rods	5	3.8
4	Copper wire	4.4	6.5
5	Semi finished products of Iron	3.9	0.5
6	Dolomite	3.2	2.4
7	Gypsum	1.9	1.8
8	Ingots	1	0.9
9	Plastics	0.9	0.7
10	Particles Board	0.8	0.8
11	Bituminous	0.7	0.6
12	Mineral water and similar drinks	0.4	0.5
13	Orange	1.5	1.1
13	Cardamom	1.5	1.2
14	Potatoes	1	0.8
15	Wheat or Maslin Floor	0.4	0.3
16	Jams, Jelly etc.	0.3	0.3
17	Cordyceps	0.3	0.3

Source: RMA Annual Report

Similarly the principle items of imports are as under:

Sl. No	Items of Import	2012	2011
1	Consumption Goods:	36.6	12.8
2	Live animal and animal products	10.4	53.8
3	Vegetables, fruits, coffee, tea	40.1	31.9

<sup>2</sup> RMA Annual Report 2012-2013

4	Spice, cereals, Grains and seeds		
5	Animals and Vegetable fats and oils	31.2	38.7
6	Processed fruits and Beverage	22.3	10.8
7	Mineral products inc oil and fuels		
8	Intermediate Goods:	18.9	13.5
9	Mineral based products	34.2	18.5
10	Plastic and rubber products	34.1	29.4
11	Base metals and related articles	37.4	7.0
12	Capital Goods	24.5	-27.3
13	Machineries mechanical equipments	-9.4	11.4
14	Goods transport and earth moving		
15	Vehicle equipments and parts	74.4	-67.5

*Source: RMA Annual Report*

The above table highlights the import and export items which form part of Bhutan's balance of payment. The major contributors are private sector comprised of construction, tourism manufacturing and service sector.

Among the list of items imported from other country, Bhutan can produce some of the goods and services reflected within the country given the opportunities to market and required financial support.

The opportunities identified for further development involving both public and private sector participation includes:

1. **Agricultural commodities:** Agriculture is a single largest sector which produces and supplies 60% of the country's food requirements. The sector can produce diversified types of commodities (cash and food crops) to meet the local and international demand if adequate support (financial, marketing, production, transportations etc.) are provided. Private sector can play pivotal role in plantation and marketing of agricultural commodities. The free trade relations with India can assure the permanent market for the produce of Bhutan.
2. **Minerals** and mineral based products Dolomites, coals, gypsums white cements etc.
3. **Tourism** – The tourism sector is an important private sector employer of Bhutan's growing population and is also recognized for its considerable potential as a major source of income for the government. The Tourism Council of Bhutan estimates that the tourism industry provided employment for some 28,982 people in 2012 as compared to 22,045 people in 2011. The tourism sector has higher potentials to generate revenue. Private sector can play pivotal role in development of tourism products and services in all 20 Dzongkhags which are not fully explored. The tourism development has been focused only on few Dzongkhags and still has immense potential for tourist attraction.

4. **Education** – The education sector till today caters to the local students or in country students. The education sectors are seen to have potential to attract foreign students interested to undergo studies in Buddhist cultures and traditions, environmental studies and social science.
5. **Health care** - Today increasing amount of populations of the middle class and higher class are visiting either India or Bangkok for health care services paying huge amount of foreign currencies. The same standard of service within country could retain the outflow of limited currency adding values to the local economy. Private sectors have already shown significant amount of interest to start the high end education and health care services waiting the government to endorse the proposal.
6. **Construction and Housing** – The national housing census provides that 40% of the urban population still stay in rented house. The housing market still has the potential to add value to social service. The RMA's annual report highlights that only 27% of the total construction are done by private sector and rest 73% are done by public and government construction during the year 2012. Construction sectors covers the wide range of sectors of economy covering hydro power, urban infrastructure and housing, schools etc. With such a base of the construction sector, it is desirable to have assessment of the current and future scenario of development of the construction intensive sector of the economy in order to visualize the emerging scenario of construction industry in Bhutan and resultant demand of construction materials.
7. **Medicinal Herbs and Cordyceps** – The sector still has the unexplored potentials for generating revenues and employment to rural youths. It is the area which can attract urban unemployed youth towards rural areas maintaining the balance of unemployment concentrated within urban areas. The collection and sales of Cordyceps is available for highlanders which still have the potential to attract youths from the region.
8. **Transport and communication** - This sub-sector's share to nominal GDP decreased to 10.4 percent from 11.1 percent in 2011, while its contribution to real GDP growth was registered at 0.1 percentage points. With the increase in mobility of people the requirements for improved transport is on demand.<sup>3</sup>
9. **Infrastructure development** including roads, highways, sideways and flyovers, ropeways and underground tunnels etc. PPP model of development and investments in this sector can fructify the objective of the growth of entire economy.
10. **Financial services** – The sound growth of financial institutions plays fundamental role in developing countries in pursuit of economic growth responding to monetary problems to the government's task of nation building. The financial services are provided to public on the basis of traditional collateral based financing. The high risk project financing and venture capital financing is only in embryonic stage .Within financial service sector, services like mutual

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<sup>3</sup> RMA Annual report 2012-2013

funds, unit linked savings schemes , insurance and reinsurance, venture capital financing etc have not entered into the Bhutanese market.

11. **Capital Market-** Bhutan can develop capital market for trading of shares and securities which will mobilize better savings. The knowledge of capital market and its functioning mechanism is still not known to the Bhutanese people. Trading in secondary market if developed, can constitute a separate industry which will contribute towards economic development.
12. **ICT Services-** Bhutan has the potential for ICT services which private sector can play a role. With improvement in education and reach of electricity and telecommunication, the requirements for ICT services have widened towards regional and rural areas.
13. **Other ancillary services-** Electrical and electronic repairs and maintenance, mechanical workshops, driving training, rural artifacts and artisans, and other creative industries can be promoted which requires low start up capitals and have higher sustainability.
14. **Mineral Resource Management:** The mining industry in Bhutan is as yet relatively undeveloped. The kingdom has significant deposits of a number of mineral resources, including limestone, coal, graphite, gypsum, slate and dolomite. Most mining activities are limited to relatively small operations, mainly involved in the mining of dolomite, gypsum, limestone, slate, coal, marbles, quartzite and talc.<sup>4</sup>
15. **Manufacturing Industries:** The manufacturing industry is dominated by a small number of major operators such as the Penden Cement Authority Ltd., the Bhutan Board Products Ltd., Bhutan Carbide and Chemicals Ltd., the Bhutan Ferro Alloys Ltd. and Bhutan Agro Industries Ltd. Besides these, there are a number of other small manufacturing plants concentrated in the food processing activities. Cottage industry also plays a prominent role with its good timber resources and favorable agricultural conditions. (NSB 2013)

## 2.2 Challenges

The above opportunities are not free from challenges. The challenges that need to be overcome are as under:

### 2.2.1 Policy Coordination and harmonization

Different policies are framed by different Ministry as per their own mission and objectives, the fulfillment of which requires huge amount of national revenue. Most of the policies remain unimplemented because of insufficient resource, lack of human resource capacity and changing government.

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<sup>4</sup> NSB Annual Report 2013

There are policies framed spending huge amount of national resources which is already under amendment before start of its implementations. There are instances of inter ministry and department competing each other in policy implementations creating the rooms for irregularity and corruptions.

*Some of the issues in that front requiring immediate corrections are:*

1. Need to simplify the registration and regulations of establishments in the formal sector. Now, most existing entrepreneurs find it cheaper and easier to operate with a small workforce in the informal sector.
2. Potential entrepreneurs find the barriers to establish themselves in the formal sector as nearly insurmountable.
3. Equally important for the government is the provision of appropriate infrastructure services, whether actually provided by public or private actors.
4. Reliable infrastructure services must be made universally available at competitive prices set according to supply and demand.
5. There is also an urgent need to adjust education and training to the need of the private sector growth and increased employment and income in agriculture and fisheries, manufacturing industries and service industries.
6. The big corporate houses, on their part, must focus more on productive investment, growth and employment. Private sector must take responsibility for the development of the country.

### 2.2.2 Legal Constraints

The policy paper ambitiously outline the promotion of private sector by easing the procedure required for formation of companies including registration and licensing. There are policies like MSME, EDP and FDI Policy prescribing detailed requirements for business formation.

The policies are considered not friendly for FDI to invest in Bhutan. It has been witnessed that from the date of policy passed in 2010 there are only handful of FDI who have invested in Bhutan over a period of four years.

Lack institutional framework for better respond to private sector needs and private sector involvement in planning and policy-making, developing infrastructure services and provide a level playing field for private sector contribution to growth and employment.

#### *Immigration rules and labor laws*

The immigration rules also discourage the formation of new business in Bhutan especially in construction sector which still is labor intensive. The labor laws are stringent in

terms of hiring professionals for different sectors from other country. The strict labor laws and lengthy procedure for hiring non national labor affects the business. The strict immigration rules often stands in the way of creating Bhutan a better business destination.

Foreign Direct Investment (FDI), although marginal in Bhutan, is mainly attracted by the tourism sector, particularly for the financing of new hotels and resorts. Bhutan benefits from foreign grants and soft foreign loans with highly favourable terms which has, despite rising current account deficits, managed to keep the overall external position in surplus. Combined with hard currency and electricity exports, these inflows have permitted Bhutan to accumulate over US\$391 million in December 2004, sufficient to cover 18.5 months of the country's imports.<sup>5</sup>

The FDI Policy states that the following manufacturing areas are open to FDI with a minimum investment of US\$ 1 million where the foreign investor can hold upto 70% equity: Mineral processing, Forestry and wood based industries, Agriculture and Agro processing, Livestock based industries, Light Industries including electronic industries, Engineering and power intensive industries.

Currently most of the FDI investments are cantered in tourism and hotels. There are minimum investments in agriculture and manufacturing industries which are given the priorities by the government.

### 2.2.3 Financial Constraints

Bhutan's internal economy is dependent on grants and loan funds from developing partners like India, Japan, Denmark and other overseas country.

The limited resource mobilization through tax collection and export of low value commodities does not substantially meet the import requirements even for essential commodities. The only assurance of being a self sufficient economy is the revenue from hydro power which is still under the development stage.

The biggest constraint to start business in Bhutan is the capital. The entire economy suffers from unstable liquidity problem. The financial sector's potential to stimulate private sector development is constrained by:

1. Low Capital Adequacy Ratio (CAR) of the financial Institutions-Most of the financial Institutions have very low CAR thereby they cannot lend to the private sector;
2. The limited credits are available to the private sector which again is based on collateral financing;

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<sup>5</sup> EU Country Strategy Paper 2013-2017

3. The revised monetary policy and prudential management guidelines of RMA further tightens the credit to private sector;
4. Inconsistent mechanism for property valuation and criteria for security among FIs, such as the differentiation for urban and rural land;
5. Weak legal rights for borrowers and lenders;
6. Lack of new products and alternative financing mechanisms such as bonds, venture capital, hire purchase, debit and credit cards, travel insurance, etc;
7. High rate of guarantee charges for bidding in government tenders, contracts and orders as well as bank and transfer charges;
8. Relatively high insurance premium for securities mortgaged to FIs and the lack of competition in the provision of insurance services;
9. Absence of a common and transparent credit rating system between the FIs;
10. Limited capacity of FIs in project evaluation, appraisal and monitoring;
11. Conservative management of FIs with poor customer service; and
12. Lack of private sector participation in the RMA Board and the conflict of interest.
13. Lack organized financial institutions in the areas of Mutual fund, venture capital investments, risk and lease financing.

#### **2.2.4 Infrastructural Constraints**

An incapacitating impediment for private sector growth is the low quality and reach of required business infrastructure. While many infrastructural shortcomings are tied to the landlocked nature and rugged topography of the country, the main constraints include:

1. slow development of industrial estates and the lack of dry ports;
2. limited access to land and the lack of a competitive land market with secure property rights and at transparent prices;
3. complicated transactions for transfer of property, making the negotiating process long, cumbersome and frequently corrupt;
4. dominance of the government in land holdings and inconsistent cumbersome procedures for leasing government land;
5. limited reach of essential infrastructure like power, water, communications and transport which negatively impact supply chain management and increase costs of production;
6. limited tourism infrastructure;
7. limited exploitation of natural resources, especially hydro power forests resources;
8. Imperfect markets for local raw materials, especially sand, stone and timber coupled with lengthy procurement procedures.
9. Lack of public investment in essential infrastructures such as warehousing, cold storage and freezer storage system.

#### **2.2.5 Taxation issues**

According to the World Bank, businesses in Bhutan spend 274 hours complying with tax rules to pay 43% of their profits in tax. As per the recent ADB study, Bhutan stands at 141th position in ease of doing business. Constraints related to taxation include:

1. Relatively narrow tax base;
2. complexity of the tax system leading to non-compliance and evasion;
3. ad hoc duty structures with unilateral and sudden changes in rates;
4. incidences of double taxation;
5. short term and irrational nature of tax holidays;
6. although a legal requirement, limited practice of maintaining proper accounts with negative impact on investment, competition and efficiency as a result of the accompanying lack of transparency and poor accounting standards;
7. lack of internal auditing and cost accounting systems in the private sector; and
8. the need for revision of tax deductible expenses for sales promotion, advertisement, HRD, entertainment and salaries to reflect the actual need for these activities and to ensure efficiency and transparency by formalizing these expenses.

### 2.2.6 Land Holding Patterns

Geographically, Bhutan is a Himalayan country and has difficult land holding patterns which are characterized by scattered and small land holdings. Among the wetland 74% are scattered and below 5 acres. Only 26% of the wet land is above five acres. Similar is the case for land under orchards. The scattered land holding and ownership hinders the promotion of large scale commercial farming. The fragmentation of land with its percentage of ownership is as under:

Land type	Wetland	Dryland	Orchard	All types
Thram holders (%)	54.8	88.7	16.9	100
Land area (%)	17.7	76.5	5.9	100
% Area falling under land size category of "up to 5 acres"	73.8	35.3	68	44
% Area falling under land size category of "above 5 acres"	26.2	64.7	32	56

*Source: Compendium of RNR Statistics 2008*

### 2.2.7 Current economic situation in nutshell

The situation of Bhutan today is characterized by increasing unemployment and gap between rural to urban shift. Looking closely government is concentrating only on hydropower development as contributor of GDP, neglecting the importance of agriculture and its contribution to rural economy.

The government's approach for development centers around attracting grants and donations based activities and depending with other countries even for essential commodities. The way forward foresees the importance of investing in those sectors that will really strengthen the local rural economy and contribute towards agricultural self reliance.

The concentration of public investment is minimum on development of core sector like agriculture and mining. The narrow economic base and GDP based on donations with import of almost all the essential commodities reflects the non sovereignty of economy. The restrictive business environment, legal restrictions, formalities and lack of required infrastructure fueled the aggravating unemployment issues and resultant problems in migration. All the above factors affect the role of private sector led economic growth of Bhutan.

The way forward sees the macroeconomic imbalances and lapses at the policy level which has impacted at micro level. Some of the impacts of such imbalances are:

1. Rural Urban Migration;
2. Increasing of fallow arable land;
3. Increase in import of essential commodities;
4. Decrease in contribution of agriculture in GDP;
5. Increasing unemployment and under employment within youth etc.

### 3. The Way Forward

The intention of BCCI is to identify and put forward ways and means to assist private sector in exploiting opportunities and overcoming obstacles in order to grow and create employment and income. However, based on evidence of recurrent failures by the government to take action on its own policies for private sector development, the study has included explanations of why action is necessary and indicated what can be gained through an appropriate approach.

The main goal of this Way Forward is to bring on board the main objective to be achieved viz. import substitutions , export promotions and building self reliant economy as a national objective by developing healthy private sector. More specifically the goals are:

#### ***Goal 1: Import Substitution***

The Import Substitution which is the focus of the present government as an Industrialisation Strategy. The main thrust of it is to provide tax concessions that would encourage importation of inputs, plant, machinery and equipment, in order to produce locally manufactured goods that would otherwise have had to be imported. Incentives need to be introduced behind high tariff walls, a situation that can create an anti-export bias.

This goal will be achieved through three contributing objectives, namely:

- i) The provision of adequate and good quality infrastructure,
- ii) The catalysing of public/private sector dialogue, and
- iii) The reduction of legal, regulatory, administrative and taxation barriers.
- iv) Encourage private sector to participate in production and supply of essential commodities within the country.

#### ***Goal 2: Export Promotion***

The present Government's initiative of export promotion needs the thrust of its economic policy to export promotion that includes fiscal based incentives. The fiscal incentives include:

- a. Establishment of Export Processing Zones (EPZs)
- c. The Export Promotion Program Office (EPPO).

The incentives under this goal will have the advantage of:

- a. Flexible immigration rules that allowed them to engage expatriates in senior management positions and skilled and unskilled labours;
- b. Accommodative labour laws and collective bargaining systems;
- c. Income tax holiday and a rebated rate of the same after the initial years of tax holidays.

The additional advantage that can ripe through the investments in export promotions are:

- a. Foreign exchange generation;
- b. Sustainable economic diversification;
- c. Enterprise networking and establishing linkages with the local enterprises and SMEs;
- d. Enhancing capacity utilisation;
- e. Technology transfers;
- f. A strong export focus;
- g. The generation of meaningful employment.

### ***Goal 3 Building self reliance in agriculture trade and industries***

This goal will be achieved through three contributing objectives, namely:

- i) Review of the Trade and Industrial Development Policy,
- ii) Revitalisation of trade facilitation;
- iii) Increasing access to trade finance;
- iv) Increase in the production of essential commodities within the country.
- v) Increase in public investments in agriculture and domestic trade.

### ***Goal 4 Supporting Entrepreneurship and Indigenous Enterprise Development***

This goal will be achieved through five contributing objectives, namely:

- i) facilitating the development of new enterprises;
- ii) improving access to capital;
- iii) facilitating the graduation and evolution of enterprises;
- iv) Promoting firm-to-firm linkages; and
- v) Promoting broader MSME representation in business associations;
- vi) Creating single window clearance system for service delivery to MSME.

## **3.1 Pillars and Priorities**

The way forward focuses on three pillars for private sector led economic development:

1. Improving investments and business climate;
2. Expanding access to social and economic infrastructures;
3. Promoting enterprise development.

### **3.1.1 Improving investments and business Climate**

Establish efficient and well regulated public services, effective law enforcements and transparent procurement policies all contribute to a better investment and business climate and faster growth and development.

## ***Challenges – Restrictive business environment***

Bhutan's business climate is characterised by wide range of regulatory and labour, trade and business obstacles that reduce competitiveness and constrain the private sector. The two tier obstacles seen are through inconsistent policies at macro and sector level and in each sector (regulation and taxation, security, finance, labor skills development, infrastructure); and secondly through diminished credibility for governance institutions and an absence of channel for wider participation in policy formulation. This structural deficiency often results in red tape.

BCCI shall strive to address the key issues of structural business and investment climate changes and:

1. Support policy initiatives that champion reducing the attraction of informal sector activities by supporting the improvements to increase the ease of doing business and reducing the cost of business creation, expansion and closure. In particular, it will support initiatives promoting greater transparency, predictability and accountability in business and investment regulatory frameworks, particularly in tax policy and administration; strong property rights; and sound corporate governance;
2. Support initiatives to deepen and expand financial and capital markets, including those that encourage creation of a diversity of financial institutions and services (e.g. insurance, leasing), development of financial instruments (e.g. bonds, equities, guarantees) that can mobilize term finance, and efforts aimed at increasing local currency borrowing to fund private sector projects;
3. Support initiatives to improve Bhutan's financial infrastructure including collateral registries, credit bureaus, credit ratings, and payment and settlement systems, all of which are necessary to foster financial stability and the successful operation of modern integrated financial markets;
4. Support initiatives to improve innovation, entrepreneurship, knowledge and skills, particularly through providing assistance to more effective vocational training;
5. Facilitate policy dialogue between regional, national, and, where necessary, sub-national private sector stakeholders;
6. Support initiatives that improve the institutional and operational frameworks for public-private partnerships (PPPs); including strengthening the analytical capacity for their selection, evaluation and monitoring, as well as transaction-level project preparation; and
7. Assist in strengthening regional economic communities and national authorities to encourage and support regional financial sector integration, cross-border investments, elimination of non-tariff trade barriers, harmonization of investment and engineering codes, and quality assurance and certification standards.

### 3.1.2 Access to social and economic infrastructure

‘Efficient economic infrastructure’ means the facilities with which a country or a region makes business activity possible (communication, transportation and distribution networks, financial institutions and markets, energy supply systems, etc.). This is critical to tackling some of the greatest impediments to private sector development.

In addition, significant obstacles remain to the mobilization of private financing and investment in infrastructure. The initiatives required in this front include:

Support new infrastructure or rehabilitation initiatives aimed primarily at improving long-term and comprehensive reforms and investments across transport and logistics chains, improving access and delivery of social services, integrating national markets and connecting them to regional markets and markets outside Bhutan;

Support to initiatives aimed at strengthening access and capacities to deploy efficient and/or climate-proof infrastructure systems, including multi-modal transport systems, which can also offer ways to manage urban growth, while reducing the overall ecological footprint;

Support private infrastructure and public-private partnerships through direct and indirect financing instruments, and through provision of technical assistance and transaction advisory services;

In order to accelerate progress in all the areas mentioned, there is need for a more systemic and partnership approach to increase private investment, create more sustainable jobs, transfer new technologies and skills, and realize true economic and human potential over the next few decades.

### 3.1.3 Enterprise Development

Bhutan’s private enterprises – including an estimated 98 percent of Bhutan’s MSMEs – are severely hampered by insufficient access to long-term finance. Even large enterprises routinely experience financing constraints. Such underfunding has led to significant underinvestment, particularly in capital goods such as machinery and equipment, as well as in research and development.

In turn, this has contributed to low levels of innovation, productivity and competitiveness. Bhutanese traders, particularly current and potential exporters, face severe difficulties securing trade finance. When financing is available, costs are often prohibitive and duration is often short, especially for MSMEs. There is an acute shortage of trade finance because of local financial institutions’ lack of financial and technical resources.

The government needs to develop a more holistic approach to financial sector competitiveness and inclusivity in ways that align with country contexts and the capabilities of the local financial sector in deploying interventions that encompass:

- 1) Partnering with financial institutions (commercial and development finance institutions including banks, private equity funds, etc.) to facilitate investment and trade and also, to enable them to give better service to MSMEs, traders and women;
- 2) Working with governments and the private sector to establish technology-based business models to help the ‘unbanked’ and the ‘under-banked’;
- 3) Supporting initiatives that involve working directly with individual MSMEs to improve their creditworthiness, financial literacy and growth potential;
- 4) Support for direct financial assistance to enterprises through catalytic, long-term debt and equity, guarantees, loan syndications and underwriting, particularly initiatives in agribusiness, industrial modernization, extractive industries (mining, oil and gas) as well as regional integration and support mechanisms (social infrastructure, financial instruments, etc.) for local communities;
- 5) Support for initiatives to increase the responsiveness of private financial institutions to the increasing demand for long-term debt, by continuing to extend credit lines and risk-sharing instruments to enable FIs to on-lend to their clients;
- 6) Attracting global leaders’ attention to the issue of strengthening the financial sector in Bhutan; and
- 7) Developing specific guidelines to support MSMEs and to ensure that financial intermediaries are accountable for the deployment of funds for purposes intended

### ***Initiatives required***

- 1) Review, and where necessary adjust the framework for supporting micro-finance investments and programs, particularly those aimed at entrepreneurship development.
- 2) Enhance its support to technical assistance initiatives aimed at the provision of financial services to the MSME target markets, as well as those meant to ensure that the non-financial needs and requirements of MSMEs are addressed. The latter include measures to enhance the enabling environment and capacity building support to local intermediaries that provide assistance to MSMEs, such as Business Development Services and linkages to markets;
- 3) Support initiatives that systematically create opportunities to link local enterprises into the supply chain of international enterprises through subcontracting, licensing, franchise arrangements and public sector and development partner procurement policies;
- 4) Support initiatives that provide enterprises, including MSMEs, with incentives for promoting technologies and knowledge leading toward greener industrial products; and
- 5) Deepen its partnerships with others involved in MSME development, including co-financing technical assistance programs with the IFAD, USAID and others.

The BCCI will strive to play active role to explore ways to support new initiatives that can promote inclusive economic growth and social development.

*Pillars related operations*

Pillars	Targets Outcome	Way Forward
Pillar 1: Investment and business climate	Improve investment and business climate	Macro economic policy reforms, Reforms on taxation; fiscal incentives to seize green opportunities as well as to promote more inclusive growth;
		Rule of law-legal and regulatory reforms (Simplification of business registration and investment licensing, construction permits, enforcing contracts, handling business insolvency etc.
		Business enabling environment for agribusiness; Agro industry and rural enterprise.
		Business enabling environment for industrial services and manufacturing enterprise
		Property rights- improvement of land tenure and property registration system ensuring rights for equal access.
	Efficient national and regional factors and products market	Labor market reforms ,vocational training, youth technical skills development and entrepreneurship promotion
		Broadening and deepening of financial infrastructure Trade policy and institutional reforms Tax system harmonisation Standards including assurance and certification Investment and engineering code harmonisation
	Public private partnership frameworks	
	Strengthening corporate responsibility	Promote corporate good governance Environmental and social impact management
Pillar 2: Access to social and economic infrastructure	Improve physical infrastructures and improve access to services: Transport, communication, energy, water supply and sanitation	Transport : Infrastructure and Service Communication: Infrastructure and services Energy, water supply and sanitation Infrastructure improving agricultural production and food security (irrigation system, rural roads etc.)
	Improve social infrastructure and increase access to services: education,	Higher education in science and technology Vocational training Health related infrastructure services

	health care etc.	
Pillar 3: Enterprise Development	Small medium and micro enterprises and social business	<p>Micro Small Medium and Scale enterprise</p> <p>Scaling up and leveraging financial services for SMEs.</p> <p>Support for business Development Services</p> <p>Capacity building in financial literacy</p> <p>Creation and coordination of business clusters and networks</p> <p>Support to Micro finance institutions</p>
	Value chain development and catalytic investments	<p>Lesson sharing between countries</p> <p>Strengthening value chains in extractive industries, manufacturing, agriculture, forestry and fisheries.</p> <p>Support to the deepening of expansion of financial and capital markets</p> <p>Catalytic investments with a focus on technology transfers, industrialisation of agribusiness, agro industry and rural enterprises.</p>

## 4. Areas of Special Emphasis

### 4.1 Agriculture and Food Security

In Bhutan, the agriculture sector is essential for growth, poverty reduction, and food security. Agriculture contributes about 3.4 percent to Bhutan's GDP, and GDP growth originating in agriculture is about four times more effective in reducing poverty than GDP growth originating outside the sector. Agriculture supports more than 62% of the total population in Bhutan, including 70 percent of the country's poor and undernourished. This means labor-intensive growth in the sector holds much promise for poverty reduction. Long-term investments aimed at boosting agricultural productivity will contribute to inclusive growth by creating employment opportunities for women and youth. Likewise, the agricultural sector is crucial for finding paths to development that will ease pressure on natural assets while managing environmental and socioeconomic risks better.

Investments in rural infrastructure (rural roads, irrigation, storage facilities, access to markets, conservation systems and supply networks), its areas of comparative advantage, will help improve agricultural productivity, which is one of the most effective ways to drive inclusive growth, reduce poverty, and increase employment. Wherever possible, government will also have to support initiatives for building resilience to climatic shocks like droughts, promoting efficient and sustainable use of land, forest, water and other natural resources, and providing sustainable infrastructure.

Unlocking Bhutan's agricultural potential and tackling food insecurity will require sustained coordinated investment using an integrated value-chain approach. While these interventions may be initiated by the public sector, there is need for increased linkages with the private sector, by promoting PPPs in agricultural projects and programs. The fallow agricultural land can be utilised through private sector engagement in commercial scale production. The proportion of land allocation is as under:

Proportion of agricultural land left fallow (hectares)

Land Type	Total land	Cultivated land	Fallow land	Percent fallow
Dry land	65,665	45,359	20,307	30.9%
Wetland	19,523	16,147	3,376	17.3%
Cash crop/Orchard	9,714	8,423	1,292	13.3%
Total	94,903	69,828	24,975	26.3%

Source: Draft 11<sup>th</sup> FYP, RNR Sector.

BCCI will strive to create and continue its support for public and private investment in agriculture, agribusiness and agriculture value chains (working both directly and indirectly with private sponsors in the sector).

### ***1. Areas of special emphasis in agricultural sector***

- i. Consistent & continuous Research & Development programs
- ii. Introduction of high-yielding varieties;
- iii. Prioritization of crops & crop rotation;
- iv. Land usage pattern change as viable and productively appropriate in consistent with the market demand;
- v. Private sector participation in the large scale farming;
- vi. Fast track leasing of government land for commercial farming as an ingredient to private sector participation;
- vii. Subsidy on farming inputs and ‘minimum support price’ for essential farm produce for food security and to encourage the farmers to opt for market driven farm production;
- viii. Find long term and stable solution to curb human wildlife conflicts and crop protection.

### ***2. Capacities Development in the entire agricultural value chain***

- i. Production: Emphasizing the Markets-Access-Production (MAP) approach over the Production-Access-Markets (PAM) approach.
- ii. Quality Control: Capacities of the agricultural production & marketing actors need to be enhanced in meeting quality, grades and standards for the domestic, regional and international markets.
- iii. Legislation: Review, strengthen and update legislation for development of farmers’ organizations & groups.
- iv. Access to Information: Creation of & access to information bank on applicable legislations, markets trends, micro-finance available & processes involved,
- v. BDS: Establishment of new or strengthening of existing grassroots BDS to support entrepreneurial activities for enhancement of entrepreneurship and enterprises including market risk management;
- vi. Training and development in mitigating the human wild life conflict.

### ***3. Infrastructure and facilities***

- i. Specialized institution(s): Government should establish specialized institution(s) to develop & harmonize standards, quality and grades in agricultural sector. Such facility should have regional presence within the country;
- ii. Collection depots/centres: Government should consider establishing permanent local market outlets at strategic locations;
- iii. Storage & other essential facilities: Government should encourage creation of facilities (cold storage) at major trade centres. Similarly, drying & packaging facilities could also be encouraged

- iv. Rural Facility: Infrastructure such as ‘post harvest storage’ facility using simple technology as adopted in Nepal by ICIMOD (*Naya Cool Chamber*) for perishable produce at cooperative or farm-level could be encouraged / introduced;
- v. Refrigerated Transportation System: Through certain incentive package(s), stakeholders in the agriculture value chain could be encouraged to introduce refrigerated vehicles for transportation of agriculture produce for supply to distant markets.
- vi. Irrigation facilities: Agriculture is still dominated by the rain fed dry land farming and wetland cultivation. Of the 77493 acres of wetland only 59243 acres are services with improved irrigation system.

#### **4.1.1 Development of Clusters and Value chain in Agriculture**

##### ***Cluster development strategy***

The cluster development strategy is more comprehensive and goes beyond the value chain development strategy. The cluster approach recommends the development of the entire geographical cluster of MSMEs producing similar products, wherever they exist, rather than interventions merely at the individual firm level. The arguments in favour of a cluster approach to MSME development are many.

A cluster is a sector and geographical concentration of predominantly micro, small and medium (MSME) enterprises. It could be a natural cluster or an induced cluster (an industrial estate). For the development of MSMEs the strategy of cluster development has been adopted across several countries as it provides certain benefits to the stakeholders.

Development of MSME through a cluster approach can facilitate more efficient delivery of support services for such units by Government and other development agencies such as NGOs, international development agencies, banks and so on. Cluster development can also facilitate extending infrastructure support to MSMEs by public agencies more efficiently, for instance the setting up of common facility centres, testing facilities, training workers at shop floor level, providing services of consultants and so on.

##### ***Develop value chain***

Value chain development is recommended for the dairy sector, for the organic food production sector and for the manufacture of traditional medicine in view of the fact that these producers or manufacturers are geographically dispersed. On the other hand, a cluster approach is recommended for the development of apple processing, textiles, wood-based industries and incense manufacturing since natural clusters of MSMEs in these sectors already exist.

##### ***Changing outlook towards Agriculture***

Today Bhutanese population consider working in agriculture is a type of blue colour job. People migrate towards urban areas and work at subsistence level leaving the land fallow at rural areas.

Public investments in agriculture and creating opportunities within rural areas can reduce such migration and solve the problems of urban crowd.

## 4.2 Improvement in Agriculture

Bhutan lacks comprehensive Agricultural Development Policy which will guide ministry to promote agricultural sector which is one of the pillar for economic growth and self reliance.

The agricultural ministry can develop product plan for each districts based on available private and government land holdings. Taking the examples of some of the states of India, Ministry can identify few products like rice, orange, apple, Guava, Pomegranate etc. and initiate commercial farming on each district. Some of the key areas that ministry can initiate includes:

1. Develop quality standards like production of standard size, shapes, standard on packaging, sorting, grading, weighing and preservation of agricultural produce;
2. Develop infrastructure like Post Harvest Storage, Refrigerated transport system, collection sheds etc.
3. Market Access – Create market and facilitate selling of farm produce on local and Indian market.
4. Private sector participation in agricultural value chain can contribute to agricultural self reliance.
5. Facilitate farmers with financial support in the form of subsidised loan and credit facilities.
6. Promote commercial farming on selected farm produces;
7. Research and development on increasing productivity and high yielding variety of inputs.
8. Agricultural commodities are highly perishable which requires pre and post harvest cares. The facility of bonded warehouse and agricultural product storage centres are not yet available in the country.

## 4.3 Public investment in Agriculture

Country's economic development are greatly influenced by public infrastructure like road networks connecting major markets and production hub. The plan has already outlined the linkages to Indian market through rail networks which is still not materialised. In addition to roads and rails, telecommunication also plays critical role in private sector development. The well connected economy will facilitate on information and knowledge sharing for education and innovations.

The public infrastructure specific to sectors like agriculture includes constructions marketing sheds for farmers, Grids, processing and preservation centres for perishable commodities. The step taken to improve agriculture by Gujarat State of India is as under:

**Box : Incentives in Gujarat Industrial & Agri Industrial Policies, 2000**

- a) Interest Subsidy: For new units in small-scale industries and service sector industries, interest subsidy is offered @ 5% p.a. upto a cumulative maximum of Rs. 2.5 million and Rs. 0.5 million respectively. For expansion and diversification of existing units, the interest subsidy is @ 3% p.a. upto a cumulative maximum of Rs.1.5 million.
- b) R & D Subsidy: Financial assistance is offered upto Rs. 50 million per industrial cluster for establishing common facilities covering quality improvement, technology upgradation, market promotion and technical skills. Similarly, subsidy @ 50% of expenses upto Rs. 0.5 million for filing patents on the research by industries or R&D institutions is offered.
- c) Quality Improvement Assistance: Industrial units obtaining quality certification from approved institutions/research laboratories are offered subsidy @ 50% of expenditure upto a maximum of Rs. 0.2 million.
- d) Backward Area Development: Industrial units coming up in the identified backward *talukas* are offered additional incentives @ 25% under all schemes.
- e) Capital Subsidy: For self financed new SSI units, a subsidy @ 10% of fixed capital investment (max. Rs. 1 million); for employment park with employment in excess of 2500, subsidy @ 10% of capital investment (max Rs. 20 million); for Hi-tech park, subsidy @ 50% of capital investment (max. Rs. 25 million); for investment park with investment in excess of Rs.5 billion; for share capital contribution @ 10% of paid up capital (max. Rs. 25 million); for trade centres of more than 500 sq. mt. Construction, subsidy upto Rs. 5 million; etc. are offered.
- f) Environmental Protection Assistance: Interest subsidy for the industrial units undertaking environment protection measures is offered.
- g) Land Provision: Priority accorded to allocation of required land to industrial units with the "Deemed NA" concept is made more effective.<sup>2</sup> Land is proposed to be offered at affordable prices to industrial units.
- h) Airfreight Subsidy: For agri-industries and food industries, subsidy (max. of Rs. 1 million per exporter) and subsidy for market development abroad (maximum of Rs. 50,000 per exporter) are offered.
- i) Project Report Preparation Assistance: A subsidy @ 50% of the cost of project proposal preparation for agri-industries is offered.

## 4.4 Especial emphasis in Construction Sector

### *Promote sustainable construction*

It is estimated that the construction sector accounts for nearly 25 per cent contribution to Bhutan's GDP. The fact remains that in a developing economy like Bhutan, the construction becomes the major activity in various spheres of development be it power, road, urban infrastructure and housing, education health, communication, etc. The construction industry covers a wide range of sectors of economy, the most important in the context of Bhutan being hydroelectric power generation and distribution, roads and bridges, urban infrastructure development, housing, government and private building complexes, expansion of health and education facilities viz. construction of hospitals and schools. With such a base of the construction industry sector, it is desirable to have assessment of the current and future scenario of development of the construction intensive sector of the economy in order to visualize the emerging scenario of construction industry in Bhutan and resultant demand of construction materials.

The construction materials encompass a wide range of materials and products, viz. steel in different forms, cement and cement products, wooden items, metal hardware and other products, plastic pipes and other chemical products. In the context of this study, it appears to be more logical to classify the building materials based on their raw material of manufacture or their utilization in the construction industry.<sup>6</sup>

The private sector can play a role in production and supply of construction materials to meet the demands for various sectors. The formation of clusters in construction industries involve in production of construction materials will increase its efficiency and achieve the formation of self reliant and vibrant construction sector in Bhutan. Some of the materials that have potential in Bhutanese construction sectors are:

- a. Cement based products like concrete bricks, solid blocks, Hollow Blocks, Paver blocks, cement concrete tiles, and mosaic flooring tiles. The different types of tile that can be manufactured are Terrazzo Tiles, plain colored tiles, plain cement tiles etc.
- b. Non cement based construction materials like roto moulded plastic containers and other products like septic tanks, oil tanks, water treatment tanks, fuel tanks, shipping tanks etc. Some of the products identified by the study are as under  
Materials handling: Pallets, Trash cans, Carrying cases for paramedics, Fish bins, Packaging;  
Automotive: Door armrests, Traffic signs / barriers, Fuel tanks, Instrument panels, Ducting, Wheel arches;  
Miscellaneous: Manhole covers, Housings for cleaning equipment, Point of sale advertising, Tools boxes and Dental chairs etc.

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<sup>6</sup> MoEA: Study on Feasibility of construction Materials

Agricultural / garden equipment, Toys and Leisure: Playhouses, Balls, Ride-on-toys, Outdoor furniture, Hobby horses, Doll heads and body parts etc.

#### 4.5 Especial emphasis on services and tourism

The service sector comprises of tourism, transport and communications trade and related services and financial and business services. This sector has burgeoned in the recent past to become the most important contributor to the monetary GDP.

Tourism remains a cornerstone of the economy, and a leading foreign exchange earner for the country. Moreover, the tourism sector has high multiplier effects as its growth stimulates further development in other activities.

The Way Forward proposes especial emphasis on development of required infrastructures to promote tourism. The potential of the tourism sector is constrained by government policy, seasonality, lack of product development, low quality of services, and regionally imbalanced growth. However, these impediments are not insurmountable and the tourism industry can be further developed to increase its contribution to private sector development and overall economic growth. Promotion of tourism as a priority sector should include the following issues:

1. Formulate a clear and transparent tourism policy that stimulates an enabling environment;
2. Mainstream the importance of tourism into the policies and plans of all relevant government agencies;
3. Increase coordination among stakeholders, both within the government and with the private sector;
4. Empower Tourism Development Board composed of stakeholders from the government and privates sector to spearhead tourism development activities such as marketing and infrastructure development;
5. Revise the tariff structure to promote competition, innovation and quality by regulating the royalty component while allowing operators to calculate their package prices and margins freely (this change in policy should be undertaken after broad consultations and implemented after adequate time has been given to operators to realign their strategies);
6. Improve quality of accommodation, food and other tourism services through skills development, enforcement of standards, allowing recruitment of non-national skilled personnel, and tax exemptions on import of tourism-related items;
7. Increase access by allowing exit and entry through any part of the country, streamlining visa and permit requirements by instituting a one-stop-shop for required clearances;
8. Develop tourism infrastructure in the east and south;
9. Develop policies for allocating and leasing land for construction of hotels and other tourism-related infrastructure;
10. Expand community-based tourism by promoting home stays and rural enterprise development;

11. Improve transport infrastructure and augment road network by domestic air links for small fixed-wing aircraft and helicopters;
12. Improve efficiency and maximize yield of Druk Air operations by subscribing to a Global Distribution System and promoting use of ICT;
13. Expand Druk Air's fleet and its operations to more destinations such as Singapore, Hong Kong and the Middle East to increase economies of scale;
14. Accelerate development of an all-weather airport and railway links;
15. Intensify marketing efforts by inviting reputed travel writers and documentary producers;
16. Provide fiscal incentives for tourism development such as soft loans, longer tax breaks, duty exemption on import of vehicles and equipment, access to foreign exchange for imports, and the reduction of annual licence renewal fees to eliminate entry barriers;
17. Promote development of new and potential products such as MICE (meetings, incentives, conventions and exhibitions) tourism, rejuvenation centres, entertainment industries such as casinos in southern towns (for tapping external spending only) etc.

In addition following activities attracts special attention to promote tourism sector in long run:

***A comprehensive Tourism Development Policy:*** Formulation of a comprehensive Tourism Development Policy that would serve as a guide towards sustainable tourism which would also promote domestic tourism within the principle of the Gross National Happiness (GNH) as the nation's development philosophy.

A comprehensive Tourism Development Policy is essential for planning long-term investment in the tourism sector, ensuring capacity building and sustainability, creating incentive packages both fiscal & monetary and setting required standards, etc. Such a policy should encourage specialization among operators and promote local ingredients.

***Expand tourism products coupled with seasonality problem:*** The tourism product-base needs to be widened by introducing/expanding products such as wellness tourism, eco-tourism, sports/adventure tourism, agro-tourism, nature-based tourism, religious / spiritual tourism, amusement parks, etc. Bringing ethnic tradition and culture in to mainstream tourism could be promoted too. The government should consider engaging both internal & external expertise to develop niche tourism products (PUM from the Netherlands is an example of engagement of external expertise)

Such intervention is expected to create wider choices for tourists with diverse backgrounds and interests, spread tourist visits across the country and all year round, encourage longer stay and spread the benefits generated by the sector. Integration and proper scheduling / sequencing of tourism products available in each dzongkhag within the circuit in the tour itinerary need to be reviewed and encouraged.

**Regional imbalance in terms of Dzongkhags-wise tourism spread:** The tourism inventory in south, central and eastern districts needs to be revisited towards spreading the tourism activity and its benefits.

1. Tourism Council of Bhutan (TCB) should provide a lead in working out and holding dialogue with relevant ministries for a preferential incentive package to encourage tourism activities / investment in the south, central & eastern districts.
2. For West-East tourism circuit, while the exit from Samdrup Jongkhar is open, entry from this point for international tourism needs to be reviewed. Development of cluster destinations in tourism deficient areas / Dzongkhags with proper profiling of such destinations / attractions needs to be prioritized.

This intervention would identify historic, cultural, adventure / nature based attractions that would broaden the scope of promoting investment and addressing the seasonality problem. With such geographical diversification, the elasticity in the tourism circuit would be expanded with longer bed-nights. Profiles of destinations / attractions can serve as a worthy tool for destination marketing.

**Tourism Infrastructure (transport & communications):** In the physical communication infrastructure front, construction of ropeways as an environment friendly & cost-effective alternative for transport & communication in difficult terrains is perceived crucial. For spread of tourism & to achieve regional spread, early completion of the widening of East-West national highway is also recommended. Inadequacy in air connectivity (both frequency & destination) is one constraint that might restrict tourism growth. This needs to be addressed on priority. Specialization of service providers such as car rental services for efficiency reason as well as to adequately meet the increasing requirement of the tour operators needs to be encouraged.

The 11th FYP sets an annual target of 200,000 tourists visiting Bhutan. For handling such an ambitious target, convenient and speedy transport and communication infrastructure plays a very vital role. Similarly, creation of professional institutions / service firms would evolve better choices and trigger spill-over economic activity within the sector.

While the issues proposed above are cross cutting in nature, TCB as the custodian of the tourism promotion activities in the country should consider taking a lead role in pushing these matters forward.

**Tourism Infrastructure (Hotel Services):** Fast-track government land leasing process for building hotel infrastructures deserve proper attention.

- i.* Tax incentives for use of greener and energy-efficient equipment/installations needs to be reviewed and appropriately considered. For promotion of tourism activities in tourism deficient districts, special incentives in terms of basic requirements / standards may have to be framed-out. In the long run, this however should be justified by the liberalized tariff system.

- ii.* Promotion of eco-friendly construction using local materials involving traditional concept deserves attention. Towards encouraging local community participation in the tourism sector ‘home-stay program’ could be supported / facilitated more consistently.
- iii.* Fast-tracking of land acquisition will enable getting ready with the infrastructures sooner and generating tourism benefits early. Installation of energy saving devices by the hotels will reduce energy consumption, thereby freeing up some amount of energy that can be used by other needy ones or for enhanced export to India.

Special consideration for accommodation classification in the tourism deficient districts will ease accommodation crunch and encourage more tourists to visit these districts. Such consideration will make such hotels eligible for essential foreign skills under the existing labor policy of the country.

***Other Tourism Infrastructure (Roadside Facilities, Campsites):***

- i.* The TCB should plan and promote building and proper maintenance of basic facilities (toilets/comfort rooms) at appropriate locations along the highway, trekking routes, campsites, parks, etc.;
- ii.* Designation and development of waste disposal / collection centres along such routes as above is crucial which should be supported by fast track allocation of sites by the government for the above essential facilities.
- iii.* The TCB should consider identifying, developing as necessary and opening up more trekking & cycling routes / circuits.

Availability of basic facilities will offer fully qualified attraction areas which would offer tourists a worthwhile experience and encourage revisits in future. Convenience and comfort are two of the many critically essential elements for promoting revisits.

Designation and development of waste disposal areas will minimize pressure on country’s fragile and pristine nature and enable realizing government’s objective of leaving minimal ‘foot-print’ behind from tourism activities.

***Simplification of visa processing:***

Simplification of visa processing (online) will reduce procedure on the one hand, and offer tourists with the flexibility to plan their schedule.

Allowing tourists visiting Indian border towns to visit bordering towns in Bhutan’s side will make some kind of economic contributions through their spending on shopping and essential services. To boost up tourism activity, Phuntsholing could be developed as a pilot spending zone through creation of entertainment centres, recreational facilities. Phuntsholing could also be promoted as a duty free city, and this could be one economic tool to make it a progressive town if auxiliary facilities are embedded with it including visa and permit processing/exemption provisions.

**Destination marketing:** Formulation of a comprehensive promotion and marketing strategy should consider incorporating destination marketing as a core component. Creation of applicable and appealing slogans for branding Bhutan as an exotic tourist destination could be framed-out. Further, to cite an example of strategies that can be adopted, tourism itinerary for a single circuit across various districts within the circuit could incorporate programs based on competitive edge that each Dzongkhags is endowed with, such as religious tourism in Bumthang rafting in Lhuentshi and birding in Mongar etc.

Destination marketing by branding each Dzongkhags as a packaged tourist destination would see tourists spreading their frequency of visits rather than touring whole Bhutan at a single go. As a destination marketing effort, encourage & promote serving of ethnic local cuisines, which should be an inclusive approach that would keep the ethnic traditions alive.

**HR Capacity Building:** Priority area for scholarships should include tourism sector. The scholarship provision available should consider looking beyond the managerial skills development alone. Development of inventory for skills available, required and the gap and prioritization of skill development curriculum / program for improving the local economy are felt essential.

Provision of hands-on skill-based scholarship in place of managerial skills development will enable retention of skilled employees within the tourism and hospitality sector.

Detailed inventory of skills, especially the gap, can be used as a tool to convince agency responsible for skills development programs for the private sector (MoLHR) to take necessary steps ahead.

**Cross-cutting issue:** The following issues deserve special attention:

- i. Harmonization of rules and regulations;
- ii. Revisit the tourism Negative List;
- iii. Frame-out appropriate PPP model for tourism promotion / development. To cite an example, Royalty on tourism may be ploughed back for investing in infrastructure development by the local government.
- iv. To incentivize the improvement of services and facilities, tax and incentives as available, need to be reviewed and revised involving the private sector participation in the process.
- v. The current provision of allowable foreign workforce under defined category needs to be reviewed and made consistent vis-à-vis the local availability.

Harmonization of rules and regulations would avoid overlapping, conflicts, and save the private sector players from hectic administrative and information obligations.

Tourism negative list needs to be reviewed in order to open some of the restrictions which will create more avenues for tourism sector and eventually help addressing the seasonality problem.

The current provision of workforce allowable needs to be reviewed and made consistent to all the hoteliers catering to tourists irrespective of their star rating and this goes the same with infrastructure construction works/projects in the tourism sector.

#### **4.6 Especial emphasis mineral resource management**

The Mineral Development Policy that is believed to be in draft form still needs to be adopted on priority. As per the Economic Development Policy 2010, this sector-policy document should have been put in place by the end of 2010.

The authority providing lead in formulation of this document must consider extensive private sector consultation through engagement of relevant entities during the final review of the draft policy document.

A policy document that would outline viable measures & interventions towards promoting long-term investment, development of minerals for socio-economic development in a sustainable manner, ensuring availability of construction materials, value-addition & import substitution, encourage professionalism and finally, ensuring effective regulation, administration, management & monitoring of the mineral sector is long overdue.

##### ***Suitable Incentive for value addition mineral and mining sector***

The government should study and consider sector-specific incentive package for sustainable mineral & mining activity for encouraging value addition .While the draft Mineral Development Policy specifies exemption of taxes on import of capital goods and higher rate of depreciation as an incentive package, the EDP 2010 for the purpose of general incentives considers mining as any other business and also states that “specific incentives for mining & quarrying shall be provided in the Mineral Development Policy”

##### ***Harmonization of intervening acts, rules, regulations, bylaws & guidelines***

For a sound legal & regulatory framework, harmonization of acts, rules, regulations and guidelines needs to be carried out in order to avoid anomalies, through consistent review of such documents.

Anomalies in regulations are essential to be addressed for a conducive & sustainable environment for mineral and mining activities in the country.

##### ***Environmental Restoration Bond***

The government should consider ‘Bank Guarantee’ in place of maintaining cash against the Environment Restoration Bond (ERB). The fund that otherwise would be blocked against the ERB can be made available and applied in raising nurseries, carrying out preparatory activities, etc for restoration of the environment disrupted by the mining activity.

### ***Mineral Prospecting by the private sector***

Essentially, the government should enhance the technical capacity of its mineral prospecting unit within the DGM and undertake prospecting of minerals nationwide.

However, whenever the private sector proposes its interest for prospecting of minerals, the government, as convinced, may consider to jointly carrying out the prospecting under cost sharing agreements with the private sector.

Mineral prospecting is a demanding activity technically and involves huge investment risks. The competency of the private sector to undertake mineral prospecting activity is still unproven.

It is this situation that necessitates joint initiative (Public-Private Partnership) initially as a process towards transferring technical know-how / expertise to the private sector.

A unique arrangement can be put in place that would enable the government to recover its share of investment from the private sector prospector who has been awarded with the mining rights of minerals jointly prospected. In the event the prospected area is confirmed as economically unviable, the costs incurred for prospecting could be shared as per the PPP agreement.

### ***Identification & prioritization of mining zones***

The government, through proper research & study, should consider identifying and designating certain Dzongkhags or areas with mineral resource endowment as mining zones for environmentally sound, economically feasible and socially acceptable mineral and mining activities in the country.

Such an arrangement would facilitate professional and systematic mining & mineral development activity and would be an edge to achieve sustainable mineral and mining activity with required environment restoration commitment and right approach towards safeguarding inter-generational equity.

### ***Technical expertise for mining activities***

The government should consider providing required foreign expertise until such time that local skills are available with the private sector, and as determined by the minimum requirements of professionals to be able to qualify for bidding. Mining is technically a sophisticated activity. It involves technically competent human resources.

The draft MDP also stipulates that consistency and competency of any bidding proposal would be determined by the minimum requirements of professionals and equipment depending on the type, location of minerals and scale of operation during evaluation of the proposals.

### ***Unqualified exercise of public rights by local community members***

The government should put in place practical mechanism to technically assess and confirm the suitability of mineral & mining activity in terms of its impact to the community / locality and to

the surrounding environment rather than simply witnessing an entrepreneurial initiative succumb to the unqualified intentions of the community member(s).

Social and community considerations are essential and certain rights are granted upon the members of the community by the government. However, unqualified exercise of public rights without justified reasons could sometimes come very dearly on productive economic activities and cripple the entrepreneurial initiatives.

It is therefore imperative that such intentions are at times reviewed through expert field assessment and its rationality confirmed.

### ***Public-Private level playing field***

The policy statement in the Economic Development Policy 2010 under Section 7.6 (Mining & Quarrying) Sub-Section 7.6.8 (Permit for collection of sand & stone from riverbeds) needs to be reviewed and amended towards creating level playing field.

The policy statement quote unquote Permit for collection of sand & stone from riverbeds shall normally be accorded to NRDCL only. However, in places where NRDCL is not operating, permit to the private parties shall be provided on a year by year basis, subject to strict environmental evaluation and monitoring, is in contradiction to much-orchestrated intention of the government to create level-playing field. The summary of action required for the sector is:

1. Implement sustainable Mineral Development Policy with emphasis on value addition within mining sector.
2. Comprehensive mineral management plan.
3. Capacity building on extraction and management of mineral resource; and
4. Adoption of PPP model of mineral resource management.
5. Harmonisation of intervening rules, acts, bylaws and guidelines.

### **4.7. General infrastructure development**

For the overall development of private sector, public infrastructure needs to be upgraded. The public infrastructure includes roads, railway connections, bonded warehouse and transport equipments apart from sector specific infrastructure requirements. The development expected in these areas is:

1. Construction of road, mountain rail and rope ways;
2. Government bonded warehouse;
3. Freezer trucks for transportation of perishable goods;
4. Linkages of rail ways in boarder towns;

Private sector involvement in development of above infrastructure through PPP model will help Bhutan for further economic development.

## 5. Recommendations and way forward

In addition to the above mentioned factors for private sector led economic development, the Way Forward proposes further development approach which will bring paradigm shift in different sectors within the economy. The sector wise strategies proposed are as under:

1. **Promotion of industries within agriculture** – Bhutan can focus on promotion of Industries within agriculture sector. Some of the industries which can be established with small scale investments includes fruit processing, food processing, packaging like cartons for packing eggs, vegetables, NWFP based packing materials, sorting, grading, transportation and marketing of agricultural produce.

Public investments in construction of warehouse with preservation facilities will encourage off season's vegetable production and marketing which will contribute towards agricultural self reliance.

Long term solution to curb the human wildlife conflicts will encourage youths and unemployed to take up agriculture as their career options.

Investment in E-Marketing of agricultural produce is also expected to have future scope in Bhutan.

2. **Develop clusters and value chains for agricultural produce and dairy.** The clusters for Apple, orange, potatoes production, storage, marketing, processing into further value added by products which has greater market demand nationally and internationally. Promotion of clusters among cash crops like orange and apple, wood based industries, traditional textiles and dairy sector will improve the competitiveness among the sector. Promote cluster development in horticulture and floriculture.
3. **Wood based Industries:** Promote furniture industries based on local timber in a sustainable manner (Manufacturing of furniture within the country instead of allowing import from china and other countries). Woodcraft Centres (WCC) the government owned company has been the potential threat for private enterprise dealing in furniture business. The way forward proposes that the WCC should be a training centre imparting the necessary training for other private entrepreneurs.
4. **Promote production of goods under NWFP:** (handicraft items like Brooms, bangchung, Dapa, decorative items, raw silks and other creative items etc.)
5. **Manufacturing Industries** – There are numerous goods and services that can be produced in Bhutan which are imported from India and countries other than India. The listed items which have evergreen demands in Bhutanese markets are as under:
  1. **Consumable items:** Consumable items like Washing soap, toilet cleaner, cosmetics and toiletries etc.,

2. **Ancillary industries within construction sector:** Low cost construction materials, wood based and non wood based, hollow blocks, alternative to CGI Sheets etc.
3. **Promotion of industries within hotels and tourism:** private sector involvement in development of tourism products like hotels, restaurants, amusements and recreational parks, cultural sites, development of river side restaurants, white water rafting, stone baths etc. The way forward fore sees to take the inventory of natural tourist products and development of new products in different Dzongkhags.
4. **Develop sustainable mining:** encourage private sector participation in extraction and processing of minerals and mineral based products through Mineral Development Policy (MDP).
5. **Manufacturing inputs for construction:** Production of POP (Plaster of Paris), white cement, roofing items, readymade windows, roofs, partitions etc.
6. **Education industries:** Every year more than 1000 (thousand) students go to other countries for pursuing the higher studies. Private sector can be encouraged to invest in such industries towards development of world class educational institutions which can attract international students, scholars and researchers resulting in promotion of knowledge based society.
7. **Other virgin sectors:** Promotion of asset management companies, investment companies, venture capital institutions, Mutual funds and share trading have scope in Bhutan.

### Way Forward Summary

Sector	Current situation	Recommendations -Way Forward
Primary sector- Agriculture, Mining, manufacturing	Unorganised sector with small and scattered land holding.	Promote commercial farming joining the scattered land holding. Identify large land areas and encourage private sector for commercial farming.
	Low public investments in agriculture	<ul style="list-style-type: none"> <li>- Increase investment in agriculture considering small and scattered land holding,</li> <li>- Investments on agricultural inputs, creation of market access for agriculture ;</li> <li>- Investments on construction of cold storage, freezer house, bonded warehouse,</li> <li>- Investments in production of off season's fruits and vegetables.</li> <li>- Investments on production of cash crops like apple, orange, cardamom, Potatoes, avocados, and other fruit products.</li> <li>- Infrastructure in rural access road construction and maintenance,</li> <li>Investments to curb human wildlife conflicts</li> <li>Promotion of E-Marketing of fresh vegetables and fruits;</li> </ul>
	Change in outlook towards the scope and im-	RGOB needs to work towards changing the outlook on agriculture. This can be achieved

	portance of investing and working in agriculture sector	<p>by creating awareness, scope and opportunities within agriculture sector.</p> <p>Change the farming culture through mechanisation and with improved technology will attract more unemployed youth towards agriculture.</p> <p>Increased number of seminars, educational tours, exposure trips, gifts, certificates of appreciations etc. will encourage youths to take agriculture as their profession.</p> <p>Promotion of “Brand Bhutan” in all agricultural produce;</p>
	Traditional system of working, low productivity, technical inefficiency	<p>Incorporate agriculture in mainstream education system;</p> <p>Invest in training and capacity building among agriculture;</p> <p>Private sector participation in agriculture will have higher potential to attract youths and help address the issues of unemployment, entrepreneurship development and resulting rural urban migration;</p> <p>Clearly spell out various incentives for agree business like subsidies for transport, packaging, marketing ,procurement of capital equipment etc.;</p> <p>Educate all the youths and young farmers for taking agribusiness as their career options;</p>
	Lack Research and Development in Agriculture and mining	Initiate research and development in agriculture comprising high yielding variety of seeds, pest control and seasonality aspects.
	Lack policy coordination between relevant support agencies	Streamline the support system and coordination between different agencies and government investing in agriculture;
		Encourage establishment of ancillary industries within agriculture sector like processing units, industries for packaging items, sorting, grading and standardisation of fruits and vegetables.
		Promote Agricultural product standardisation, Branding and certification so as to add value to the products and promote brand image.
		Formation of clusters of producer, marketing and suppliers of agricultural produce;
Manufacturing sector	Lack clear industrial policy for regulation of	Frame and implement holistic industrial policy to encourage further industrialisation;

	manufacturing sector	<p>The promotion of industries in the areas like agro processing, traditional textiles, wood based, and mineral based industries;</p> <p>Promote fast tract system on legal formalities like environmental clearance, company incorporation, project approval, and issuing license for new business establishment;</p> <p>Implement single window clearance system for medium and large business establishment;</p> <p>Standardise and reduce the project evaluation time and issuance of necessary approvals;</p>
Construction Sector	Construction sector is traditional and unorganised.	<p>Construction sector needs structural improvements.</p> <p>Mechanisation of construction is expected to solve problems of labor shortage;</p> <p>Usage of alternative local built low cost construction materials will solve some of the current problem of outflow of limited Indian currency in buying construction inputs;</p> <p>Develop clusters within manufacturing of construction materials;</p> <p>Promote industries which manufactures different types of construction inputs;</p> <p>Ease materials and labor procurement rules and time frame.</p> <p>Create level playing field for private sector;</p> <p>The public construction companies should focus on training and capacity building rather than competing with private sector.</p>
Tertiary sector-covering service, tourism and education and health sector	Lack aggressive promotion of service, tourism and education	<p>Promote services and tourism- Public investments in infrastructure development nationwide is required to develop service sector.</p> <p>The areas of special attention include investments in development of tourist destination, parks, hotels, recreation and amusement parks;</p> <p>Increase the stay period for high end tourist visiting Bhutan;</p> <p>Diversification of tourism offers like Bicycle Tourism;</p> <p>Financing and protection of tourist destination like Black necked Crane, other birds and animals;</p> <p>Streamline in the management of tour opera-</p>

		<p>tors fund involving opening and transfer of foreign currency account FC;</p> <p>Develop and expand the tourism products and reach to Dzongkhags which still are in embryonic stage of development;</p> <p>Promotion of creative industries;</p> <p>Encourage FDI investments in education sector- Establishment of private college, private universities, Institutions on indoor and outdoor games and sports.</p> <p>Research and development oriented institutions etc.</p> <p>Research institutions for agriculture, climate change, environment, ecology and ecosystems.</p> <p>Encourage establishment of private clinics and diagnostic centres;</p>
Other Sector- Financial sector	Lack strong and stable financial system and self sustained financial sector	<p>Bhutanese financial system is weak and vulnerable to the changing financial instability. RGOB needs to gear towards stabilisation of financial sector.</p> <p>Introduce variety of financial services like micro financial institutions, mutual funds, insurance companies, Unit linked savings and investment schemes etc.</p> <p>Promote project based financing rather than collateral based financing.</p> <p>Standardisation of tax collection system like BST, BIT, CIT, Customs and excise duties.</p>

## 6. Conclusion

The well developed private sector drives Bhutan's economic growth. Economic growth drives Bhutan's development. Bhutan recognizing this fact needs to be determined to harness the tangible benefits of development for the people: socioeconomic opportunity, human capital, critical infrastructure, regional competitiveness, environmental sustainability, social inclusion and poverty reduction, health, safety, literacy and happiness.

This Way Forward sets out the framework for the country's private sector development activities for the medium term. This document affirms the role of the private sector as an agent of Bhutan's development, and as a partner in delivering on the country's agenda of inclusive growth and the transition to green growth.

With the implementation of the Way Forward, Bhutanese economy as a whole led by private sector will march towards self reliant economy with increase in GDP, per capita and become internationally attracted business destination.

Proper implementation of Way Forward is also expected to contribute towards building positive balance of payments; national reserves, export promotion, import substitutions and economic self reliance.

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