Promoting Entrepreneurship in Bhutan
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This case study was developed solely as a basis for class discussion. It is not intended to serve as a historical record, a source of primary data, or an illustration of effective or ineffective management. All names and official positions have been changed to maintain anonymity.

Introduction

“Bhutan is very different from other countries. In our country, there are too many procedures to start a business, and no matter how brilliant a person’s business idea is, he can’t get a loan because collateral and a guarantor is required,” said Pema Tenzin, the owner of a fish farm. From starting a business to keeping it going, the life of an entrepreneur in Bhutan has been a constant struggle. However, around 2019, some important changes affecting entrepreneurs occurred.

Bhutan is a landlocked country with a population of over 700,000 and a growing economy. Between 2000 and 2020, Bhutan’s gross domestic product (GDP) increased from $424 million to $2.32 billion (The World Bank n.d.). However, because Bhutan’s economic development relied heavily on hydropower and tourism (Razzaque 2020), climate change and the decline in tourist numbers due to the COVID-19 pandemic made the country’s economy highly vulnerable. The World Bank described how lower electricity production “could result in 3–4 percentage points decrease in GDP” and “forgone
government revenue by around 0.5–1 percent of GDP” (Razzaque 2020, 35). Between 2019 and 2020, COVID-19’s travel restrictions caused a drop in revenue for Bhutan’s tourism industry from $225 million to $19 million (Rinzin 2021). While the youth unemployment (ages 15 to 24) increased from 11.9% in 2019 to 22.6% in 2020 (National Statistics Bureau 2020a), it was already a problem in Bhutan before the pandemic. To diversify its economy, increase resilience, and create jobs for unemployed youth, Bhutan took steps to promote entrepreneurial activities in 2019.

In terms of entrepreneurial activities, Bhutan focused on developing its cottage and small industries (CSIs), as they comprise over 95% of the country’s firms (Ministry of Economic Affairs 2019). In Bhutan, businesses are categorized according to their investment and number of employees. Cottage industries are defined as those with investments of less than Nu1 million (≈$13,000) and up to 4 employees, while small industries are those with investments of Nu1 million to Nu10 million (≈$13,000–$130,000) and 5 to 19 employees. As of 20 May 2019, there were 21,734 CSIs in Bhutan, and the number continued to increase annually (Ministry of Economic Affairs 2019).

Challenges

Many obstacles hinder the promotion of entrepreneurship in Bhutan. In 2020, the World Bank ranked Bhutan 89th out of 190 countries in terms of the ease of doing business (World Bank Group 2019). Challenges cited by entrepreneurs in this study include complex administrative procedures, difficult access to finance, and inadequate business culture. Bhutanese entrepreneurs in the renewable natural resources sector were interviewed to shed light on the challenges they experienced in starting their businesses. The results of these interviews cannot be generalized and only apply to entrepreneurs in the Samtse District and the Chhukha District of Bhutan. To protect the identity of the interviewees, the names of the entrepreneurs have been changed.

Complex Administrative Procedures

To start a business in Bhutan, entrepreneurs have to obtain numerous permits. The permits are official letters signed by government agencies to authorize business activities and are necessary to mitigate environmental and social risks. Figure 1 explains the process that Samten Loday, an entrepreneur who started a pig farm, went through.

When Loday first tried to obtain community clearance, he was rejected by community members on religious grounds. Since Bhutan is a Buddhist country, eating meat is a controversial issue, and slaughtering animals is frowned upon. Loday then approached an economic development officer (EDO) to find a new location for his farm. The EDO found a landowner who leased him private land outside the community, and he received community clearance. To build an access road on the privately leased land, which would pass through state land, and get electricity for his farm,

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1 The EDO is a government official from the Ministry of Economic Affairs who helps and advises entrepreneurs on permits. The EDO position was introduced in 2019 and as of January 2020, there were 17 EDOs in 17 of the 20 districts in Bhutan. The government’s goal is to have one EDO in all 20 districts.
he had to obtain permits for road, forest, environment, and power. Since the issuance of each permit required a visit from an official of the relevant agency, a joint visit was usually held to issue or approve all permits at once. However, because Loday was unable to schedule a meeting with the officials, it took over a month for him to receive the permits. Shortly after he started building his farm, he had to stop construction because he did not have a building or construction permit. Although he built his pig farm a few months later, the difficulties he experienced were common for entrepreneurs in Bhutan.

Like Loday, Tenzin struggled to obtain a community clearance because of religious concerns about fishing. After his community clearance was denied in four districts, he relied on an EDO to find a new location on government land. Because a permit from the National Land Commission was required to use the land, Tenzin had to wait over 4 months. At the new location, Tenzin’s community clearance was accepted within 4 days because the EDO had previously implemented a successful tourism project in the area, and community members trusted his views on the proposed fish farm.
Sonam Penjor, owner of a mushroom farm,² also had to go through many procedures to start his business and argued that clearance requirements should be relaxed in the early stages. “In the beginning, it is very difficult for an entrepreneur to know if his business will be profitable for at least three years, so I think some clearances can be issued only after entrepreneurs have started their business,” he said. He feared that such a bureaucratic system discouraged many entrepreneurs who did not have the patience to obtain permits. Lhakpa Samdrup, owner of a turmeric business, also waited around 20 days to get a location permit and felt that permits were only necessary after 1 to 2 years.

Lhaki Pem, owner of a mushroom business, expressed concern about the impact of lengthy procedures on young entrepreneurs. “Young, aspiring entrepreneurs often do not have capital or a direct source of income, so regulatory barriers only add to their already demotivated spirits,” she said. Rather than motivating young people to become entrepreneurs, she believed current policies discouraged them. She added, “The system does not allow for bold, risk-taking entrepreneurs, and I believe that’s why the young people are opting for secure government jobs.”

**Government Officials’ Perceived Lack of Knowledge**

Among other challenges, some interviewees noted that officials’ lack of understanding about the clearances caused delays in starting a business. When Tenzin went to obtain his permits, he found that officials could not agree on what permits were required. “When I went to the Livestock Department, the officer in charge told me that although I had already obtained a forest clearance, I also needed to obtain a ‘forestry clearance.’ I was confused and went to see their director, who told me that ‘forest’ and ‘forestry’ permits are exactly the same thing,” he said. Tika Gurung, an independent broker who processed licenses for a fee, also argued that officials’ lack of knowledge caused many business ideas to disappear. “If an official does not know how to process an entrepreneur’s request, he tells them to go to a different government department,” he said. After being redirected several times, he said that many entrepreneurs gave up their business ideas.

According to Sangay Thinley, EDO from the Ministry of Economic Affairs (MoEA), one of the reasons why government officials are unable to guide entrepreneurs on the correct administrative procedures is due to their lack of knowledge and experience. “There is no single expert official who knows how entrepreneurs can obtain the different permits. The officials and the focal persons who issue the permits keep changing due to transfers and retirements. So when entrepreneurs meet with the new, inexperienced officials dealing with the permits, the problem arises when they do not have adequate knowledge about the permits.”

The Bhutan Civil Service Rules and Regulations of 2018 noted that transfers are an important aspect of civil service work. The government believed that civil servants should work in different offices and agencies to understand the challenges faced by citizens across the country (Royal Civil Service Commission 2018). Transfers could also prevent corruption and favoritism, which occurred when an official worked in one position and one place for a long time (Royal Civil Service Commission 2018).

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² Penjor grows the mushrooms and sells them to earn a living.
Promoting Entrepreneurship in Bhutan

2018). After a civil servant spent 5 years in one position, he or she could be transferred to any available position in the government (Royal Civil Service Commission 2018). Thinley believed that this transfer system prevented civil servants from becoming experts in a particular field.

Lack of Entrepreneurial Culture

Negative societal perceptions of entrepreneurs prevented many young people from becoming entrepreneurs in Bhutan. “We need to change how Bhutanese view entrepreneurs, because most young people only want to become civil servants,” Penjor said. Reports from the National Statistics Bureau indicated that the majority of youth sought government jobs as a first choice, followed by jobs in the private sector (National Statistics Bureau 2020a, 2021). Educational attainment typically increased one’s employment opportunities, but in Bhutan the opposite was true. A 2020 report by the National Statistics Bureau of Bhutan indicated that “a youth with primary education is 73% less likely to be unemployed than a youth with a higher secondary education” (National Statistics Bureau 2020b, 16). In the past, the limited number of college graduates made it somewhat easier to become a civil servant (Schofield 2016). But as more students graduated from higher education, from 2019, only about 20% of graduates were able to become civil servants (National Statistics Bureau 2020b). When asked why so many young graduates wanted to become civil servants, EDO Jigme Lhendup said, “I think it’s because the income of civil servants is stable, and citizens see a government job as a kind of social status.” As students passed difficult exams to become civil servants, a government job in Bhutan was a sign of a person’s intelligence and educational achievement (Ueda 2013). Those who failed to become civil servants then chose the second-best option of working in the private sector, but that was also a small market (Schofield 2016). Unable to work in either the public or private sector, and unwilling to do menial jobs, these youth became unemployed.

Difficulty Accessing Finance

If an entrepreneur in Bhutan wanted to take out a loan, he or she needs a guarantor and collateral in the form of valuable land, assets, or a house. As a result, many entrepreneurs could not meet the loan requirements. “Most entrepreneurs from wealthy families easily get financial support from their family members. For people like me, whose parents come from farming backgrounds, it is very difficult to convince financial institutions,” he said. As a result, Tenzin had to rely entirely on his own savings to start his business. He had savings of about Nu700,000 (≈$9,000), but spent Nu400,000 (≈$5,000) on government procedures for starting a business, leaving only Nu300,000 (≈$4,000). Like Tenzin, Penjor was largely self-sufficient. Penjor started his business in 2012, but had never used financial services. According to him, some NGOs and banks offered loans, but since few provided grants, they were unattractive to many entrepreneurs. Since the interest rate in Bhutan is high, he felt that it was also risky to borrow money if it could not be repaid.

3 In the event the entrepreneur cannot repay the loan, the guarantor will cover the cost for him or her.
Response

In 2012, Bhutan established the Cottage and Small Industry (CSI) Policy to improve the regulatory environment for CSIs and introduced an Amended version in 2019. The CSI Policy 2019 covers issues related to Bhutan’s legislative framework, entrepreneurial culture, business infrastructure, financial services, technology, and market (Ministry of Economic Affairs 2019). The CSI Action Plan 2019–2023 was also introduced to implement the CSI Policy 2019. The MoEA was the main actor in implementing the CSI Policy, while the Department of Cottage and Small Industry of the MoEA managed the overall activities. Figure 2 explains several points of the CSI Action Plan 2019–2023.

On 13 May 2021, Bhutan launched its government-to-business (G2B) portal, an online portal that allowed entrepreneurs to register their businesses online for free (UNCTAD 2021). The G2B portal was an enhanced version of the government-to-citizen (G2C) portal. “Our approach is to innovate first, regulate later, so as to lower the barriers to entry for new businesses, embrace innovation, and allow creativity to flourish,” said Bhutan’s Minister for Economic Affairs (UNCTAD 2021). However, Thinley criticized the G2B portal for not really addressing the needs of entrepreneurs. “The government’s one-window service is too focused on reducing the number of documents

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**Figure 2: CSI Action Plan 2019–2023**

1. **Policy and Legislative Framework**
   - Create an online platform for filing taxes, licensing, and registration.
   - Create an e-commerce framework and an integrated business licensing system.

2. **Entrepreneurship Culture and Human Capital Development**
   - Create entrepreneurship programs and competition to raise awareness.
   - Create mentorship programs to train entrepreneurs.

3. **Business Development Support and Infrastructure**
   - Create incubation centers to help establish more CSIs.
   - Make CSI products more competitive and link producers to the market.

4. **Access to Finance and Incentives**
   - Make lending to CSIs less risky through alternative credit scoring methods.
   - Encourage CSI banks and financial institutions to provide loans to CSIs at affordable rates.

5. **Innovation and Technology Adoption**
   - Create a database with the technologies for CSIs.
   - Create capacity building programs and advisory services for intellectual property rights.

6. **Access to Market**
   - Promote CSI products with the support of the public and private sectors.
   - Hold expositions to find new markets for CSI products.

CSI = cottage and small industry.

Source: Ministry of Economic Affairs (n.d.).
required to register a business and obtain a license. Entrepreneurs must still obtain clearances from government departments, and licenses provide businesses with a legal status, but they don’t allow them to start operating on the ground level,” he said.

From the perspective of a licensing service provider, the G2B portal was also inadequate. Gurung argued that the portal did little to help entrepreneurs start a business. “The new system is very complicated for both literate and illiterate people because people here don’t have enough knowledge about the required documents and how to enter data. Many don’t want to process their license online because of these challenges,” he said. “Although the website displays the documents required to apply for that particular license, applicants don’t know what those documents are and where they can get them.” And even when business owners apply for a license through the G2B portal, many are unaware that they must also register their income taxes and obtain a tax clearance from Customs. Since all of these procedures could be handled by a licensing service provider like Gurung, entrepreneurs still relied on him despite the availability of the G2B portal.

The government has also implemented policies to improve entrepreneurs’ access to finance. According to the CSI Action Plan 2019–2023, the government encouraged banks and financial institutions to allocate some of their loans to CSIs by granting tax exemptions on their interest income if they financed CSIs (Ministry of Economic Affairs n.d.). To further reduce financial hurdles, the government established the CSI Bank in February 2020 and introduced the National Credit Guarantee Scheme (NCGS) in October 2020. While the terms of the NCGS were more generous, Gurung said that taking out a loan at the CSI Bank was more common because applicants only had to submit documents at their district’s community center. In contrast, to apply for a loan through the NCGS, applicants had to travel to one of the country’s three banks. Figure 3 and Figure 4 provide an overview of the CSI Bank and the NCGS, respectively.

**Figure 3: CSI Bank**

- Established in February 2020, the CSI Bank is a state-owned enterprise that finances CSI entrepreneurs.
- To apply for a loan, entrepreneurs submit the required documents at their district’s community center.

<table>
<thead>
<tr>
<th>Micro Loan</th>
<th>Cottage Industry Loan</th>
<th>Small Industry Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate: 5%</td>
<td>Interest rate: 8%</td>
<td>Interest rate: 8%</td>
</tr>
<tr>
<td>Project cost: Nu500,000</td>
<td>Project cost: &gt; Nu0.5 million–Nu5 million</td>
<td>Project cost: &gt; Nu0.5 million–Nu10 million</td>
</tr>
<tr>
<td>Loan Tenure: 5 years maximum</td>
<td>Loan Tenure: 10 years maximum</td>
<td>Loan Tenure: 10 years maximum</td>
</tr>
<tr>
<td>100% debt financing</td>
<td>Debt to equity ratio: 75:25</td>
<td>Debt to equity ratio: 75:25</td>
</tr>
<tr>
<td>Guarantor required</td>
<td>Assets and Guarantor required</td>
<td>Assets and Guarantor required</td>
</tr>
</tbody>
</table>

CSI = cottage and small industry.
Although Lhakpa Samdrup successfully borrowed from CSI Bank, there were some challenges. He found a guarantor and applied for a cottage loan of Nu1.5 million (≈$19,000) from CSI Bank. He received the first portion in October 2021, but in January 2022, he was still waiting for the remaining Nu1.15 million (≈$15,000) from the second phase. “It’s really tough. We apply for a loan because we don’t have the funds. They [the banks] know we don’t have enough money to start a business, but they still didn’t release the financial support in time.” The grace period was only 7 months and began after the first phase of payment was made. So even though Samdrup did not receive the full loan amount, he had to start making monthly repayments in 2 months. Similarly, Ganga Rai, who owned an areca nut business, applied for about Nu30 million (≈$380,000) from NCGS but received only Nu250,000 (≈$3,000). Since the banks had their own calculation system, the costs they calculated for a project were always lower than those proposed by the entrepreneurs.

The Government of Bhutan has also taken measures to improve the entrepreneurial culture in Bhutan. The government announced that starting in the 2021 academic year, a course on business and entrepreneurship will be included in the national curriculum for grade 11 students in commerce (Royal Education Council 2021). The curriculum aims to provide students with a business foundation to become entrepreneurs (Royal Education Council 2021). According to the official textbook, students learned about topics, such as business models, creating proposals, and the financial market (Royal Education Council 2020). Gurung, however, argued that the practical aspects of starting a business were missing from the curriculum, as there was no mention of permits, required documents, and agencies to contact.

Reflections and Policy Options

Based on the views of stakeholders and government officials, there were several policy options for the Government of Bhutan. Many of the entrepreneurs interviewed emphasized the importance of EDOs for starting their businesses and accessing finance. However, they are not mentioned in
the 2019 CSI Policy. When asked why this is, Thinley said, “The EDO is still a new position in the government, having been introduced only three years ago. The government plans to have one EDO in each district, and currently there are 17 in 17 of the 20 districts.” To support the entrepreneurs, Thinley said the government should invest in capacity-building programs for EDOs and youth so they understand the roles of each government agency and the procedures for starting a business. “Since the EDO is a new position, we still have a lot to learn. We still don’t understand all the regulations, the clearances, and the roles of all the government agencies,” he said.

To simplify administrative procedures and speed up the approval process, Tenzin suggested that permits should be issued at the district level and not forwarded to ministries or agencies. “After all, ministries and agencies only rely on the reports submitted by districts for final approval,” he said. Thinley, however, rejected the feasibility of the idea. He said the technical experts who assessed the clearances are not available at the district level. As a result, district-level officials could not assess the technical, environmental, and social risks of a business project to the extent that ministry officials could, and many serious risks would be overlooked.

As for financial measures, a number of solutions were proposed by the respondents. In the case of his loan, Samdrup recommended that banks extend the grace period from the current 7 months to 18 months. He argued that the grace period should begin after the second phase, when the entire loan has been disbursed to the applicant. Thinley and Lhendup also commented on what the government could do to provide financial support to entrepreneurs. “The loans must be provided to entrepreneurs as soon as possible and in full. If they receive less than the proposed amount, it will be difficult for entrepreneurs to carry out their project with the projected financial estimates,” Thinley said. To help entrepreneurs access funding, Lhendup argued that EDOs should play a bigger role. “I think EDOs should collaborate more with civil society organizations and refer potential entrepreneurs with business potential to financial institutions, so they can get funding,” he said.

The government set out to achieve the CSI Policy 2019 goals by 2030, but much remains to be done. The G2B portal was an important development because it allowed entrepreneurs to self-register their businesses. However, because entrepreneurs still had to go through many administrative procedures, some felt it did little to create more CSIs. The government met the financial challenges with the NCGS, but there were concerns that the limited number of banks offering the service would affect the popularity of the system. The CSI Bank provided an alternative, but it was difficult for many entrepreneurs to find a guarantor and meet collateral requirements. To change young people’s attitudes toward entrepreneurship, the government introduced the business and entrepreneurship course for students, but it was too early to assess its impact. It was clear that the government was seriously addressing the issues facing entrepreneurs. Only time would tell if the measures would help grow the CSIs and promote an entrepreneurial culture in Bhutan.

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6 As of January 2022, there were 17 EDOs in 17 of the 20 districts. However, some EDOs have resigned, so there are now 13 EDOs in 13 of the 20 districts.
References


Promoting Entrepreneurship in Bhutan


Study Questions

1. The entrepreneurs explained that starting a business in Bhutan is difficult because of the lengthy administrative procedures. What can be done to simplify these procedures and make it easier for entrepreneurs to start a business? How can the G2B portal be improved to help entrepreneurs?

2. Apart from the administrative hurdles, raising funds was a major challenge according to the entrepreneurs. Even when entrepreneurs have a guarantor and collateral, many do not receive the amount requested and in a timely manner. Considering that Bhutan is a country with a small economy, what can the government do to help entrepreneurs access finance?

3. In Bhutan, most graduates seek employment in the public sector, and those who do not succeed must seek jobs in the already limited private sector. Given the high youth unemployment rate in Bhutan and the potential of entrepreneurial activities, what can the government do to encourage more young people in Bhutan to become entrepreneurs?

Note: In this publication, “$” refers to United States dollars.