

Cottage and Small Industry Policy, 2019



**Ministry of Economic Affairs
Royal Government of Bhutan**

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Acronyms

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

1. Introduction

Cottage and small industries account for more than 95% of the total number of industries in the country, playing a critical role in the industrialization and diversification of the economy. The underlying factors such as mountainous topography, scattered population, small domestic market and nascent stage of industrial development makes CSIs more suitable for establishment in the economic context as compared to larger industries. Therefore, considering the vital role of this sector in the economy, the RGoB designates CSIs as one of the priority flagship programs of the 12th FYP.

To strengthen and build on the past initiatives to promote and develop CSIs, the revised Cottage and Small Industry Policy 2019 realigns the provisions to the changing business environment to stimulate the growth of cottage and small industries in the country.

2. Vision

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

3. Mission

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

4. Objective

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

5. Context

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

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

The RGoB accords high priority to the development of CSIs as they play a crucial role in employment creation, income generation and in bringing regional balanced development. CSIs are more easily established since their requirements in terms of capital, technology, management and even utilities are not as extensive as it is in the case for large industries. The RGoB's initiatives such as, entrepreneurship development programs and special loan schemes, to provide a focused intervention to develop CSI sector commenced since the early 1990s.

Thus, in the year 2010, the Department of Cottage and Small Industry was established as a premier agency for promotion and development of the CSI sector in the country.

6. CSI Policy Objectives

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

- i) Policy and Legislative Framework
- ii) Entrepreneurship Culture and Human Capital Development
- iii) Business Development Support and Infrastructure
- iv) Enhancing Access to Finance and Incentives
- v) Innovation and Technology Adoption
- vi) Access to Market

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

6.1. Policy and Legislative Framework

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

The RGoB shall:

- 6.1.1 Build forum for CSIs to ensure regular, proactive, two-way public private dialogue between the CSI sector and the relevant RGoB agencies.
- 6.1.2 Revise the Rules and Regulations for the Establishment and Operation of Commercial and Industrial Ventures in Bhutan, 1995.
- 6.1.3 Adopt an integrated business licensing system - end to end automation for CSIs to ease doing business.
- 6.1.4 Establish integrated e-platform for tax filing and licensing and registration.
- 6.1.5 Adopt registration system for cottage scale industries with validity of 3 years for those activities not requiring any sector clearance and those not in the restricted category.
- 6.1.6 Develop e-commerce regulatory framework and provide necessary support to use e-commerce platforms by CSIs.
- 6.1.7 Assess the feasibility of providing protection to CSIs under the Bankruptcy Bill.
- 6.1.8 Establish consultation forum for tax administration reforms affecting CSIs to bring about ease in tax filing by the CSIs.
- 6.1.9 Encourage corporate entities to support CSI development as part of their CSR.
- 6.1.10 Prepare satellite CSI accounting to account the contribution of CSIs to the economy.

6.2 Entrepreneurship Culture and Human Capital Development

Development of a culture of entrepreneurship at all levels of the education system and all spheres of economic activity will reinforce the importance of entrepreneurship and its contribution to socio-economic development of the nation. There is also a need to develop and enhance a deep and diverse talent pool of CSIs that matches labour market demand, with an emphasis on gender equality. Thus, the RGoB shall accord due priority to the development of entrepreneurship culture and human capital to foster growth of CSIs in the country.

The RGoB shall:

- 6.2.1 Develop an advocacy program for promotion of entrepreneurship culture.
- 6.2.2 Integrate entrepreneurship learning and culture at all educational levels.
- 6.2.3 Encourage entrepreneurship competition and fairs at all educational levels.
- 6.2.4 Create platform to recognize promising and successful entrepreneurs.
- 6.2.5 Support the winning ideas of various entrepreneurship competitions.
- 6.2.6 Develop and institutionalize support professions such as mentors to guide and advise entrepreneurs.
- 6.2.7 Conduct skills needs assessment of the CSIs for TVET curriculum revision and development.
- 6.2.8 Mandate the relevant agency to review, monitor and evaluate TVET curricula to keep pace with changing market needs and standards.
- 6.2.9 Map and match CSI skills database with Bhutan Labor Market Information System, Job Portal System, Employment Registration System for coordinated demand and supply of workforce.
- 6.2.10 Promote industry collaboration and linkages between TVET institutions and CSI in implementation of TVET programmes.
- 6.2.11 Promote private sector participation in entrepreneurship curriculum review and development boards to foster greater linkage between the human resources demanded by the economic sectors and the skills supplied by the training and education institutions.
- 6.2.12 Ensure collaborative and synchronized efforts amongst agencies in providing skills development training with a focus to encourage women and youth entrepreneurship.

- 6.2.13 Promote women entrepreneurship in CSIs to maximize the economic contribution of both genders through provision of preferential business development services.
- 6.2.14 Promote entrepreneurship amongst vulnerable groups including PWDs in CSIs to improve their livelihoods through provision of preferential business development services.

6.3. Business Development Support and Infrastructure

BDS includes a wide array of business services, both strategic and operational. Operational BDS services are needed for the day to day management of an industry, while strategic BDS services are those needed for medium or longer-term growth, such as innovation and infrastructure. Thus, BDS forms one of the critical interventions for the development of the sector.

The RGoB shall:

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

6.4. Enhancing Access to Finance and Incentives

The policy of the RGoB is to ease access to finance, in particular to CSIs, through the development and adoption of a range of financing mechanisms and intermediaries. The underlying objectives are to improve access and outreach to finance as well as reduce the cost of capital over time.

The RGoB shall:

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

6.5. Innovation and Technology Adoption

In the fast-changing global business environment brought about by the Industry 4.0, the success of CSIs in Bhutan depends largely on the innovation, creativity and adoption of new technologies. To enable greater innovation and technology adoption, the RGoB shall facilitate assessment and adoption of emerging technologies through access to technology resources and support to the CSIs.

The RGoB shall:

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

6.6. Access to Market

CSIs in general face difficulties in accessing market particularly international market owing to geographical location and limited range of products that meet international standards. Therefore, the RGoB will provide requisite support in product development as well as accessing the market through various interventions.

The RGoB shall:

- 6.6.1 Facilitate industries to improve the quality of products and services through promotion of standards, facilitation of conformity assessment services including calibration.
- 6.6.2 Create awareness on standards and conformity assessment including metrological services.
- 6.6.3 Encourage public and private entities to use and promote CSIs products and services.
- 6.6.4 Promote and market Brand Bhutan.
- 6.6.5 Strategically position goods and services produced by CSIs in high value market niches using Bhutan's Seals of Excellence and Quality, the Seal of Origin, Bhutan Organic Logo and Green Labeling.
- 6.6.6 Facilitate the participation of CSIs in targeted B2B events, fairs, roadshows, and exhibitions.
- 6.6.7 Identify regional and international markets for CSI products.
- 6.6.8 Organize fairs at the domestic and international level to promote CSI products.
- 6.6.9 Establish dedicated sales outlets for CSI products.
- 6.6.10 Leverage mission, consulates, embassies in promoting and marketing of CSIs products.
- 6.6.11 Facilitate use of e-commerce platforms including e-payment systems by CSIs for greater market access.
- 6.6.12 Support launching of new CSI products in the market.
- 6.6.13 Conduct product mapping/resource inventory of business opportunities for CSIs.
- 6.6.14 Develop mechanisms to prevent products made outside Bhutan being sold as Bhutanese products within Bhutan.

7. Monitoring and Evaluation

- 7.1 DCSI, MoEA, in collaboration with lead agencies and relevant stakeholders, shall develop, implement and monitor the action plans. A periodic progress report shall be submitted to Committee of Secretaries.
- 7.2 GNHC Secretariat shall ensure that the specified activities for agencies involved are incorporated in the respective Annual Performance Agreement and secure adequate resources to implement the Policy.
- 7.3 GNHC shall also monitor the Policy according to the GNHCS Policy Monitoring Framework and carry out post adoption evaluation.
- 7.4 In the event of conflict of interpretation of any part of this policy, the DCSI, MoEA shall be the authority to interpret the provisions of the Policy which shall be final and binding.

8. The way ahead

- 8.1 CSI Policy sets out the overall policy framework for CSI development until 2030.
- 8.2 The CSI Flagship Program will be the 1st action plan (2019-2023) of the revised Policy.
- 8.3 There will be three such CSI action plans covering the overall timeline of the CSI Policy.
- 8.4 The MoEA shall review the Policy as and when required.