



## Bhutan Economic Forum for Innovative Transformation

### BEFIT 2019: Catalysing the Cottage and Small Industries Sector to Drive Bhutan's Economic Diversification

#### Concept Note

---

#### **Background: Bhutan Economic Forum for Innovative Transformation**

The establishment of the Bhutan Economic Forum for Innovative Transformation (BEFIT) was inspired by the vision of His Majesty the King to ensure that Bhutan's successful democratic transition is accompanied by valid economic transformation necessary to attain our goal of building a just and harmonious society.

BEFIT is a national platform that seeks to build partnerships with key domestic institutions and reputed international agencies to engage in meaningful dialogues, find innovative solutions, and deliver sustainable results to address contemporary economic challenges with the overarching objective of improving people's lives. Driven by its clarity of purpose BEFIT focuses on nurturing partnerships through collective ownership of processes and results and emphasizes sustained commitment to implement the necessary reforms to meet its objective.

The inaugural BEFIT conference, the *International Financial Inclusion Summit* was hosted in Thimphu in May, 2017, with the theme "Equitable Growth through Financial Inclusion". The Summit was organized by the Royal Monetary Authority of Bhutan (RMA) and the Royal Institute for Governance and Strategic Studies (RIGSS), in partnership with the International Finance Corporation (IFC). Within the overall perspective of "equitable growth through financial inclusion", the Summit focused on micro finance, SME and agri-finance and digital financial services.

Following BEFIT 2017, numerous supply-side interventions were initiated to improve access to finance and enhance financial inclusion. Recommendations from the Summit have guided RMA's initiatives for deeper digitalization of financial services and the formulation of Bhutan's National Financial Inclusion Strategy (NFIS) to guide the broader financial inclusion agenda in the coming years. Along with the NFIS, the National Financial Literacy Strategy (NFLS) was also drafted. The NFIS and NFLS are "live plans" that will be implemented over the next five years.

**More information on BEFIT is available at [www.befit.bt](http://www.befit.bt)**

## **BEFIT 2019: Catalysing the Cottage and Small Industries Sector to Drive Bhutan's Economic Diversification**

The theme for BEFIT 2019, “**Catalysing Cottage and Small Industries to Drive Bhutan's Economic Diversification**”, is timely and relevant as it aligns with the objectives of Bhutan's Twelfth Five Year Plan (2018-2023). The Royal Government has pledged to keep our economy secure by developing an inclusive, sustainable and equitable economy that contributes to Gross National Happiness. Accordingly, high importance has been accorded to promote Cottage and Small Industries<sup>1</sup> in the Twelfth Five Year Plan, as this sector engages a significant number of<sup>117</sup> people, generates employment and livelihood opportunities for many, and contributes towards maintaining our culture and identity. Strengthening and expanding this sector is also seen as being key to economic diversification and boosting economic activities in villages and local communities and enhancing income for rural areas.

The CSI sector also has the potential to address one of the most crucial economic challenges related to youth unemployment, which stands at 12.3 percent today. It is estimated that 81,686 new jobseekers with secondary and tertiary education will enter the labor market in the next five years. This challenge is likely to persist as Bhutan is a young nation with 45.8 percent of the total population estimated to be below the age of 24 years in 2017 while more than two third of the population are in the working age group. Given the lower entry barriers, the CSI sector holds the greatest potential to productively engage our youth.

Statistics show that close to fifty percent of 44,200 licensed businesses in Bhutan are currently in the CSI category. While CSIs have immense potential for expansion, further development has been constrained by lack of skills, appropriate technology, lack of finance, limited market access, and incoherent regulatory and legal environment among others.<sup>2</sup>

In view of the above, the Department of Cottage and Small Industries of the Ministry of Economic Affairs(MoEA) as well as other government and non-government agencies have partnered with the RMA and the RIGSS to design and develop BEFIT 2019 as a national undertaking. It is our collective aim that BEFIT 2019 further supports the objectives of the Royal Government to strengthen the CSI sector by reviewing the Cottage, Small and Medium Industry (CSMI) Policy 2012 and identifying new interventions and policy reforms needed to catalyse the CSI sector as an important driver of Bhutan's economic diversification plans.

---

<sup>1</sup> The Cottage and Small Industries sector refer to Bhutan's MSME sector, defined along employment (1-19 employees) and investment (up to Nu. 10 million / US\$ 143000) parameters.

<sup>2</sup> These challenges were identified in the Cottage, Small and Medium Industry (CSMI) Policy 2012 and CSMI Development Strategy (2012-2020) and also reiterated during the review of the implementation of the Priority Sector Lending initiative that was launched in January 2018.

The insights gained from BEFIT 2019 will assist in the formulation of a new CSI policy/masterplan that will articulate the medium-term interventions required to set up a vibrant and resilient ecosystem to support the development of a diverse and robust CSI sector in Bhutan.

The Royal Government has thus endorsed BEFIT 2019 as the most appropriate platform to take forward its mission of diversifying the economy, thereby “narrowing the gap”. Further, they have expressed readiness to take bold decisions in crafting and implementing policies and interventions that may not have immediate and visible impact, thus transcending short-term political considerations for the long-term good of the nation.

All partners have expressed strong commitment and ownership at the highest level while working groups have been formed and have been meeting regularly since August, 2018, to discuss issues and strategies to address some identifiable challenges. In particular, the MoEA is leading several reforms including the revision of the FDI policy<sup>3</sup>, drafting a new CSI policy/masterplan and promoting e-commerce to enable the export of CSI goods and services.

To ensure that the discussions and outcome of BEFIT 2019 are relevant and tangible, the organisers will host a National CSI Expo, selecting 50 CSI entrepreneurs to showcase their products and services at the conference venue. This event will be one of the highlights of the conference and is expected to link our local entrepreneurs with potential investors, e-commerce retailers and technology knowhow providers. In addition, entrepreneurs will also be selected to pitch their businesses for investment partnerships through the Jabchor platform<sup>4</sup>.

The organizers look forward to welcoming everyone to the beautiful mountainside campus of the Royal Thimphu College in the outskirts of Thimphu City where BEFIT 2019 will be hosted.

---

<sup>3</sup> The revision of the FDI policy is expected to open up investment in CSIs.

<sup>4</sup> Jabchor was piloted in December 2018 and is a platform based on the concept of angel investors to meet the equity financing needs of startups.

## **Thematic Areas**

BEFIT 2019 will serve as a national platform to discuss and finalise strategies and solutions, learn from international and regional best practices, and identify remaining gaps and interventions needed to remove barriers and catalyse the CSI sector. BEFIT 2019 will focus on the following thematic areas under the broad objective of “Catalysing Bhutan’s CSI Sector to Drive Bhutan’s Economic Diversification”:

### **i. Nurturing an Entrepreneurial Culture and Developing Entrepreneurial Skills**

A critical need among young Bhutanese is the creative impulse to recognise and take advantage of new ideas and opportunities. This approach will also focus on further boosting current efforts aimed at enhancing the imagination, skills, and capacity of CSI entrepreneurs.

### **ii. Furthering Innovation and Technology**

An important area of focus under this thematic area is the promotion of innovative business practices, using ICT in the business process, and shifting the focus of business from low-value products to value-addition and high-end niche products especially in agri-business, along with skills and knowledge transfers through FDI and other technology link-ups.

### **iii. Enhancing Market Access**

This thematic area will focus on identifying markets, standardization and certification, leveraging “Brand Bhutan”, promotion of clusters and aggregators, e-commerce and logistics and market access through FDI and e-commerce.

### **iv. Improving Access to Finance and Mitigating Risks**

This area will look at both traditional bank financing as well as alternate financing platforms leveraging fintech such as angel investors, venture capital, crowdfunding, P2P as well as risk management through credit guarantees, alternate credit scoring and debt resolution etc.

Cutting across all the above themes is a focus on improving the underlying **regulatory environment** through smart policies and **leveraging technology** for efficient solutions.

## **Key Challenges and Focus Areas for BEFIT 2019<sup>5</sup>**

### **i. Nurturing an Entrepreneurial Culture and Developing Entrepreneurial Skills**

There has been increasing interventions from the Government in recent years to promote self-employment and entrepreneurship through entrepreneurship courses and trainings, startup weekends, acceleration programs and so on. The establishment of the Startup Center in Thimphu has been crucial in providing affordable space as well as trainings for entrepreneurs. While the public sector still seems to be the preferred choice of employment, anecdotal evidence indicates a gradual shift, albeit in small volumes still, towards self-employment and entrepreneurship, especially among the young urban populace.

Interventions and programs are however, concentrated in the capital city and in urban centers and sometimes availed by the same pool of beneficiaries. End-to-end support programs have to be developed that are linked to the entrepreneurship courses currently being offered, while trainings and acceleration programs need to be better linked to financing. Students need to be exposed early on to creative thinking, problem solving and entrepreneurial skills, with concomitant capacity building for teachers as well. There is also a need for better coordination among the many current initiatives being implemented by various agencies to better synergise limited resources and impact.

An understanding of Bhutan's entrepreneurial culture, particularly the absence of a natural entrepreneurial culture, is critical so that an entrepreneurial spirit can be nurtured, especially among the youth. In addition to the value and behavioral aspects of entrepreneurial culture, it is also important to review the institutional setups that aid or hinder entrepreneurship, especially from an ease of doing business perspective.

### **ii. Furthering Innovation and Technology**

Bhutan's economic growth has been driven largely by the hydropower sector while agriculture remains the largest economic sector, with more than 60 percent of the population deriving their livelihood from the sector. However, agriculture and livestock contribute only 15 percent to GDP and food self-sufficiency is still a challenge with fragmented landholdings, lack of skilled manpower, access to markets, access to finance and subsistence farming practices often cited as the key constraints.

---

<sup>5</sup> For more detailed insights into some of the challenges and issues around CSIs, please see the Winter 2018 edition of The Druk Journal which is based on the theme for BEFIT 2019 and contains new perspectives on CSI businesses and the enterprise ecosystem in Bhutan.

The cliché, today, is that, with the rapid evolution of technology, imagination is the only limit in terms of entrepreneurial opportunities. There is an exciting potential, with Bhutan's environmental policies and brand image, especially in the organic and niche food market to transform agriculture into a more enterprising and commercially-oriented CSI business that can also engage youth in meaningful and lucrative employment. The launch of the priority sector lending initiative in 2018 has eased access to credit for farming, removing the requirement for collateral and guarantors, relying instead on insurance to de-risk lending to the sector. Out of the 316 projects that received loans from the financial institutions, over 70 percent were for farming (crops and livestock).

Focusing on value-added agro-products while strengthening the production base itself will require several interventions such as the adoption of technology and innovative farming practices to address efficiency and quality issues, the establishment of clusters and aggregators/processors to address scale and access to market issues. Partnerships with foreign investors will also be crucial for skills and knowledge transfers and other technology link-ups.

Finally, there is a critical need to examine what the challenges and potential are for harnessing ICT and joining the so called fourth industrial revolution in both agricultural and non-agricultural CSIs. An assessment of our education system and capacities in the Science, Technology, Engineering and Mathematics (STEM) subjects will be important to guide the strategy and vision for Bhutan in this space.

### **iii. Enhancing Market Access**

Given Bhutan's small domestic market, access to external markets is crucial for the long-term sustainability of the CSI sector. Securing better market access through bilateral, regional, and global trading arrangements will be of paramount importance. Challenges facing CSIs in leveraging international markets include low economies of scale, poor logistics and infrastructure, lack of market information and business link-ups, high transportation costs, poor banking technology and culture, and lack of adequate product certification and standardization facilities.

The sanitary and phytosanitary (SPS) requirements for agriculture and food related products, which are the potential export products of many Bhutanese CSIs, are more stringent and demanding, especially in developed markets. In terms of direction of trade, export market for Bhutanese products is highly concentrated, with India being the largest market constituting as high as 80 percent of the total value of exports.

Strategies to access international markets have to be addressed from both demand and supply perspectives. On the demand side, the establishment of infrastructure and capacities within Bhutan as well as international link ups to partner with potential buyers

and meeting their quality and certification requirements will be a key thrust area. On the supply side, facilitating and enabling CSIs to produce goods and services for export and providing logistical support will be important in ensuring quality and scale. In particular, aggregators will have a crucial role to play in facilitating assured supply and meeting costly certification requirements, while e-commerce provides one of the best means for CSIs to sell their products abroad.

The Royal Monetary Authority of Bhutan will facilitate the provision of an efficient international payment gateway and a national e-commerce portal while the MoEA is spearheading the formulation of the e-commerce guidelines.

#### **iv. Improving Access to Finance and Mitigating Risks**

One of the major constraints faced by CSIs is access to finance, including collateral requirement, cumbersome loan procedures and security valuation. While some improvements have been made through initiatives such as the Priority Sector Lending program, there is a need for product diversification by the banks (such as supply chain financing) as well as alternative financing options (for both debt and equity and other blended products). Banks currently offer only term loans and working capital to CSIs while there is a critical gap in the availability of equity financing and risk capital. In particular, financing mechanisms that address the need of CSIs at different stages (seed, early and start-up stages and growth capital) have to be introduced. Leveraging fintech to provide innovative financing for CSIs hold great potential but have not yet been fully tapped.

The Royal Monetary Authority of Bhutan, in partnership with the Royal Securities Exchange of Bhutan Limited, Company Registry Division under MOEA, Thimphu Techpark Ltd and the Bhutan Chamber of Commerce and Industry jointly initiated the Jabchor platform based on the concept of angel investors to meet the early-stage financing needs of startups. A domestic crowdfunding platform is also in the pipeline.

FDI and impact investment offer a viable alternative for CSIs that can provide not only the required capital and but other value additions as well. According to the FDI Policy 2010 (amended in July 2014), FDI is allowed in the manufacturing and service sectors while the minimum project cost has been set at Nu. 20 million. Some exceptions to the minimum project cost are available for selected activities in the Priority List. In general, however, CSIs are not eligible for FDI. The MoEA is working on revising the Policy. Allowing investment in the CSI sector is one among many factors pushing the need to review the Policy.

On the risk front, priority focus areas include mechanisms to de-risk lending to the CSIs (through alternate credit scoring models, credit guarantees, insurance and so on). On the

other side of the coin, concerns and measures to mitigate financial stability risks also need to be further explored.

### **BEFIT 2019: Structure and Partners**

Theme:	Catalysing Bhutan’s Cottage and Small Industries sector to Drive Bhutan’s Economic Diversification
Thematic Areas:	
Date and Venue:	16-18 July 2019 Royal Thimphu College, Thimphu
Conference Organizer:	Ministry of Economic Affairs, Royal Monetary Authority of Bhutan, and Royal Institute for Governance and Strategic Studies
Conference Partners – Domestic:	<ol style="list-style-type: none"> <li>1. Bhutan Chamber of Commerce and Industries (BCCI)</li> <li>2. Bhutan Standards Bureau</li> <li>3. Druk Holding and Investments (DHI)</li> <li>4. Loden Foundation</li> <li>5. Ministry of Agriculture and Forests, Bhutan Agriculture &amp; Food Regulatory Authority (BAFRA) and SOEs under the MOAF</li> <li>6. Ministry of Labour and Human Resources (MOLHR)</li> <li>7. One Gewog One Product Initiative (OGOP), Queen’s Project</li> <li>8. Royal Securities Exchange of Bhutan Limited (RSEBL)</li> <li>9. The Druk Journal (Bhutan Centre for Media &amp; Democracy)</li> <li>10. Thimphu TechPark Limited</li> </ol>
Conference Partners – International:	<ol style="list-style-type: none"> <li>1. International Finance Corporation (IFC)</li> <li>2. ICIMOD</li> <li>3. International Monetary Fund</li> <li>4. International Trade Center</li> </ol>

	<ul style="list-style-type: none"><li>5. UN Organisations (UNDP Bhutan, UNIDO, UNCDF and UNESCAP)</li><li>6. JICA – Japan International Cooperation Agency (JICA) Bhutan</li></ul>
--	--

<p>Target Audience:</p>	<ol style="list-style-type: none"> <li>1. Entrepreneurs and corporate Bhutan</li> <li>2. Financial sector representatives</li> <li>3. Parliamentarians</li> <li>4. Policy makers and regulators (Royal Government of Bhutan)</li> <li>5. Investors, technology knowhow providers and retailers &amp; e-commerce businesses (domestic and international)</li> </ol>
<p>Agenda Structure:</p>	<p><b>Day One: JULY 16, 2019</b></p> <ul style="list-style-type: none"> <li>● Opening Ceremony</li> <li>● Welcome Address</li> <li>● Inaugural Address</li> <li>● Keynote</li> <li>● Announcement of Reform Agenda (revised FDI Policy, CSI policy/masterplan, E-commerce)</li> <li>● National CSI Expo (marketing event for partnership between CSIs and investors, buyers/market and technology partners)</li> <li>● Launch of CSI Bank &amp; E-commerce portal</li> <li>● Panel Discussions: <ul style="list-style-type: none"> <li>(i) Implementing the Reforms – Translating Rhetoric into Reality</li> <li>(ii) Renewed Role for the Private Sector – Leadership &amp; Partnerships</li> </ul> </li> </ul> <p><b>Day Two: July 17, 2019</b></p> <ul style="list-style-type: none"> <li>● National CSI Expo continues</li> <li>● Jabchor Business Pitching session</li> <li>● RIGSS event (Distinguished speaker series)</li> <li>● Panel Discussions: <ul style="list-style-type: none"> <li>(i) Taking Brand Bhutan to Market</li> <li>(ii) Financing CSIs</li> </ul> </li> </ul> <p><b>Day Three: July 18, 2019</b></p> <ul style="list-style-type: none"> <li>● National CSI Expo continues</li> <li>● Panel Discussion: <ul style="list-style-type: none"> <li>(i) Entrepreneurial Culture – Entrepreneur Stories</li> </ul> </li> <li>● Reflections and Way Forward</li> <li>● Closing</li> </ul>

\*\*\*\*\*