



**TOGETHER**  
*for a sustainable future*

## OCCASION

This publication has been made available to the public on the occasion of the 50<sup>th</sup> anniversary of the United Nations Industrial Development Organisation.



**TOGETHER**  
*for a sustainable future*

## DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as “developed”, “industrialized” and “developing” are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

## FAIR USE POLICY

Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

## CONTACT

Please contact [publications@unido.org](mailto:publications@unido.org) for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at [www.unido.org](http://www.unido.org)

RESTRICTED

19426

DP/ID/SER.A/1549  
29 January 1992  
ORIGINAL: ENGLISH

x. 64p  
-  
-  
-  
-

INTEGRATED ENTREPRENEURSHIP DEVELOPMENT PROGRAMME

DP/BHU/88/001

BHUTAN

Technical report: Strengthening of cottage, small  
and medium industry institutions\*

Prepared for the Government of the Kingdom of Bhutan  
by the United Nations Industrial Development Organization,  
acting as executing agency for the United Nations Development Programme

Based on the work of Leon Chico, expert on cottage,  
small and medium scale industries

Backstopping officer: Richard Kennedy,  
Institutional Infrastructure Branch

United Nations Industrial Development Organization  
Vienna

---

\* The designations employed and the presentation of material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. Mention of company names and commercial products does not imply endorsement of the United Nations Industrial Development Organization (UNIDO). This document has not been edited.

## ABSTRACT

The project was conducted from 1 October to 31 December 1991 for the purpose of strengthening government and non-governmental institutions in Bhutan involved in the promotion of cottage, small and medium industries (CSMI) to provide improved support in the creation and development of the CSMI sector. The mission was accomplished through the conduct of an eight-week classroom training in Thimphu for selected staff of the concerned agencies; field applications; establishment of effective coordination relationships between agencies; and providing recommendations for further institution building.

The report concludes that the prospects for the promotion of cottage, small and medium industries during the 7th Development Plan period of Bhutan (1992-97) is bright. But the constraints identified in starting and operating a business in the country have to be addressed and the institutions providing support to CSMI need to be further strengthened. A strategic plan for two of the main agencies involved, the Business Opportunities and Information Centre (BOIC) of the Ministry of Industry and the Bhutan Chamber of Commerce and Industry (BCCI), are presented in the report.

Specific programmes and measures are given to address the main constraints in the development of CSMI, some of which may be implemented through technical assistance from donor agencies. [ ]

## CONTENTS

	Page
Explanatory Notes	iv
Basic Economic Indicators	v
Map of Bhutan	vi
Executive Summary	vii
INTRODUCTION	1
I. MAJOR INSTITUTIONS FOR CSMI PROMOTION AND DEVELOPMENT; THEIR STRENGTHS AND WEAKNESSES	4
A. Ministry of Trade and Industry	4
B. Bhutan Chamber of Commerce and Industry	5
C. National Women's Association of Bhutan	6
D. Bhutan Development Finance Corporation	7
E. Bank of Bhutan	8
F. Other Institutions	8
II. INDUSTRIAL EXTENSION TRAINING COURSE	10
III. NEED AND CONSTRAINTS OF COTTAGE, SMALL AND MEDIUM INDUSTRIES	12
A. Macro Constraints in Industrial Development	12
B. Major Micro Constraints and Needs in Starting and Operating a Business	14
IV. THE "MISSING INGREDIENTS" APPROACH TO CSMI PROMOTION AND DEVELOPMENT	17
A. Strategic Plan: Business Opportunities and Information Centre	20
B. Strategic Plan: Bhutan Chamber of Commerce and Industry	38
V. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS	49

## ANNEXES

Annex I	Job Description	52
Annex II	Partial List of Organizations and Individuals Contacted	54
Annex III	Industrial Extension Course Outline	57
Annex IIIa	List of Participants	61
Annex IIIb	Course Assignment	62

## REFERENCES

### LIST OF EXHIBITS

Exhibit 1	The Role of CSMI Related Agencies in CSMI Development in Bhutan	19
Exhibit 2	Proposed Organization Chart Business Opportunities and Information Centre	20
Exhibit 3	Existing Organization Chart Bhutan Chamber of Commerce and Industry	41
Exhibit 4	Proposed Organization Chart Bhutan Chamber of Commerce and Industry	42

[ ]

## EXPLANATORY NOTES

Dates divided by a hyphen (1991-92) indicates the beginning and ending of fiscal years, from July to June.

References to dollars (\$) are to the United States dollars, unless otherwise stated.

The local currency is the ngultrum (Nu.) and is kept at par with the Indian rupee (Rp.). The exchange rate as at 10 December 1991 was:

US\$ 1.00 = Nu. 25.70

## ABBREVIATIONS

The following abbreviations are used in this document:

ADB	Asian Development Bank
APCTT	Asia Pacific Centre for Technology Transfer
BCCI	Bhutan Chamber of Commerce and Industry
BDFC	Bhutan Development Finance Corporation
BOB	Bank of Bhutan
BOIC	Business Opportunities and Information Centre
CGF	Credit Guarantee Fund
CSMI	Cottage, Small and Medium Industries
DANIDA	Danish International Development Agency
DTI	Department of Trade and Industry
IDRC	International Development Research Centre
MTI	Ministry of Trade and Industry
NWAB	National Women's Association of Bhutan
RICB	Royal Insurance Corporation of Bhutan
RMA	Royal Monetary Authority
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UN ESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNIDO	United Nations Industrial Development Organization
UP ISSI	University of the Philippines Institute for Small-Scale Industries

[ ]

## BASIC ECONOMIC INDICATORS

---

GDP per capita (1990)	:	\$425
Population (1990)	:	600,000
Density of population (1990)	:	13 persons per square km.
Growth of GDP (percent)	:	9.0
Exports (12 months)	:	\$70 million
Foreign debt	:	\$70 million
Inflation CPI (percent)	:	8.8

---

[ ]





## **EXECUTIVE SUMMARY**

During the first year of implementing the UNIDO-assisted Bhutan Integrated Entrepreneurship Development Programme, from July 1990 to June 1991, it was determined that a large potential for cottage, small and medium industries (CSMI) sectoral development exists, but an overall deficiency in the country in the capacity to provide a consistent and integrated approach in the provision of services between and among agencies. Several constraints in starting a business have surfaced which need to be addressed. Some of these constraints could be resolved within the current institutional framework and programmes. Others would require institutional adjustments and new programmes to minimize constraints in the promotion and development of entrepreneurship.

### **Major Institutions for CSMI Promotion and Development**

The institutions necessary for an effective CSMI promotion and development programme already exist in Bhutan. Most of the institutions are, however, relatively new and do not have sufficient experience in assisting industrial enterprises. They also lack well-trained staff in the numbers that may be required for a national programme.

The major institutions involved are: Business Opportunities and Information Centre (BOIC) of the Ministry of Trade and Industry, which has been designated as the focal point for CSMI promotion; Bhutan Chamber of Commerce and Industry (BCCI), which is the main private sector business organization; National Women's Association of Bhutan (NWAB), which has been initiating income-generating projects that benefit rural women; Bhutan Development Finance Corporation (BDFC), Bank of Bhutan (BOB), and Royal Insurance Corporation of Bhutan (RICB), which are the only financing institutions operating in the country; Royal Institute of Management (RIM) is the only institution offering courses in management and supervision; and two technical institutes, Royal Bhutan Polytechnic (RBP) and Royal Technical Institute (RTI), which provide vocational training for various occupations.

### **Industrial Extension Training Course**

An Industrial Extension Training Course was conducted for eight weeks for CSMI promotion institutions to upgrade the skills of officers providing services to CSMI in assisting new and existing enterprises in business start-ups, rehabilitation and expansion activities. The 16 participants in the course were

assigned into five teams to conduct practical industrial extension and in-plant exercises in five selected industries. The quality of the reports indicate that the participants acquired the skills to diagnose problems of existing enterprises and provide solutions.

### **Needs and Constraints of Cottage, Small and Medium Industries**

Bhutan's historical isolation has limited the exposure of the country to the rest of the world until the post-World War II period starting in 1945. Almost 90 percent of the population is still in the rural agricultural/subsistence sector. Industry is very much in its infancy stage, with just over 300 manufacturing enterprises some of which are large.

Bhutan suffers from several constraints in the development of industries. The major constraints are: (1) physical isolation, as Bhutan is a landlocked country; (2) isolation from modern knowledge and practices, resulting from its physical and historical isolation; (3) economic isolation, most evident in the few destinations for exports and sources of imports from countries other than India; (4) small population, just a little over 600,000; and (5) limited knowledge of resource base, although Bhutan has important natural resources particularly forests and hydroelectric potential.

In addition to the macro constraints, some major constraints and needs have been identified in starting and operating a business in Bhutan. These are: (1) lack of entrepreneurial orientation; (2) lack of managerial and technical skills; (3) inadequate choice of appropriate technology and equipment; (4) poor access to financing due to strict collateral requirements; (5) insufficient factory location and facilities; and (6) inadequate supply of raw materials in the wood-based industries. Some of the constraints identified above in starting a business have delayed several of the projects proposed by the first graduates of the UNIDO-assisted project. Efforts have been made by the project to address these issues with the agencies concerned as these constraints affect CSMI in general.

The licencing of cottage and small industries and any "red tape" associated with it have already been resolved. Licences will be granted automatically, with no requirement of a project report. Except for industries considered objectionable because of policy considerations, any discretionary powers in the issuance of licences to cottage and small industries has been totally eliminated.

## **The "Missing Ingredients Approach" to CSMI Promotion and Development**

In contrast to a "total approach", experience has shown that by providing only critical "missing ingredients" required by CSMI a much greater could be attained. Another important lesson is that an effective coordinating mechanism among the institutions involved as well as a partnership between the public and private sectors are necessary factors in the success of CSMI programmes. Based on discussions with the agencies involved, a matrix was prepared identifying the various needs of CSMI in planning, starting and operating their business and the role of the various agencies in addressing these needs (see Exhibit 1 on page 19).

Based on two strategic planning sessions, one for BOIC and another for BCCI, draft strategic plans were prepared for both the Business Opportunities and Information Centre and the Bhutan Chamber of Commerce and Industry. These plans, which included proposed programmes and projects, were discussed with the officers and members of both organizations and were accepted in principle.

The following programmes were proposed to be undertaken by the BOIC: (a) Entrepreneurship Development and Advisory Services; (b) Technical Information Services; (c) Cottage and Small Industry Credit Guarantee Scheme; and (d) Development of the Rattan Cane and Bamboo Industry. The programmes proposed for the BCCI are: (a) Organization Strengthening and Development; (b) Business Assistance Services; (c) Management and Business Development; and (d) Business Promotion. The support of donor agencies will be sought for the implementation of some of these programmes.

### **Summary of Conclusions and Recommendations**

Based on the observations and findings during the fieldwork in Bhutan, the mission concludes that the prospects for the promotion and development of cottage, small and medium industries (CSMI) in the country during the 7th Plan period (1992-97) is bright. But the constraints and needs that have been identified should be addressed and the institutions providing assistance to CSMI need to be further strengthened.

The lack of an industrial entrepreneurial base in the country is a major constraint to industrialization. Efforts should be made to increase the number of participants in the entrepreneurship development programme (EDP) and to continue the activity beyond the project period. Representation should be made with the financing institutions to tap the fund they have

been setting aside annually for "entrepreneurship development". The mission reiterates an earlier recommendation of allowing spouses of civil servants to be engaged in business as long as no conflict of interest exists, thereby increasing the entrepreneurial potential in the country especially of women.

The strategic plans proposed for the BOIC and the BCCI should be pursued and implemented. The emphasis for the promotion of CSMI should be on the provision of assistance and support services rather than on fiscal incentives. The micro constraints in starting and operating a business in the country should be addressed as soon as possible.

The strengthening of the major institutions providing assistance and support to CSMI should be given high priority, particularly the BOIC, BCCI, and BDFC. These institutions should also be working in full coordination and cooperate with each other. The proposed CSMI Coordinating Council should be given legal status and institutionalized.

The FOIC should immediately take steps to procure basic information handbooks and manuals using funds that have been allocated for the purpose. Information materials that currently exists should be properly documented for easy retrieval and a basic Technical Information Services unit should be operational by the end of June 1992.

The creation of the proposed Cottage and Small Industries Credit Guarantee Fund should be given priority to address the problem of the collateral deficiencies of viable projects. Pending its creation, the BDFC should consider liberalizing their collateral requirements on viable projects recommended by BOIC and BCCI. Interim steps should also be taken by the Industrial Estates Division of the Ministry of Trade and Industry to identify factory locations suitable cottage and small industries and provide the necessary infrastructure.

The HRD programme for the private sector in the 7th Plan should address the lack of managerial and technical skills in CSMI. The BCCI should be supported in its efforts to obtain technical assistance from overseas in order to strengthen the chamber in complementing the activities of BOIC. It would also be necessary to strengthen the National Women's Association of Bhutan (NWAB), in order that it can provide more effective assistance to cottage and rural handicraft industries which are mostly run by women.

Donors have also an important role to play in ensuring that programmes and projects intended for CSMI promotion and development are effectively coordinated and complement each other so that a greater impact can be attained. The UNDP could be the focal point in this regard. []

## INTRODUCTION

The starting point for the modern economic and social development of the Kingdom of Bhutan may be taken as 1961, when the first development plan was adopted by the Royal Government of Bhutan, including major external assistance which essentially came from India. In 1971, Bhutan became a member of the United Nations. Bhutan is also a member of the Non-Aligned Movement, Colombo Plan, International Monetary Fund, World Bank, Asian Development Bank, and the South Asian Association for Regional Cooperation (SAARC).

The current 6th Five Year Plan (1987-92) will terminate on 30 June 1992 and the 7th Five Year Plan (1992-97), in the process of finalization, will commence on 1 July 1991. During the 70th Session of the National Assembly held in October 1991, the main objectives of the 7th Plan were ratified as follows:

- (a) self-reliance with emphasis on internal resource mobilisation;
- (b) human resource development;
- (c) participation of the people in development through effective decentralization;
- (d) integrated and balanced development throughout the country;
- (e) sustainable development with emphasis on environmental protection; and
- (f) development and expansion of the private sector.

On the last objective, it was emphasized that the Royal Government would support the development of the private sector through the provision of special and substantial incentive packages and entrepreneurial training programmes.

The UNIDO-assisted Bhutan Integrated Entrepreneurship Development Programme (BIEDP) (DP/BHU/88/001) commenced in July 1990. Its activities are part of a project which addresses a major priority objective of both the 6th and 7th Plans of creating employment opportunities and increase incomes through new or expanded industrial activities in the private sector, by focusing on identifying and fostering entrepreneurial activities.

Specifically, the UNIDO project aims to facilitate the establishment of a comprehensive programme, which fosters industrial entrepreneurship by means of an integrated package of technical assistance that covers the three levels of intervention in stimulating and sustaining persons who undertake innovative and enterprising ventures.

The project will provide the basis:

- (a) at the policy level, for an entrepreneurial strategic environment for appropriate policy measures;
- (b) at the institutional level, for demand-oriented mechanisms through accessible and effective delivery systems; and
- (c) at the enterprise level, for grassroots-based entrepreneurial networks and self-reliant mutually supportive activities.

The project also addresses implicitly the issue of poverty alleviation, particularly in remote rural areas.

An earlier UNIDO mission (DP/BHU/88/001/11-02) completed in July 1991, assisted in addressing the needs of the project at the policy level. The Ministry of Trade and Industry concurred with the mission's main recommendation that a separate and distinct policy and programme on cottage, small and medium industries (CSMI) be incorporated in the 7th Plan. It also designated the Business Opportunities and Information Centre (BOIC), a division of the Ministry of Trade and Industry, to be re-structured as the focal point for CSMI. Other recommendations have also been taken into consideration in the preparation of the 7th Plan.

During the first year of implementing the UNIDO project, July 1990 to June 1991, it was determined that a large potential for CSMI sectoral development exists, but an overall deficiency in the country in the capacity to provide a consistent and integrated approach in the provision of services between and among agencies. The project has carried out several pilot training activities and completed a five-week comprehensive course on 31 May 1991, in which 18 potential entrepreneurs participated and completed their business plans. Several constraints in starting a business have since then surfaced which need to be addressed. Some of these constraints could be resolved within the current institutional framework and programmes. Others

would require institutional adjustments and new programmes to minimize constraints in the promotion and development of entrepreneurship

Meanwhile, it has also been determined that many existing industrial enterprises will require assistance in streamlining operations to ensure their long-term viability and profitability. These enterprises would require as much attention as the creation of new enterprises.

This report will assist in addressing the needs of the project at the institutional level. The immediate objective of the mission is to strengthen government and non-governmental organizations in Bhutan involved in CSMI promotion and development to provide improved support and assistance in the creation and development of the CSMI sector through classroom training, field applications, establishing effective relationships between agencies, and providing recommendations for further institution building. The job description is given in Annex I. Some minor changes in the job description were made by the project's Chief Technical Adviser in the field, consistent with the needs and realities in the country at the time the mission was conducted.

The mission was held from 01 October to 31 December 1991, with 10 weeks of fieldwork in Bhutan. Visits and meetings were held with various relevant organizations and individuals, including two strategic planning sessions for BOIC and the Bhutan Chamber of Commerce and Industry (BCCI) and several inter-agency and inter-department meetings. An eight-week training course for 16 staff members of CSMI related institutions was conducted, which included industrial extension work in five enterprises. A partial list of organizations and individuals contacted is reproduced in Annex II. A complementary mission was also held by UNIDO Consultant Dennis Kondo from 25 October to 24 December 1991 and a separate report has been prepared (DP/BHU/88/001/11-53).

Bhutanese entrepreneurs are faced with macro constraints due to its geographic location and physical environment. In addition, some of the most common problems faced by entrepreneurs in other countries are also experienced in Bhutan. In many ways, Bhutan is a unique country. In comparison to many developing countries, it does not have an unemployment problem due to its relatively small population. One of its main concerns is the development of its human resource in order to achieve an optimum level of productivity and effective utilization. The report, therefore, takes into consideration both the unique characteristics of Bhutan as well as its commonalities with the rest of the developing world. In fact, this type of balancing is the challenge faced by development planners in Bhutan. [ ]

**I. MAJOR INSTITUTIONS FOR CSMI PROMOTION AND DEVELOPMENT;  
THEIR STRENGTHS AND WEAKNESSES**

**A. Ministry of Trade and Industry (MTI)**

The Ministry of Trade and Industry is the main agency of the Royal Government of Bhutan which promotes and regulates the manufacturing, trading, and service industries in the Kingdom. There are three operating departments in the MTI: (1) Trade and Industry, (2) Geology and Mines, and (3) Power. The Department of Trade and Industry (DTI) is the licencing unit of MTI and most concerned with CSMI promotion and development. It has three operating divisions: (1) Trade, (2) Industry, and (3) the newly organized Business Opportunities and Information Centre (BOIC). BOIC has recently been designated as the focal point for CSMI promotion.

**o Business Opportunities and Information Centre**

The BOIC will be re-structured as a sort of "one-stop" centre of assistance and advisory services for potential and existing entrepreneurs. A strategic plan has been developed for BOIC, which will be discussed in Chapter IV of this report.

There are presently two operating units in BOIC:

(1) Entrepreneurship Development Programme (EDP), which implements the UNIDO-assisted Bhutan Integrated Entrepreneurship Development Programme (BIEDP) (DP/BHU/88/001). Five officers have been "seconded" to the EDP from other institutions as trainer-consultants: one from MTI itself, one from the Bhutan Chamber of Commerce and Industry (BCCI), one from the National Women's Association of Bhutan (NWAB), and two from the Bhutan Development Finance Corporation (BDFC). These officers have been trained and continue to receive further training. The original plan is for them to return to their respective institutions at the end of the UNIDO project in June 1993. This has caused some concern as to whether the entrepreneurship development activity, which is a priority in the 7th Plan, could be effectively continued if these officers are dispersed in four institutions. The past experience in Bhutan is that some officers who were trained overseas did not always return to the posts for which they were trained. It would,



therefore, be advisable to keep them together to serve as the core of the expanded activities envisioned for BOIC. Lack of adequately-trained staff is, in fact, one of the weaknesses of BOIC.

If some of the trainer-consultants cannot be retained at the BOIC at the end of the UNIDO project, it would be advisable to recruit their replacements as soon as possible so that there would still be sufficient time to train the new staff before the project ends in June 1993.

(2) Information unit, which is in the process of compiling trade and industrial statistics and other information that will be of use to MTI and to potential and existing entrepreneurs. Industrial and technological information are, however, not readily available and the capability of this unit needs to be upgraded in order to effectively assist existing and potential entrepreneurs. Whatever information that already exists require proper documentation for easy retrieval and dissemination.

The mission assisted the BOIC in making initial contacts with international sources of technological information and "centres of excellence" relevant to CSMI and to Bhutan. These linkages have to be established and arrangements for accessing information have to be agreed upon so that industries in Bhutan will be fully informed and have access to a wider choice of alternative technologies.

#### **B. Bhutan Chamber of Commerce and Industry (BCCI)**

The BCCI was re-established on 1 May 1988, with the main objective of acting as liasoning body between the government and the private sector. It also aims to motivate enterprising persons, particularly the younger generation, to take up trade and industry as their career. BCCI is a private organization consisting of members from the Bhutanese trade and industrial community. It is mandatory for all licenced enterprises to be members of BCCI and about 7,000 of them are currently members, mostly trading firms since there are only 340 licenced industrial enterprises. The major source of revenue for the operations of the chamber is a 30 percent share of licence renewal fees paid to the government, which currently amounts to about Nu. 700,000 a year.

The BCCI is an effective forum where the private business sector discuss problems relating to the development and growth of trade and industrial activities within the country and seek possible solutions. In this regard, the BCCI had several dialogues with the government including His Majesty the King to discuss issues affecting the business sector. The BCCI has the

potential to become one of the major private sector institutions that can effectively assist in industrial policy formulation and entrepreneurship development in Bhutan. However, it has to expand its activities for the benefit of the business sector to be truly a partner of government in the socio-economic development of Bhutan.

The BCCI's major weakness is that it does not yet have sufficient credibility with the public and does not enjoy its members' confidence. This is partly due to the lack of the proper organizational set-up and the managerial and technical expertise to function effectively. Its role needs to be more clearly spelled out. The mission conducted a strategic planning session for the BCCI which was participated by its officers and selected Executive Committee and Advisory Committee members as well as representatives from other related organizations. The proposed plan is discussed in Chapter IV of this report.

#### **C. National Women's Association of Bhutan (NWAB)**

Formed in April 1981 with Her Royal Highness Princess S.C. Wangchuck as its President, the NWAB aims to improve the quality of women's lives especially in the rural areas. It has been active in initiating and implementing income-generating projects that benefit rural women and has pioneered training programmes in weaving and knitting. The NWAB recognizes that the participation of women in occupations other than agriculture and rural cottage industries is very low and should be addressed. However, it admittedly does not yet have the organizational capability and funding resources to implement the kind of programmes that will yield a major impact on the problem. Its future plans include an expansion into all the 18 districts of the Kingdom and the implementation of major projects in health and nutrition, education, agriculture, employment and labour force participation with the support of the government and selected donors.

It is expected that their collaboration in the promotion of women entrepreneurs would be valuable. In addition, because the role of women in business and in socio-economic development needs to be expanded, the NWAB could be an effective focal point in activities involving women. The organization requires further strengthening in both the expertise and the number of its staff. Several donors, including UNDP and UNIDO, have expressed strong interest in assisting and supporting the activities of the NWAB. The infusion of creativity in project formulation and the enhancement of its capability in implementing projects would, however, be necessary. The NWAB has just recently taken over the operations of the Handicrafts Emporium and this will provide the organization with a built-in marketing outlet for cottage industry products manufactured in rural areas. The

Managing Director and a senior staff from the Emporium participated in the training course conducted by the mission. The NWAB has also seconded one of its staff to the UNIDO project being implemented by the BOIC.

#### D. Bhutan Development Finance Corporation (BDFC)

The BDFC was established in January 1988 to provide financing and assistance to the industrial sector, especially CSMI. It also provides rural credit to improve rural activities. BDFC has 72 officers all over the country, 48 of which are devoted to rural credit. As of the end of September 1991, the loan portfolio of BDFC was Nu. 140 million with nearly 50 percent of the amount still unutilized and available for new projects. The average size of loans granted was Nu. 280,000.

A second credit line from the Asian Development Bank of \$2.5 million (Nu. 64 million) was expected to be available in 1992. It also concluded an agreement with the Kuwait Fund in November 1991 for a credit line of \$5.0 million (Nu. 128 million) for small and medium industry financing.

Some 32 percent of industrial loans and 28 percent of rural credit loans were in arrears as of the end of September 1991. This may be attributed to several factors: (a) the enterprises were suffering from dislocation; (b) inadequate monitoring and supervision; (c) poor project appraisal; (d) the character of the entrepreneur was not properly checked; and (e) inadequate collection procedures. Most of these deficiencies are currently being rectified, including the introduction of a computerized management information system (MIS) through technical assistance provided by the Asian Development Bank.

BDFC currently lacks sufficient staff for processing and servicing industrial loans. Although as shown above, funds are available for credit to industry, the main problem of cottage and small industries has been their inability to access these funds for business start-ups and expansion. Because of its bad experiences, BDFC has become very strict in requiring collateral requirements of 150 percent of the value of the loan. Further, the valuation of the properties offered as collateral is based on published government rates of two years ago and may no longer reflect market values. This brings the collateral requirement much higher than 150 percent.

In order for BDFC to be an effective partner in promoting the development of CSMI, it requires a more developmental and dynamic orientation which is the very purpose for its creation. Management and staff capabilities have to be strengthened and its

organization streamlined. To a large extent, the success of the CSMI programme in Bhutan will depend on the contributions and effective role being played by BDFC. It is, of course, understood that BDFC is a relatively new institution and is still in the process of gaining experience and implementing changes as they become necessary.

#### **E. Bank of Bhutan (BOB)**

The BOB is a partnership between the Royal Government of Bhutan and the State Bank of India and is the only commercial bank in the country. In addition to loans to industry, the BOB has a special scheme for cottage industry and artisans with no tangible security. The initial processing and endorsement is undertaken by the zonal administration and the applications forms are fairly simple. The security consists of guarantee from friends and materials inventory. The experience, however, is that very few cottage industries have sought credit and most of the loans have been granted to general grocery stores with an average loan of only Nu. 15,000.

The BOB also conducted a 15-day Entrepreneurship Development Programme in 1989 and would be willing to collaborate with the BOIC Entrepreneurship Development unit. It has been allocating annually from its income an "Entrepreneurship Development Fund" of Nu. 2.0 million, which may be tapped for programmes that will promote entrepreneurship and develop CSMI in the Kingdom. The BOB should, therefore, be regarded as one of the important institutions in the government's CSMI programme. The bank would particularly be of assistance to enterprises that will be engaged in export activities.

#### **F. Other Institutions**

There are several other institutions directly relevant to the promotion of CSMI. Among them are:

##### **o Royal Insurance Corporation of Bhutan (RICB)**

The RICB provides credit to transport and manufacturing industries. Realizing the shortage of capital in the private sector, RICB also finances the purchase of shares in industries. Its financial resources are accumulating and is seeking good projects to assist. Like BOB, it also has set aside an annual allocation towards an "Entrepreneurship Development Fund".

o **Royal Institute of Management (RIM)**

The RIM is the only institution in Bhutan offering courses in management and supervision. It is newly established and the thrust of their efforts have so far been towards developing the upper levels of managerial positions in industrial and commercial enterprises.

o **Royal Bhutan Polytechnic (RBP) and  
Royal Technical Institute (RTI)**

These two institutes, the RBP and the RTI, provide technical and vocational training for various occupations. They have a faculty of about 30 each and a combined enrollment of less than 600, mostly males. The graduates of the various courses are employed in industry and other sectors. Their facilities, however, require upgrading and modernization.

The institutions necessary for an effective CSMI promotion and development programme already exist in Bhutan. Most of the institutions are, however, still relatively new and do not have sufficient experience in assisting industrial enterprises. They also lack well-trained staff in the numbers that may be required for a national programme. The UNIDO-assisted BIEDP project, implemented by BOIC, has developed five trainer-consultants who can serve as the core for the CSMI programme. Other agencies should further be strengthened and re-structured.

Considering that the country has scarce human and financial resources, it is essential that their efforts and resources be coordinated into a joint action towards the promotion of the CSMI sector. This coordination should take place under the leadership of the Ministry of Trade and Industry (MTI) and its Business Opportunities and Information Centre (BOIC), which will serve as a "one-stop shop" of assistance and services to CSMI with the collaboration of other relevant agencies. Donor agencies also have a role to play in ensuring that this coordination takes place. []

## II. INDUSTRIAL EXTENSION TRAINING COURSE

An Industrial Extension Training Course was conducted by the mission from 16 October to 25 November, immediately followed by a Business Consultancy Seminar until 6 December 1991. The training combined classroom sessions in the morning followed by practical work the rest of the day.

The objectives of the course were to: (1) introduce to CSMI related institutions (and their staff) in Bhutan a consistent understanding of the concepts and tools of industrial extension and entrepreneurship development; (2) upgrade the skills of officers providing services to CSMI in assisting new and existing enterprises in business start-ups, rehabilitation and expansion activities; and (3) enable government and NGO staff to identify opportunities, constraints and provide solutions to problems of CSMI. The course outline is given as Annex III.

Sixteen participants enrolled for the course: six from BOIC, two from the Ministry of Industry, two from BDFC, two from NWAB/HDC, one from BCCI, and three graduate entrepreneurs of the Entrepreneurship Development Programme. Due to pressure of work, five participants could not attend the full course and only eleven participants were awarded certificates during the closing ceremony officiated by the Joint Secretary of Trade and Industry and the Director of Trade and Industry. All the six participants from BOIC, for whom the training course was primarily designed and conducted, completed the programme. The list of participants is given as Annex IIIa.

The participants were assigned into five teams, headed by a trainer-consultant from BOIC, to conduct practical industrial extension and in-plant exercises in five existing industries. The enterprises were selected on the basis of their problems areas and suitability for the training. The selected enterprises are:

(a) Bhutan Marbles and Minerals, Ltd.

The company started operations in September 1989. Its main products are marble slabs and tiles of various sizes. Its by-products are marble chips and powder/mash of various sizes and grades.

(b) Government Printing Press

The enterprise was set up in 1962. It prints books, various types of office supplies, and the Kuensel which is Bhutan's only newspaper.

(c) Jattu Furniture and Woodworks

Established in 1970, it manufactures various types of wooden furniture and carved wooden items.

(d) Junshi Handmade Paper Factory

The company was started by the government in 1990 and was privatized in August 1991. It produces Deysho paper for religious scriptures, packaging, letterheads, envelopes, and paper furniture. Other products planned are cards, calendars, bags, paper trays, dolls, and other stationery products.

(e) Kaydee Sawmills

The company was set up by the government and privatized in 1971. It presently performs on contract the sawing of logs for the Forest Department of the Government. It also has a section that manufactures furniture on order.

The assignments given during the practical exercises are given as Annex IIb. Complete reports were prepared by the teams on the diagnostic studies conducted of the firms and their analysis of problems and recommended solutions. An evaluation of the reports was conducted by the panel of resource persons and the owner/manager of the firms. The complete reports are given in a separate volume of the mission's report.

The quality of the reports indicate that the participants sufficiently acquired the skills to diagnose problems of existing enterprises and provide solutions. The five trainer-consultants from BOIC would be in a better position to benefit from the study tour that was planned for them in January 1992. [ ]

### **III. NEEDS AND CONSTRAINTS OF COTTAGE, SMALL AND MEDIUM INDUSTRIES**

Bhutan's historical isolation and connection with Tibet via animal tracks over the High Himalaya has limited the exposure of the country to the rest of the world until the Post World War II period starting in 1945. In particular, Bhutan did not develop along with the economy of the Indian sub-continent. There was a subsistence economy, without roads for cars and trucks until the early 1960's. Almost 90 percent of the population is still in the rural agricultural/subsistence sector. Industry is still very much in its infancy stage, with just over 300 manufacturing enterprises some of which are large.

#### **A. Macro Constraints in Industrial Development**

Bhutan suffers from several constraints in the development of industries. These are, however, clearly recognized by the government. The major constraints are:

##### **1. Physical isolation**

Bhutan is a landlocked country so that its outlets to the sea are either in India or Bangladesh. The High Himalaya in the north, which are not traversed by road, limit access to Tibet and China making Bhutan a nation "one-half" a growth pole. The country's mountainous terrain raises the cost of internal transportation and communication, reducing the opportunities for rapid and easy development of an internal market which would offer greater opportunities for economically viable and technology-intensive industries.

##### **2. Isolation from modern knowledge and practices**

Resulting from its physical and historical isolation is isolation from modern knowledge and practices. A recent survey showed that there are only 650 qualified undergraduates out of about 13,000 civil service employees. The proportion of qualified undergraduates in the private sector is even smaller. The development of educational institutions, libraries and other sources of modern knowledge, information, and skills are still in their infancies. This shows up very clearly in the lack of familiarity with most industrial products and how they are made



leading to the slow growth of the private industrial sector. This situation has been addressed beginning with the 5th Plan (1982-87), continued in the current 6th Plan (1987-92) and will be given more impetus in the 7th Plan (1992-97) with a massive Human Resource Development (HRD) Programme which allocates 20 percent (approximately \$8.0 million) for private sector needs.

### **3. Economic isolation**

The economic isolation of Bhutan is most evident in the few destinations for exports and sources of imports from countries other than India. At present, only Bangladesh can be considered a second regular export market. Since the Bhutanese ngultrum and Indian rupee are freely exchanged at par, only third country exports earn freely convertible currencies. Most importantly, the lack of modern knowledge combined with economic isolation inhibits the search for capital goods and technologies necessary for industrialization. This can result in unnecessarily high initial investment costs for many enterprises as well as difficulties in assimilating the chosen technologies. Currently, the main supplier is India but there are, at times, large imports from Western Europe when entire plants are being equipped. There are also machinery imports from Japan and Asian NICs. In many cases, in addition to difficulties of assimilation, maintenance of the equipment have been a problem.

### **4. Small Population**

The population of Bhutan, just a little over 600,000, is small and there is no clear estimate of the existing or future labour force, its characteristics and growth. Enterprise owners and managers indicate they are constantly short of personnel from unskilled sweepers to skilled workers and plant managers. Employees are unused to industrial work and do not take to it readily. Almost 50 percent of the labour force in the industrial sector are non-nationals, mainly from India. Aside from lack of labour in the industrial sector, Bhutan's small and mostly rural population also means that the market for industrial products is also small discouraging full-scale automation of industries.

### **5. Limited knowledge of resource base**

Bhutan has important natural resources, particularly forests and hydroelectric potential, but data are often lacking for an assessment of the potential for resource-based industry. There have been very few inventories and management plans for forest areas preventing a rational assessment of the sustainable yield

and appropriate locations for logging, often leaving the wood processing industries without a regular and adequate supply of raw material. This aspect has received special attention and is now being addressed. Hydroelectric power potential exists in most parts of the country, but is developed only in the western part of the country causing an excessive concentration of industry there. Not enough is currently known about the occurrence of minerals as mainly southern areas have been surveyed, but there are important deposits of limestone, marble, dolomite, gypsum, quartzite and low grade coal. A tungsten deposit is under exploration. The possibility of oil and natural gas deposits existing near the border areas is also being explored.

## **B. Major Micro Constraints and Needs in Starting and Operating a Business**

The major constraints and needs identified in starting and operating a business in Bhutan are:

### **1. Lack of entrepreneurial orientation**

The lack of an industrial entrepreneurial base in the country is a major constraint to industrialization, which the UNIDO-assisted Bhutan Integrated Entrepreneurship Development Programme is currently addressing. The promotion and development of entrepreneurship is also a priority in the 7th Plan. Efforts should be made to increase the number of participants in the programme, especially women. It would also be necessary to continue the programme beyond the project period (ending in June 1993).

### **2. Lack of managerial and technical skills**

Since industry is still in its infancy stage, managerial and technical skills are still lacking to run production units. The experience and the skills needed cannot be acquired on-the-job and the educational system is not geared to meet this inadequacy. However, the HRD programme envisioned in the 7th Plan has been designed to address this problem. Further, the BCCI should also develop the capability to meet short-term training needs of its members with the assistance of other agencies such as the BOIC and the RIM.

### **3. Inadequate choice of appropriate technology and equipment**

Transfer of technology may be described as a process in which a country is free to choose autonomously, from different alternatives of technological knowledge, those which are best suited to its natural conditions and development objectives, its capacity for assimilation and patterns of living. This has not happened in Bhutan. The type of technologies applied to industry were either dictated by donors or by its accessibility, as in the case of those acquired from India. To address this issue, the Technical Information Service of BOIC is being developed linking it with sources of technology and "centres of excellence" abroad. This will enable industry to have access to a wider choice of technology appropriate for the country.

### **4. Poor access to financing due to strict collateral requirements**

Although funds for loans to the industrial sector are sufficiently available, these have not been easily accessible to cottage and small enterprises due to strict collateral requirements of at least 150 percent of the amount of the loan. In addition, entrepreneurs are required an equity of at least 25 percent of the project cost. Special financing schemes for CSMI would be necessary to remedy this problem, as financing is one of the most important factors in the promotion and development of cottage, small and medium industries. Financing institutions should take a more developmental attitude in looking at projects proposed by CSMI entrepreneurs.

### **5. Insufficient factory location and facilities**

Bhutan has very limited flat land accessible and suitable to proposed ventures. Quite often, proponents do not have land or buildings in which to set up their units. The MTI's Industrial Estates Programme is moving slowly, although several sites have already been identified. But developing the infrastructure will take some time. The Thimphu service industries site, for example, will not be ready until at least two years and may not even be sufficient for the anticipated growth of CSMI service industries. Interim measures would be necessary for those ready to start their enterprises.

## 6. Inadequate supply of raw materials in the wood-based industries

Among the graduates of the Entrepreneurship Development Programme, three wood-based ventures were considered to be viable but could not be started since May 1991. Although letters of assurance of supply have been received from the Department of Forestry, BDFC does not feel that the letters are sufficient nor adequate to grant a loan. This is due to its bad experience in funding similar projects in the past. This issue has to be resolved at the government's policy level.

Some of the constraints identified above in starting a business in Bhutan have delayed several of the projects proposed by the first graduates of the UNIDO-assisted Entrepreneurship Development Programme (EDP). Efforts have been made by the project to address these issues with the agencies concerned. These issues and constraints not only affect the EDP graduates, but of CSMI in general.

The licencing of cottage and small industries and any "red tape" associated with it have already been resolved. The Minister of Trade and Industry has instructed the Joint Director of BOIC that licencing of cottage and small industries be granted automatically, with no requirement of a project report. A negative checklist will be prepared on those industries that are objectionable and cannot be given licences, because of policy considerations currently in force such as: those intending to locate in the southern area of the country, those requiring the employment of non-nationals, those whose raw material needs are not available in the country, those requiring foreign exchange, etc.

Otherwise, the Minister indicated that any discretionary powers in the issuance of licences to cottage and small industries be totally eliminated. Only in cases where the proposed industry falls under the negative checklist should it be elevated to higher authorities, the Director of Trade and Industry and/or the Minister of Trade and Industry. He further stressed that the only purpose of licencing are: (a) to restrict certain objectionable industries, and (b) for information and record. A periodic report will be prepared by the Joint Director of BOIC to the Minister on new industries licenced and existing industries that have been given assistance.

More specific proposals to resolve most of the needs and constraints of CSMIs will be discussed in the next two chapters of this report. [ ]

#### IV. THE "MISSING INGREDIENTS" APPROACH TO CSMI PROMOTION AND DEVELOPMENT

Over the last several years, various approaches to the promotion and development of cottage, small and medium industries (CSMI) have been tried in developing countries with varying degrees of success and failures. In the early stages, the so-called "total approach" to CSMI promotion and development was very popular. The objective was to provide all the services and assistance necessary to start new enterprises as well as provide the needs of existing enterprises. This approach seems ideal if resources are unlimited, but the reality is that most programmes had to spread their resources too thinly. By doing a little of everything, the overall impact was almost meaningless and many of these programmes did not achieve their objectives.

In contrast, experience has shown that by providing only the critical "missing ingredients" required by CSMI a much greater impact could be attained. Another important lesson is that an effective coordinating mechanism among the institutions involved as well as a partnership between the public and private sectors are necessary factors in the success of CSMI programmes. More so, when financial and human resources are scarce and limited as often is the case.

Drawing from the above experiences, the mission has several meetings with agencies involved in CSMI development. Among these agencies are: the Department of Trade and Industry (DTI) and the Business Opportunities and Information Centre (BOIC), Bhutan Chamber of Commerce and Industry (BCCI), Bhutan Development Finance Corporation (BDFC), Bank of Bhutan (BOB), Royal Insurance Corporation of Bhutan (RICB), Royal Monetary Authority (RMA), National Women's Association of Bhutan (NWAB), and a few other agencies and individuals. The main objectives were to identify the needs and constraints of CSMI entrepreneurs in starting and operating their business, determine the needs currently being addressed, and fill-in the "missing ingredients".

A matrix was prepared identifying the various needs of CSMI in planning, starting and operating their business and the role of the various agencies in addressing these needs. This matrix is given in Exhibit 1. The matrix traces the flow of steps and the needs required in project identification, project start-up and operations. This matrix was subsequently discussed with the relevant agencies involved, including the UNDP.

A strategic planning session was further conducted for BOIC, including participants from CSMI related agencies and the UNDP. A second strategic planning session was also later conducted, this time for BCCI. Based on the discussions, draft strategic plans were prepared for both BOIC and BCCI. These plans were discussed with the officers and members of both organizations.

The Ministry of Trade and Industry (MTI) has accepted, in principle, the plan prepared for BOIC. The BOIC will be re-structured in line with the proposed strategic plan and specific recommendations. The plan, including the proposed programmes and projects, were subsequently submitted to the Planning Commission. The Minister of Trade and Industry has indicated that, in the 7th Plan (1992-97), priority and special mention will be given to cottage, small and medium industries. The proposed programmes and projects will also be included in the 7th Plan.

Meanwhile, the Bhutan Chamber of Commerce and Industry had their annual general assembly during the first week of December 1991. The draft strategic plan was circulated to BCCI members for their review and comments. The plan is expected to be subsequently discussed and adopted by its Executive Committee. Assistance from the UNDP and the Austrian Government is expected to be sought to implement BCCI projects. Meanwhile, a study tour to Thailand for three officers of the BCCI will be undertaken in early 1992 with the support of UN ESCAP under its programme of Technical Cooperation Among Developing Countries (TCDC).

**Exhibit 1: The Role of CSMI Related Agencies in CSMI Development in Bhutan**

PROJECT IDENTIFICATION	DTI/BOIC	BCCI	BDPC/BOB/RICB	OTHERS
INVESTMENT GUIDANCE	Provide Project Profiles Sectoral Business Info. Pre-feasibility Studies	Joint ventures and export opportunities Disseminate profiles	Disseminate Project Profiles	UNDP provide info. on CSMI projects w/ UNDP funding
EDP TRAINING PROGRAMME	Selection, Training and Followup	Promote EDP Services Assist in Workshops in various districts.	Provide funding, lecturers and refer clients to EDP	NWAB assist in EDP for rural women
PROJECT REPORTS AND BUSINESS PLANS	Assist in preparation as part of EDP course	Refer clients	Provide guidelines on required format	DTI Industry Div. to assist in feasibility studies
* MARKET INFORMATION	Provide info, compile and analyse with clients	Provide information on export markets		Central Statistics Office, DTI studies & statistics
*TECHNOLOGY & EQUIPMENT	Provide up-to-date info. through library and int'l networks	Assist through other trade and industry associations	Assist through other DFIs and ADFIAP	Foreign embassies and UNDP projects
*FACTORY LOCATION	Work with DTI's Industrial Estate Section (IES)			IES to identify industrial areas & infrastructural development
*RAW MATERIALS	Coordinates with relevant agencies for sourcing	Survey member needs Setup Buyer's Coops		Resource allocation by various agencies
*CSMI FINANCING	Determine CSMI financing needs		Provide CSMI development financing	MTI/DTI CSMI Loan Guarantee Scheme
*LEGAL ASPECTS	Determine CSMI needs on policies & regs.	Survey constraints and issues affecting CSMI & advocate for change		DTI overall to formulate and recommend policies and regulations
INDUSTRIAL LICENSING	Assist in processing forms and other requirements	Referrals to BOIC		Dzongkag, DTI processing and approval
LOAN APPLICATION	Assist in loan packaging		Loan processing, appraisal, approval and supervision	MTI/DTI loan guarantees
<b>PROJECT START-UP AND OPERATIONS</b>				
BUSINESS MGT SEMINARS	Assist BCCI in organizing and conducting courses	Determine needs and conducts training	Refer clients	Other agencies to provide resource speakers
CSMI SKILLS DEVELOPMENT	Administer HRD program for CSMI	Coordinates with BOIC	Determine Client needs and refer to BOIC	NWAB Handicrafts skills development
INDUSTRIAL EXTENSION & ADVISORY SERVICES	Diagnose needs/problems and assist existing CSMI industries	Determine needs of members and refer to BOIC for assistance	BDPC District Loan Officers to assist borrowers	Other specialized govt. agencies for tech'l assistance
TECHNOLOGY UPGRADING	Provide technology info. by industry sector and assist in transfer of technology	Organize & conduct sector specific workshops	Provide financing for new equipment	Other specialized govt. agencies assist by sector
CSMI EXPORT PROMOTION	Provide information on export markets, product standards	Liaise with ITC and other CCIs, organize & participate in trade missions and trade fairs	Provide export financing	NWAB to work with BCCI for handicrafts export promotion

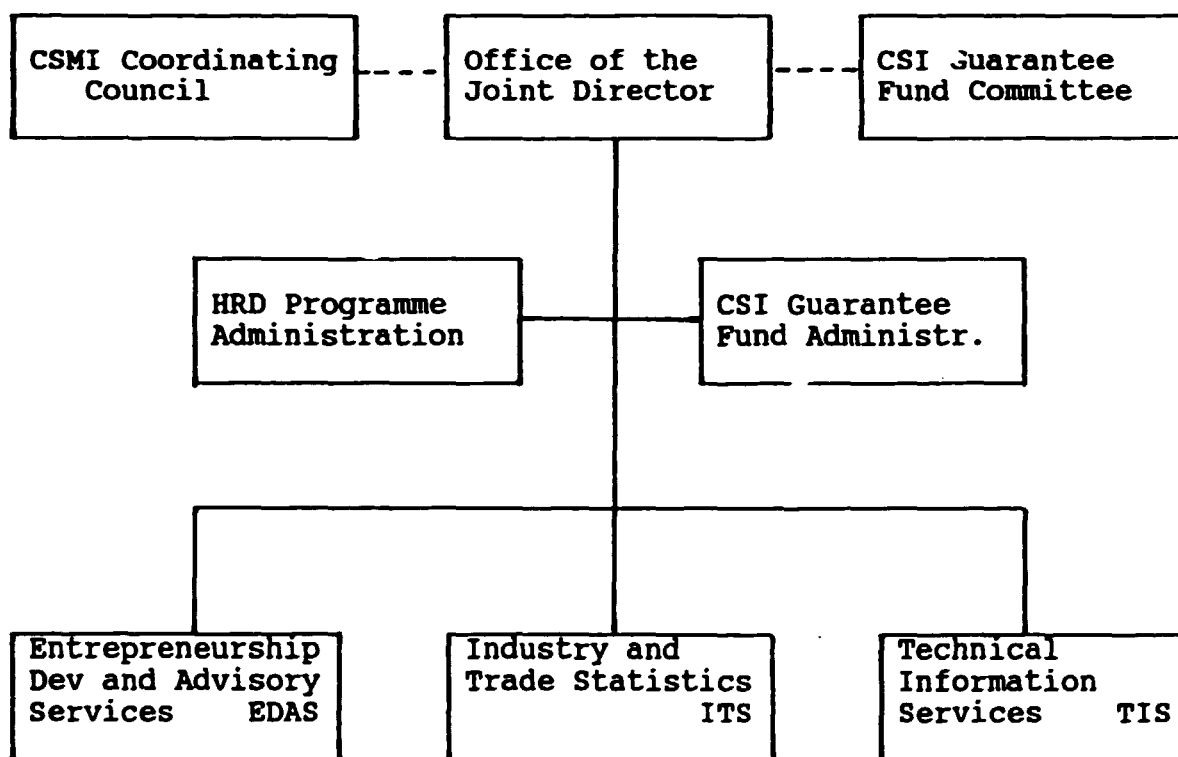
**A. STRATEGIC PLAN:  
BUSINESS OPPORTUNITIES AND INFORMATION CENTRE (BOIC)**

**1. Organization**

The Business Opportunities and Information Centre (BOIC) operates as one of three divisions under the Department of Trade and Industry (DTI), the two others being Trade and Industry. DTI is one of the operating departments of the Ministry of Trade and Industry of the Royal Government of Bhutan.

A proposed organization chart of BOIC is shown in Exhibit 2.

**Exhibit 2: Proposed Organization Chart  
Business Opportunities and Information Centre**



Details of the proposed organization chart, functions and staffing, forms and procedures appear in the technical of UNIDO consultant Dennis Kondo (DP/BHU/88/001/11-53).



## **2. Mission**

The BOIC shall be the focal point for the promotion and development of a vigorous cottage, small and medium industries (CSMI) sector in Bhutan through the provision of effective support and advisory services in coordination with and the cooperation of relevant national and international governmental and non-governmental organizations. Particular emphasis is given to the creation of new enterprises, the formation of new entrepreneurs, upgrading of existing enterprises and the development of their managerial and technical competence in order to enhance their socio-economic contributions to the development of the Kingdom.

## **3. Objectives**

The overall objectives of the BOIC for the Seventh Five-Year Plan (1992- 1997) are:

(a) to assist in starting at least 150 new CSMI's, thereby increasing the number of enterprises by approximately 50 percent -- from about 300 existing enterprises to 450 enterprises -- and to provide advisory services to at least 150 existing enterprises in improving their operations, so as to enhance the overall contribution of the CSMI sector to poverty alleviation, employment, export revenues, and gross domestic product; and

(b) to develop the capacity and capability of BOIC to meet the above targets through programs/projects in entrepreneurship selection and training, CSMI advisory services, technical and business information services, human resource development, and a credit guarantee scheme.

## **4. Guiding Principles**

The following principles shall guide the operations of the BOIC:

(a) serve existing CSMI's and potential entrepreneurs in all areas of the Kingdom of Bhutan;

(b) coordinate its activities and cooperate with other governmental and non-governmental organizations related to the promotion and development of CSMI's;

(c) establish formal working relationships with overseas institutions and "centres of excellence" engaged in the promotion and development of CSMI and the provision of technical information services;

(d) aspire for professional and technical excellence in the performance of activities and minimize failure;

(e) observe ethical standards by being objective, honest, respecting commitments, maintaining confidentiality, criticising positively, and to minimizing length of engagements to no longer than the problem warrants;

(f) keep the interests of the entrepreneurs and enterprises above its own consistent with the well-being of the Kingdom;

(g) inform the client of any interests that might influence objectivity and refuse engagements beyond its competence; and

(h) accept no unauthorized fees or commissions directly or indirectly resulting from an engagement.

## **5. Strategies**

The BOIC strategies for implementing its objectives and designing programs are:

(a) develop programs which emphasize long-run sustainability and self-reliance;

(b) take advantage of existing and planned related programs and projects in the public and private sectors and to use its resources to leverage the resources of other entities so as to multiply the national impact;

(c) serve as an advocate for CSMI issues in terms of program effectiveness, policy and regulatory impacts; and by providing a focal point for receiving complaints and suggestions from CSMI, in cooperation with other agencies especially BCCI;

(d) remove information related barriers to the formation and growth of CSMI by serving as a catalyst among agencies and as a broker among enterprises; and

(e) place more emphasis on the types of enterprises which traditionally have not been found among CSMI; specifically, encourage enterprises with modern technology appropriate to the Kingdom and other innovative products and enterprises which will engage in exporting or in export-substitution.

## **6. Programmes**

The following programmes are proposed to be implemented by the Business Opportunities and Information Centre (BOIC) during the 7th Plan period (1992-97):

**(a) ENTREPRENEURSHIP DEVELOPMENT AND ADVISORY SERVICES**

- o Proposed Starting Date: April 1993 to March 1996  
(three years)
- o Implementing Agency: Business Opportunities and  
Information Centre (BOIC)
- o External Financing Required: \$825,300
- o Objectives:

The EDAS project will provide a range of support services to cottage, small and medium industries (CSMI) to facilitate regional dispersion and development and ensure long-term viability and success of these enterprises through entrepreneurship training, advisory and industrial extension services, and assistance in accessing available financing and other necessary local resources.

- o Rationale:

During the three-year period from July 1990 to June 1993, an UNDP/UNIDO-assisted entrepreneurship development project is being implemented with the major focus of developing the capacity of BOIC to conduct integrated entrepreneurship training courses for potential CSMI entrepreneurs. At the end of the three-years, some 25 new enterprises are expected to have been started through this project. Several of these enterprises may also require further assistance during implementation.

While the project has mainly concentrated in training and assisting start-up entrepreneurs, it also been identified that many of the existing CSMI enterprises are "sick" due to: poor management, low capacity utilization, inappropriate choice of production equipment and technological process, inadequate capital and cash management, and with little capacity to compete in local and export markets, among other needs. These CSMIs will require assistance as considerable investments have already been made by them.

In line with the priorities of the country's 7th Plan (1992-97), specifically that of an integrated and balanced development throughout the country and the development and expansion of the private sector, it is envisioned that the Business Opportunities and Information Centre (BOIC) of the Ministry of Trade and Industry will continue to provide training

to new CSMI entrepreneurs and also address the needs of existing enterprises. The BOIC has been designated as the focal point for CSMI promotion and development. Further international assistance will be required to meet this expanded dual function and to develop the capability to perform these activities.

o Project Components:

The project proposes to establish an Entrepreneurship Development and Advisory Services Unit within the BOIC. The project will consist of the following components:

(1) **Entrepreneurship Training**

By the end of the current UNIDO-assisted project in June 1993, the present staff will be adequately trained to conduct comprehensive entrepreneurship development courses. These courses will continue to be held at least twice a year. The total of trained potential CSMI entrepreneurs during the 7th Five Year Plan (1992-97) is expected to reach 250, with approximately 150 new business start-ups. Primary tasks will include participant recruitment, selection, training, financial packaging, and start-up operations.

The EDAS Unit will take the lead in this effort with the coordinated assistance of staff trained by the project from BDFC, BCCI, and NWAB.

(2) **Advisory Services**

Through a four-month sub-contract, the National Project Director and at least four project staff -- with the possible participation of staff from other CSMI related institutions -- will be trained intensively in the tools and techniques of advisory and industrial extension services to develop the capability to provide these services. This training will be both classroom type and actual on-the-job in-factory work, wherein the participants will be coached to provide these services to existing enterprises. Some of the areas to be covered include: enterprise diagnostics, integrated firm analysis, production and operations planning, cash management, purchasing and inventory control systems, technology audit and choice of technology, management and human resource development, cost accounting and control, financial analysis, and other relevant tools.

This component will devote 20-25 percent of its time and efforts in the rural districts. Assistance to the CSMI sector shall be both enterprise-specific and industry-specific. Hence, there will be a need for sectoral specialists.

### **(3) Industry Specialists**

To address the specific needs of selected priority sectors of industries beyond the current capacity of the Ministry of Industry, international experts will be fielded on a short-term basis. Some of these sectors include: agro-based, mineral-based, forest-based, and cottage industries.

A total of eight international experts are proposed for an average of three person-month periods. A total of 24 person-months will be required.

### **(4) CSMI Promotion and Coordination**

The EDAS Unit will serve as the facilitating unit in the coordination between and among CSMI related agencies in Thimphu and the rural districts to ensure increased utilization and cooperation of these agencies in promoting and developing the CSMI sector. It will also be noted that a CSMI Coordinating Council has been set up as a part of the BOIC Organization Plan. The Council will be chaired by the Director of the Department of Trade and Industry and will consist of representatives of CSMI related institutions. The Joint Director of BOIC will act as ex-officio Member-Secretary.

The coordinated agencies and programmes shall include: BDFC industrial loans and rural credit programmes (also those of the Bank of Bhutan and the Royal Insurance Corporation of Bhutan), the proposed Ministry of Industry industrial guarantee scheme, BCCI liaison offices, NWAB district chapters, local district administrations (Dzongkhag level), the BOIC technical information services programme, the human resources development programme for the private sector, relevant UNDP-assisted projects (as well as those funded by other donors), and others as may be necessary. In effect, the EDAS Unit will serve as the focal point of assistance and advice to new and existing entrepreneurs in various aspects of their business operations.

#### **o Project Outputs:**

The planned tangible outputs of the project for the three-year period are:

- . approximately 150 potential CSMI entrepreneurs trained in entrepreneurship development courses and assisted in the preparation of their business plans, with 60-90 starting their businesses;
- . approximately 90 existing CSMI enterprises assisted in improving their operations; and



**(b) TECHNICAL INFORMATION SERVICES**

- o Proposed Starting Date: July 1992 to June 1995  
(Three years)
- o Implementing Agency: Business Opportunities and  
Information Centre (BOIC)
- o External Financing Required: \$267,000
- o Objectives:

The TIS project will provide a range of relevant services to new and existing CSMI to improve their productivity and ensure their competitiveness through the provision of business and technological information necessary to guide potential and existing entrepreneurs in their proposed investments and business plans, the preparation of brief project profiles, a current awareness and a selective dissemination of information on technologies appropriate to Bhutan, information on equipment and suppliers, and relevant information on product and material standards.

- o Rationale:

One of the major constraints identified in the development and viable operations of CSMI in Bhutan is the inappropriate level of technologies being applied in industry. This conclusion is based on the experiences of MTI/BOIC in assisting new and existing enterprises and the findings of three sectoral studies -- on the agro, mineral and forest-based industries -- prepared for the UNDP/UNIDO-assisted Industrial Planning project (SI/BHU/87/027). Many industries have been described as just emerging from the primitive handicraft techniques of production and are just beginning to be partially mechanized. Most of the enterprises in the rural cottage and small scale category have been classified as "gravely sick".

Owing to crude production techniques and lack of better precision machinery and equipment, the industry's output is very low and the quality very poor, acceptable only in the domestic market. Because of Bhutan's economic relationship and proximity to India, most of the machinery and equipment used in CSMI are Indian-manufactured and manual-operated. There is very little or no access to alternative technologies available in other countries; hence, the choice of technology is very limited.

In contrast to most developing countries, Bhutan does not have an unemployment problem and still has to employ some 30,000 non-nationals for industry and other activities. Its population of approximately 700,000 is relatively small. Many consumer products are imported, mainly from India through preferential trading arrangements. The technology requirements of industries in Bhutan are unique and quite different from other developing countries, which promote labour-intensive technologies for their CSMI's (such as in India). Their choice of technologies and equipment should, therefore, be much wider.

There is, however, no available information service in the country that has access to sources of information and "centres of excellence" abroad. BOIC has been designated to provide this service to new and existing CSMI enterprises, but it presently lacks the capability to perform this task effectively. The proposed project is expected to fill this void, thereby enhancing the capacity of industry to compete in the local markets and those in neighbouring countries. As industries become more efficient, it is also expected that products of Bhutan could compete in export markets.

o Project Components:

The project proposes to develop a Technical Information Services (TIS) unit within the BOIC. It will have the following components:

(1) Staff Training/TIS Specialist

It is proposed that the Project Coordinator, an Information Officer, and a Documentalist/Librarian be given classroom and on-the-job training in one of the information centres abroad for about two to three months each, followed by a study tour to other information centres to facilitate networking arrangements. An expatriate technical information specialist, familiar with CSMI needs, will also be assigned to advise the project in the development of the TIS unit on a split-mission assignment for a total of 12 person-months. The specialist will also provide guidance in the preparation of brief project profiles, necessary data bases, and networking arrangements.

(2) Library Materials Development

Even the most basic engineering handbooks and manuals on industry standards are not available in Bhutan, which could be useful reference materials for industry as well the staff of BOIC's Entrepreneurship Development and Advisory Services unit. These would include mechanical, chemical, electrical, civil and other engineering handbooks. In the absence of an Institute of



Standards, which is not yet considered to be urgent at this time, the TIS unit should acquire some manuals on industry standards that are applied in other countries, possibly those from India, the United Kingdom, and the United States to begin with. In addition, the project will subscribe to industry-specific publications on industries that are relevant to Bhutan, such as woodworking, agro-industries, minerals, food processing, etc. A list of recommended basic reference materials may be compiled through the assistance of the National Research Council's Technical Information Service (NRC/TIS) in Ottawa, Canada and/or UNIDO's Technical Information Section in Vienna, Austria, and/or the Standards and Industrial Research Institute of Malaysia (SIRIM), and/or the Singapore Institute of Standards and Industrial Research (SISIR).

### **(3) Preparation of Project Profiles**

With the assistance of the Entrepreneurship Development and Advisory Services unit of BOIC and possible sub-contract with other local institutions, at least 30 project profiles will be prepared on industries identified in sectoral studies as suitable for Bhutan. About 10 of these profiles should be industries with export potential. A format indicating the components of these profiles will be developed so that the specifications will be consistent. Samples of project profiles may be requested from the Institute for Small-Scale Industries (Philippines) and the National Small Industries Corporation (India). These project profiles will guide prospective CSMI entrepreneurs in potential businesses.

### **(4) Networking Arrangements**

The TIS unit will establish linkages and information accessing arrangements with international and regional sources of technology information and "centres of excellence" in specific sectors. In some cases, financial arrangements for cost of accessing and possible membership fees may be required. However, because Bhutan is still an LDC, these fees are expected to be nominal or based on actual direct costs incurred.

Arrangements may be made with Technonet Asia/Singapore Institute of Standards and Industrial Research (SISIR), NRC/TIS Canada, Asian Institute of Technology in Bangkok, UN/ESCAP Asian and Pacific Centre for Transfer of Technology (APCTT) in India, UNIDO in Vienna, ILO in Geneva, FAO in Rome, GTZ in Eschborn, Intermediate Technology Group in London, and others. Sector-specific "centres of excellence" include the Leather Research Institute in Madras, Forest Research Institute of Malaysia, Agricultural Information Bank for Asia (AIBA) in the Philippines, the Rattan and Bamboo Information Centre in Malaysia, etc. A

more comprehensive list, with contact persons and addresses, may be requested from the International Development Research Centre (Asia Regional Office in Singapore) and/or Technonet Asia. (Technonet Asia cooperates with some 200 of these institutions and they would all be included in their Newsletter mailing list.)

(5) Current Awareness Service (CAS) and Selective Dissemination of Service (SDI)

Unless used by industry, information that remains in the library shelves is of no value. Hence, an active dissemination of information will be pursued. This will take several forms:

-- current awareness service (CAS), wherein descriptive titles of new articles/information abstracted from publications and information the TIS unit receives are periodically sent to CSMI subscribers and/or published through a newsletter (either BOIC's or BCCI's, or a cooperative effort of both). CSMI entrepreneurs interested in the full information will then make a request for a photocopy;

-- selective dissemination of information (SDI), in which case new information relevant to specific industry sectors are compiled and sent to them on a subscription basis;

-- technical enquiry service (TES), which should respond to specific problems or questions. If the information is not available in-house or from other national agencies, the TIS unit will have to access it from its international sources. A fee may be charged for accessing such information based on actual cost. If the information is of such importance to the entrepreneurs, he should be willing to pay for it; and

-- BOIC and the TIS unit should publish a simple brochure or newsletter, indicating the services it can provide the CSMI sector.

o Project Outputs:

The BOIC/TIS unit should develop a system to quantify the number of enterprises/entrepreneurs it has served during a certain period. The major outputs expected during the proposed three- year period of the project are:

- . at least 30 profiles on industries appropriate to the country, published and circulated to about 300-500 interested parties;

- . approximately 150 enterprises/entrepreneurs subscribing to its CAS and SDI services;
- . approximately 300 enterprises/entrepreneurs provided with information that meet their specific needs; and
- . trained staff to continue with the operations of the TIS unit at the end of the project.

o Plan of Operation:

Even before the proposed project commences, the BOIC will already operate a modest TIS unit, by indexing and arranging in shelves whatever materials it has already compiled. The UNIDO-assisted BIEDP project has allocated \$10,000 for 1992 for the procurement of some of the urgently needed basic handbooks and manuals, subscriptions to relevant industry-specific publications, and costs of accessing important information immediately required by EDP graduates and other CSMI entrepreneurs.

The BOIC will temporarily assign its coordinator for the Industrial and Trade Statistics unit to also oversee the TIS unit. An information officer and a documentalist/librarian will be assigned to the TIS unit. Communications are being made to known sources of information and "centres of excellence" to make initial arrangements in accessing their information available and continue compiling materials. The BOIC will, therefore, have at least the framework and a modestly operating TIS unit by the time the project commences.

The Royal Government will shoulder expenses related to national staffing and support personnel; office facilities; telex, telefax and telephone facilities; equipment maintenance and office supplies.

The International Development Research Centre (IDRC) of Canada (through its Asia Regional Office in Singapore) and/or the UNDP/UNIDO shall be requested to provide a Technical Information Specialist for 12 person-months (split-mission), \$120,000; staff training overseas for three persons, \$30,000; library materials and subscriptions to industry journals, \$30,000; preparation and publication of project profiles, \$18,000; networking costs including accessing information from data bases, \$24,000; an heavy-duty photocopier with sorting machine, \$15,000; a computer and printer, \$6,000; and a sundry (miscellaneous) budget, \$24,000. Total external financing required is \$267,000. [ ]

**(c) CSI CREDIT GUARANTEE SCHEME**

- o Proposed Starting Date: July 1992
- o Implementing Agency: Department of Trade and Industry
- o Financing Required: Nu. 10,000,000 initial fund  
(approx. \$400,000)
- o Objectives:

The Cottage and Small Industry Credit Guarantee Fund (CSI/CGF) will provide a guarantee cover of up to 75 percent to financial institutions in Bhutan (BDFC, BOB, and RICB) on their loans to viable CSI enterprises, but which do not have sufficient acceptable collateral, thereby ensuring the accessibility of these enterprises to formal credit sources and the development of a strong and viable CSI sector.

- o Rationale:

The availability of funds in the formal financial sector for credit to industry appears to be sufficient to meet the financial requirements of industry for the next three years. The total loan portfolio of the financial institutions in Bhutan available to industry is in excess of Nu. 500 million, with about 40 percent remaining unutilized. As of 30 September 1991, the loan portfolio of the Bhutan Development Finance Corporation (BDFC) was Nu. 140 million with Nu. 68 million still available for new projects.

The main problem of cottage and small industries has been, however, their inability to access these funds for business start-up and expansion. Some 32 percent of BDFC's outstanding loans to industry were in arrears as of 30 September 1991. This may be attributed to several factors: (a) the enterprises were suffering from temporary dislocation; (b) inadequate monitoring and supervision; (c) poor project appraisal; (d) the character of the entrepreneur was not properly checked; and (e) inadequate collection procedures. The collection record of BDFC is, however, comparable to some development financing programmes in other countries. Most of these deficiencies are currently being rectified, including the introduction of a management information system (MIS) through technical assistance provided by the Asian Development Bank.

However, because of these bad experiences, BDFC has become very strict in requiring collateral requirements of 150 percent of the amount of the loan. The valuation of the collateral is based on published government rates two years ago

and may no longer reflect market values, thereby bringing the effective required collateral values much higher. The CSI Credit Guarantee Fund is expected to fill the gap in the collateral requirements for projects that are appraised to be viable. There have, in fact, been instances wherein the BDFC had considered the proposed projects as viable and yet the loans were not granted because of collateral or equity deficiency.

Some experiences in providing guaranteed loans overseas indicate that the default rate in guaranteed loans are less than those loans without guarantee. One of the most important reasons is that there is better appraisal in both the viability of the project and the character of the entrepreneur. The appraisal is a two-step process. Firstly, the financial institution makes sure that the project it endorses for guarantee meets its strict criteria for viability. After all, it also absorbs a 25 percent risk. Secondly, a multi-agency review committee takes a second look at the project and decides whether a guarantee will be provided. There is, in effect, a "quality check" of the projects and the proponents.

Credit guarantee schemes have long been implemented in several countries, with varying degrees of success. In almost all cases, however, it has addressed the issue of access by cottage and small enterprises to formal credit sources, thereby promoting the growth of this sector in their economies. The CSI/CGF should be viewed as a pilot activity in Bhutan and should be implemented with a high degree of innovation and flexibility, consistent with the specific situations existing in the country.

o Guidelines and Procedures:

The following guidelines and procedures in the creation and administration of the CSI/CGF are initially proposed:

(1) Initial Fund

An initial fund of Nu. 10.0 (approx \$400,000) is proposed to be set up within the Ministry of Trade and Industry. This figure has been estimated on the basis of:-

- an average loan size of Nu. 600,000 (the average loan size of BDFC loans was Nu. 280,000 as of the end of September 1991);
- a maximum of 75 percent guarantee for 100 CSI projects, the total guarantees provided would amount to Nu. 45.0 million;
- assuming a 25 percent default rate, the probable loss would amount to Nu. 11.25 million (less assets that may be recovered from the defaulting enterprises);

-- the Fund is, however, expected to earn interest from its deposits and will also collect a 2.0 percent annual fee on the outstanding loan balances. This is estimated to amount to more than Nu. 1.50 million for a three-year period.

It is highly possible that the default rate can be kept at very much below 25 percent, based on the experiences of credit guarantee funds in other countries. In some cases, the earnings of the fund were more than sufficient to cover losses. However, to be on the conservative side, current experience of BDFC is taken as a parameter.

## (2) Fund Administration

The administration/secretariat of the Fund will be based at DTI/BOIC. A top-level CSI/CGF Review Committee will oversee the management of the Fund. This Review Committee is proposed to consist of: the Minister or Joint Secretary of the Ministry of Trade and Industry, as chairman; the Director of the Department of Trade and Industry, as member; the Joint Director of BOIC, as member-secretary; and one representative each from the Royal Monetary Authority (RMA) and the Bhutan Chamber of Commerce and Industry (BCCI).

The Review Committee will finalize the guidelines, rules and regulations governing the availment of the guarantee, make amendments as necessary, and approve the guarantee for specific loans. It will meet periodically or as often as necessary.

## (3) Proposed Initial Guidelines

Subject to the amendment and final approval of the Review Committee, the following initial guidelines are proposed:

-- Credit guarantees will be provided only to cottage and small industries with project costs of up to Nu. 5.0 million, with the loan amount not to exceed Nu. 1.0 million. The guarantee will not exceed 75 percent of the loan and will cover only the amount of the loan which are for fixed assets and permanent working capital.

-- A guarantee fee of 2.0 percent per annum will be charged, based on the initial loan amount and thereafter on the outstanding loan balance. The bank will collect this fee at the same time and in the same manner it collects its own interest on the loan and remit the fee to the Fund within 30 days;

-- The bank will make the first appraisal of the project, based on acceptable standards of viability and the character and capability of the proponent. If collaterals offered are not sufficient to cover the loan, the bank may apply for a guarantee from the Fund.

-- The Review Committee will make the final decision whether the project will be guaranteed. It should be emphasized that the approval will be based on the merits of the project and not on the collaterals offered.

-- The responsibility to collect payments on the loan rests with the bank. Quarterly reports will be made by the bank on the status of the loans guaranteed. If payments are in arrears for six months, the bank should inform CSI/CGF administration on the reasons for such arrears so that assistance may be provided by the member-institutions represented in the Review Committee.

-- The borrower may be considered in default by the bank if the account is in arrears for at least one year. In which case, the bank will take all necessary legal steps to recover whatever assets are recoverable. Assets recovered will be sold by the bank in a manner satisfactory to the Review Committee. The losses on the loan will be shared by the bank and the Fund on a pro rata basis (based on the percentage of the guarantee). Thereafter, the Fund will promptly pay the bank for its guaranteed share of the loss.

Other guidelines and procedures may be instituted by the Review Committee from time to time.

o Expected Outputs:

Based on the objectives and activities of BOIC in training new entrepreneurs and assisting existing enterprises, it is expected that 30 to 40 CSI loans will be guaranteed per year.

o Plan of Operation:

The Ministry of Trade and Industry has made a proposal to include setting up the Credit Guarantee Fund in the 7th Plan. In case the proposed budgetary outlay will not be available from the Royal Government, it is proposed that donor sources be tapped for the initial requirement of \$400,000. Potential sources include: the UNDP/UNCDF, the Kuwait Fund, bilateral donors, and the Asian Development Fund.

A coordinator of the Fund will be assigned to DTI/BOIC and will access to and the assistance of other units, as may be required. []

**(d) DEVELOPMENT OF THE CANE AND BAMBOO INDUSTRY  
(Pilot Mastercraftsmen Programme)**

o Proposed Starting Date: June 1992 (six months)

o Implementing Agency:

MTI/BOIC, in cooperation with the Regional Trade and Industry Officer (RTIO) of the Department of Trade and Industry (DTI).

o External Financing Required: \$30,000  
(from UNIDO/DP/BHU/88/001)

o Objectives:

To develop the rattan cane and bamboo industry in the Eastern Region (Mongar, etc) of Bhutan by introducing improved products and the necessary skills to villagers' groups in rural areas.

o Rationale:

Rattan cane and bamboo resources has been determined to be available in sufficient quantities in the Eastern Region of the country. However, products made out of these materials are of low value and very poor in quality and designs. They provide very little income to people engaged in this craft.

On the other hand, some South East Asian countries (Indonesia, the Philippines, and Thailand) have made tremendous strides in developing products and the techniques of production using rattan cane and bamboo materials thereby making the industry a major foreign exchange earner in overseas markets and the tourist trade. There is no reason why the skills cannot be acquired by Bhutanese craftsmen since the industry already exists with modest products.

Similar mastercraftsmen projects have been undertaken in other countries (Bangladesh, Nepal, Malaysia, and Sri Lanka) with a considerable degree of success in transferring know-how and skills to these countries. If successful, this pilot project could be expanded and could also include other skills in the handicraft and cottage industry sector such as wood carving, pottery, ceramics, weaving, etc. applicable to other rural areas of the country.



o Project Activity:

Through a sub-contract, a mastercraftsman who is skilled in working with rattan cane and bamboo and with the ability to train people will be recruited from one of the South East Asian countries (Indonesia, the Philippines, or Thailand). He will bring with him the necessary tools and jigs that he will need and leave them behind at the end of the project. He will also bring with him samples of products made of rattan cane and bamboo. He will stay in the villages and provide hands-on training to groups of villagers in rural areas in the Eastern Region of the country (Mongar, etc).

o Project Output:

The success of the proposed project and the number of trained villagers will depend, to a large extent, on the interest that will be generated by the RTIO. It would be difficult, at this stage, to determine the number of participants but a substantial number could be trained within the six-months period.

o Plan of Operation:

A sub-contract will be awarded to an institution operating in the South East Asian countries mentioned above. The sub-contractor will be responsible for the recruitment and fielding of the mastercraftsman.

The estimated cost of the sub-contract is \$30,000. This will consist of: mastercraftsman fee for six months, \$10,800; subsistence allowance, \$7,200; airfare and terminal fees, \$1,500; local transport in Bhutan, \$500; tools and jigs and sample products (including airfreight), \$3,000; sundry (miscellaneous), \$1,000; sub-contractor costs and overhead, \$6,000.

The RTIO will be responsible for the organization of the villagers into training groups, make the necessary arrangements and provide logistical support. He will oversee the activities of the mastercraftsman. He will coordinate with and seek the assistance of the local authorities and the district BCCI, as may be necessary. [ ]

**B. STRATEGIC PLAN:  
BHUTAN CHAMBER OF COMMERCE AND INDUSTRY (BCCI)**

**1. Organization**

Established in 1980, The Bhutan Chamber of Commerce and Industry (BCCI) is the only chamber of commerce and industry in the country. It is mandatory for all licenced enterprises to become members of the chamber. Its main source of revenue is a 30 percent share of trade and industry licence renewal fees which amount to about Nu. 700,000 yearly. The BCCI was re-established on 1 May 1988 as a liaisioning body between the Royal Government and the private sector. It is a purely non-profit making private sector institution.

The chamber is run by a salaried staff of 12 persons headed by a General Secretary, working under the direct supervision of the President, two Vice-Presidents and Executive Members. It has 19 liaisioning offices in 18 districts of the Kingdom of Bhutan. The Executive Committee consists of 25 members, including the President and two Vice-Presidents, who are elected for a period of three years subject to re-election. It consists of: five representatives from large industries, five from medium scale industries, four from small industries, one from the National Women's Association, six from the traders' group, two from the Samdrup Jongkhar region, and two from the Gaylegphug region.

The General Forum/Body comprises 40 member representatives from local Chambers of Commerce and Industry (LCCI) of each dzongkhag and major cities/towns of the Kingdom. They meet once a year for which no quorum is required. Special meetings may also be called to consider urgent matters for which a quorum of 2/3rd of the general forum members is required. An Advisory Committee has also been formed, consisting of an unspecified number of members, and is responsible to advise the Executive Committee and the Secretariat on technical issues whenever necessary. The existing organization chart of the BCCI is given in Exhibit 2.

A revised organization chart is being proposed and is given in Exhibit 3. The proposed organization chart shows the programs and services that the Secretariat is intended to provide and establishes sectoral groupings/committees on the most important sectors of the business community. The chairpersons of the sectoral committees should be ex-officio members of the Advisory Committee, in addition to other appointed members. It may be necessary that some important sectors be encouraged to spin-off into separate industry associations, functioning under the umbrella of the chamber.

## **2. Mission**

BCCI exists for the development and growth of a dynamic private sector in commerce and industry in the Kingdom of Bhutan through the provision of effective support and services in coordination with and the cooperation of the Royal Government and other local and international governmental and non-governmental organizations. Particular emphasis is given to being responsive to members' needs and acting as a liaisoning body with the Royal Government, providing business assistance services, management and business development, and business promotion for its members in order to enhance their contributions to the prosperity and well-being of the Kingdom.

## **3. Objectives**

The specific objectives of the BCCI are:

(a) to be a private organization with representatives from all over the Kingdom who shall represent all sectors of Bhutanese trade and industry;

(b) to supplement and augment the efforts of the Royal Government to enhance and promote private sector trade and industry in keeping with the government policies and programmes;

(c) to be a forum where private sector businessmen and women may discuss problems relating to the development and growth of trade and industrial activities within the Kingdom and seek or propose possible solutions;

(d) to endeavor to project the consensus of the business community to the Royal Government on issues requiring its attention; and

(e) to serve as an information centre which can disseminate business information not only to its members but also to other interested parties in other countries in order to promote Bhutanese trade and industry.

## **4. Guiding Principles**

The following principles shall guide the operations of BCCI:

(a) serve all existing and potential trading and industrial enterprises in all areas of the Kingdom of Bhutan;

(b) maintain proper communication and liaison between the Royal Government and the business community;

(c) make government policies and regulations known to its members and the business community in general.

(d) coordinate its activities and cooperate with other non-governmental and governmental organizations related to the promotion and development of trade and industry;

(e) establish formal working relationships with trade and industry federations, chambers and associations overseas so that it may serve its members better;

(f) aspire for professional and technical excellence in serving its members;

(g) observe ethical standards by being objective and fair, respecting commitments, and maintaining confidentiality; and

(h) keep the interests of its members above the chamber's consistent with the well-being of the Kingdom.

## 5. Strategies

The BCCI strategies for implementing its objectives and designing programmes are:

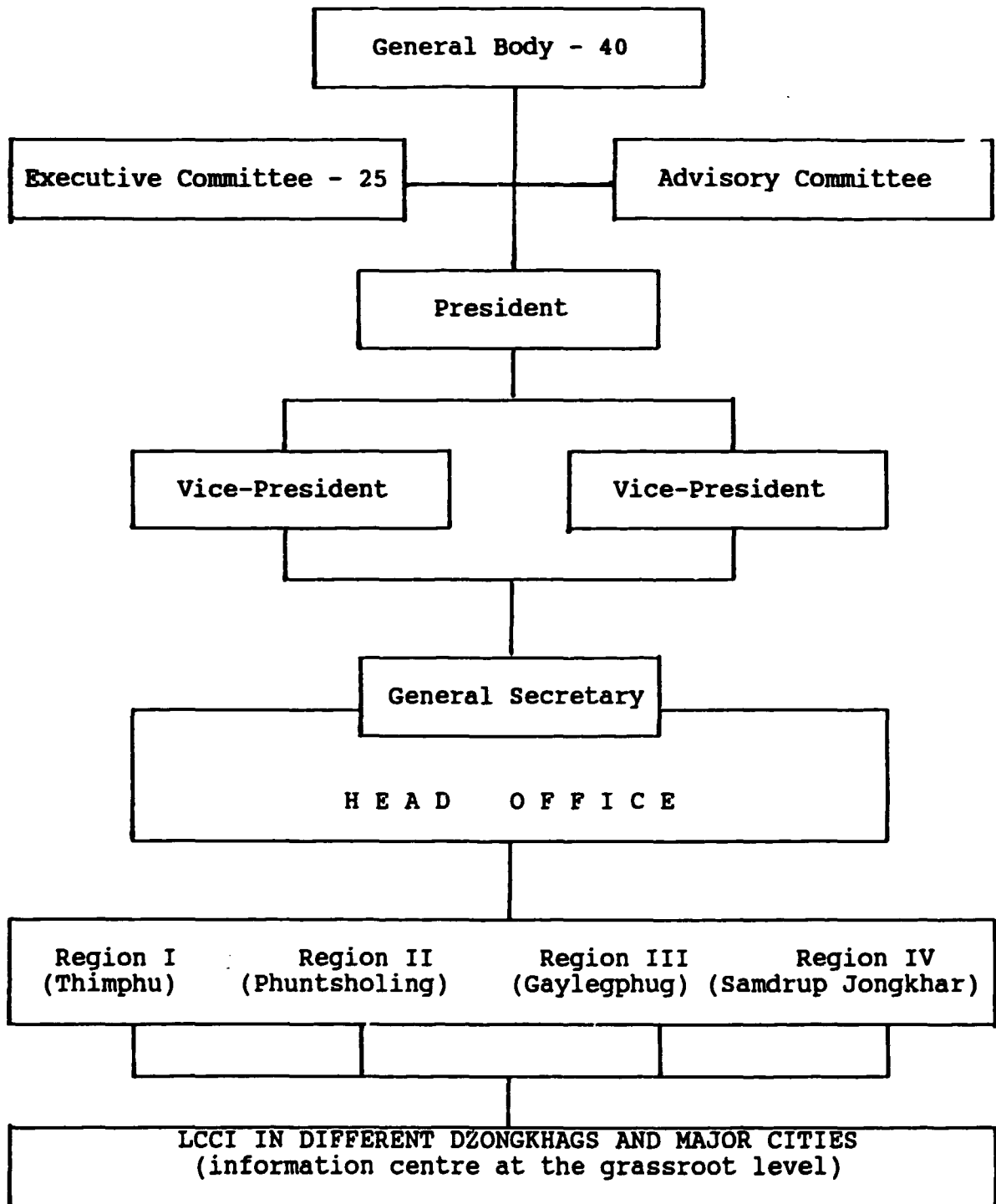
(a) develop programs which emphasize long-run sustainability and self-reliance;

(b) take advantage of existing and planned related programmes and projects in the public and private sectors and to use its resources to leverage the resources of other entities so as to multiply the national impact;

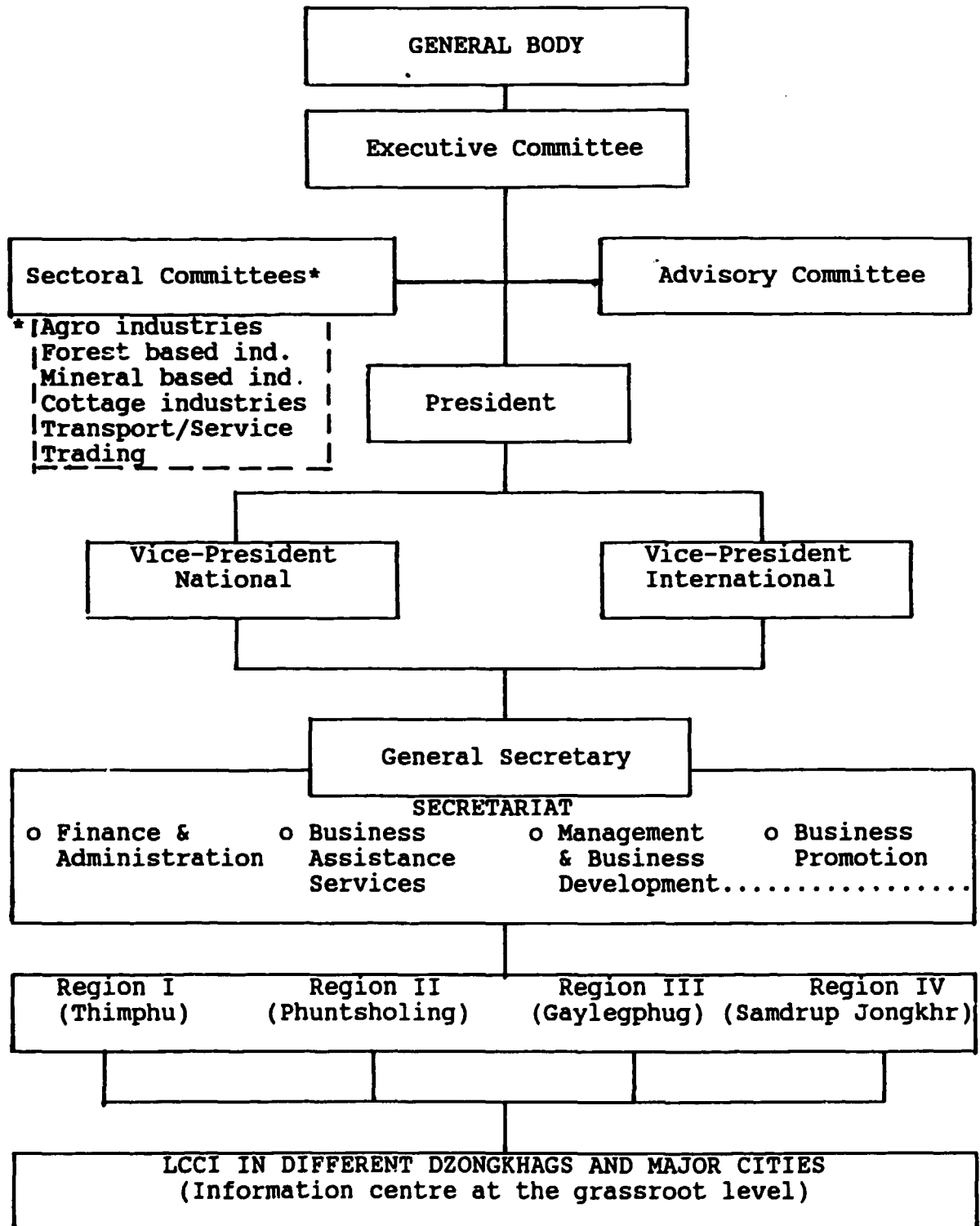
(c) serve as an advocate for trade and industry issues in terms of programme effectiveness, policy and regulatory impacts by providing a focal point for receiving complaints and suggestions from its members, in cooperation with other agencies especially the Ministry of Trade and Industry; and

(d) remove information related barriers to the formation and growth of trade and industry by serving as a catalyst among agencies and as broker among enterprises.

**Exhibit 3: Existing Organization Chart  
Bhutan Chamber of Commerce and Industry**



**Exhibit 4: Proposed Organization Chart  
Bhutan Chamber of Commerce and Industry**



## 5. Programmes

The following four programmes are proposed to be undertaken by the BCCI during the next five years (1992-97):

### (a) ORGANIZATION STRENGTHENING AND DEVELOPMENT

- o Proposed Starting Date: Soonest possible
- o Implementing Agency: Bhutan Chamber of Commerce and Industry (BCCI)
- o External Financing Required: \$120,000
- o Objectives:

The project will re-structure the organization of BCCI and its Secretariat, identify and initiate the type and extent of services that it will provide its members in order to make the organization more responsive to their needs and an effective partner of Government in national development.

- o Rationale:

Some of the Chamber's major weaknesses as identified by its Advisory Committee are:

- its role is not clearly spelled out;
- lack of proper support and cooperation between the business community and the Chamber;
- lack of managerial and technical expertise;
- lack of proper organizational set-up to function effectively; and
- lack of people's confidence and faith in the Chamber.

On the other hand, the potential of BCCI to become one of the most important private sector organizations is enormous. All licenced trading and industrial enterprises are automatically members of the Chamber. The Royal Government's emphasis in the development of the private sector and on industrial development reposes many responsibilities in the BCCI. The development of the Chamber's organization and its secretariat's capabilities to deliver some essential assistance and services should, therefore, be regarded as a priority activity.

o Project Components:

The project will consist of the following components:

**(1) Specialist in Chamber Activities/Staff Training**

An expatriate specialist in Chamber of Commerce and Industry (CCI) activities, familiar with developing country needs, will be assigned on a split-mission for a total of 10 person-months. After assessing the needs of BCCI members and the role of other agencies in addressing those needs, the specialist will provide guidance in the type and range of services that the Chamber could effectively provide. The specialist will also assist in re-structuring the BCCI Secretariat and, as necessary, suggest changes in the manner the overall Chamber operates.

On-the-job training or guidance will be given to the Secretariat's staff by the specialist. If necessary, some staff may be recommended for overseas training or study tours within the HRD programme for the private sector.

**(2) Research and Surveys**

Advocacy on policy and other issues that are of importance to its members is universally recognized as one of the major functions of a chamber. To perform this effectively, periodic research and surveys should be conducted among its members with the aim of: identifying needs and constraints, information that may be required by government, and other areas that may be of concern to its members. The methodology and format may be suggested by the specialist. In performing its advocacy role, BCCI will be greatly assisting the government in clarifying issues and, if necessary, modify or amend policies that are a constraint to business and private sector development.

**(3) "Partnership" or Networking with CCIs Overseas**

"Partnership" or networking arrangements with trade and industry federations, chambers, and sectoral associations in more advanced countries should be developed. These arrangements can take several forms: such as exchange of information, assistance from overseas chambers through the provision of expertise and chamber office needs, exchange of trade missions, etc.

o Project Outputs:

- a re-structured BCCI organization and secretariat;
- trained key staff of the BCCI secretariat to implement proposed assistance and surveys;



- identified needs, constraints, and concerns of BCCI members; and
- networking or "partnership" arrangements with CCIs sectoral industry associations in more advanced countries.

o Plan of Operation:

Even before the proposed project commences, the BCCI may already begin to consider the proposed organizational changes in the proposed strategic plan, look into staffing requirements, and initiate contacts with overseas CCIs and industry associations on sectors relevant to Bhutan.

The BCCI will shoulder expenses related to national staffing and support personnel; office facilities; telex, telefax and telephone facilities; equipment maintenance and office supplies; and local transport.

Assistance may be sought from the UNDP/UNIDO, the Austrian Government, and/or the German Government. They shall be requested to provide an specialist for 10 person-months (split-mission), \$100,000; two computers and a printer, \$10,000; and a sundry (miscellaneous) budget, \$10,000; for a total external financing of \$120,000. [ ]

**(b) BUSINESS ASSISTANCE SERVICES**

A Business Assistance Services (BAS) unit in the BCCI Secretariat is proposed, which will be the responsibility of an Assistant General Secretary. This will involve:

o Assistance in meeting government requirements, such as in filling up forms, information on government services that may be availed of by members, writing of correspondence on behalf of members, etc. Work in this regard should be undertaken in close coordination and, as necessary, with the cooperation of MTI/BOIC.

o A "foster parent" programme may be initiated, wherein officers of larger enterprises may devote some of their time to the chamber on fixed schedules that may be agreed upon. The objective is to provide assistance to smaller enterprises, either in the Head Office or preferably on-site in rural areas.

o A "mentor" programme may also be implemented. In this case, the more successful member-enterprises could offer "apprenticeships" to cottage and small entrepreneurs/managers. The issue of "helping competitors" may arise, but this can be

minimized by assigning apprentices in non-competing firms either because of geographical reasons or the products are not directly in competition.

o Assistance in the recruitment of non-national workers is an important service that the BCCI could provide its members. This will mean adopting the necessary recruitment and testing procedures to ensure that the right persons are identified. Fees to reimburse the BCCI for the costs of this recruitment service may be levied.

o As a member of the Review Committee of the proposed Cottage and Small Industries Credit Guarantee Fund (CSI/CGF), the BCCI through its LCCIs could attest to the character of borrowers and, whenever necessary, provide assistance in the collection efforts from those who are in arrears. This should not be taken to mean that the BCCI will be responsible for collection from delinquent borrowers.

Other service may be added by the unit as necessary. The proposed CCI specialist would also be able to recommend additional services consistent with the capability and resources of the BCCI. [ ]

#### **(c) MANAGEMENT AND BUSINESS DEVELOPMENT**

A Management and Business Development (MBD) unit is proposed to be set up in the BCCI Secretariat, which will be the responsibility of an Assistant General Secretary. He will also be working in close coordination and with the cooperation of MTI/BOIC and other agencies.

Some of the activities that are proposed to be handled by the MBD unit are:

o Short-term seminars on subjects that are needed by BCCI members, such as Accounting and Bookkeeping for Cottage and Small Industries, Marketing Management, Production Planning and Control, Purchasing and Inventory Management, Quality Control Techniques, General Supervisory Management, Personnel Management, Budgeting of Working Capital, Rules on Taxation, etc. A complete programme should be prepared in advance say for one year so that members could prepare for their participation. A roster of resource persons may be developed which may include expatriate consultants assigned in Bhutan, government officers, executives of member firms, and personnel from other institutions.

To initiate this programme, the UNDP/UNIDO-assisted BIEDP project with BOIC has allocated \$30,000 to recruit a small business accounting specialist for three person-months to assess the needs of small enterprise, develop the necessary formats,

organize and conduct short-term training through the BCCI. If funding is approved, this activity can be implemented in June to August 1992.

- o Cottage industries development can be undertaken by the BCCI, in cooperation with BOIC and the National Women's Association of Bhutan (NWAB). By promoting the growth of cottage enterprises into small industries, the Chamber will not only be contributing to national development but will also be increasing its membership base.

The UNDP/UNIDO-assisted BIEDP project has also allocated another \$30,000 to recruit a cottage industry specialist for three person-months to assess the needs of cottage industries, develop a plan to address those needs, organize and conduct training for rural cottage industries through the BCCI and the NWAB. If funding is approved, this activity can be implemented in October to December 1992.

Other activities in cottage industries development may be also be implemented depending on the assessment of the sector's needs.

- o Involvement in the private sector HRD programme. The BCCI, as the main private sector institution, should assist the Ministry of Trade and Industry in identifying HRD needs and participants to fill available training slots. The HRD programme is of major importance to its members and it is in the interest of the BCCI to ensure that the benefits derived thereof are maximized.

- o National and regional symposia and workshops may be conducted by the BCCI in conjunction with its General Assembly and other meetings. The symposium or workshop will discuss subjects that are of interest to its members. Knowledgeable speakers may be invited from the roster of resource persons. Some of the workshops should be conducted at the regional level. This will arouse the interest of the local chambers. The BCCI should also take advantage of the presence of foreign consultants in the country and request them to conduct workshops for its members on subjects of their expertise. [ ]

#### **(d) BUSINESS PROMOTION**

A Business Promotion (BP) unit is also proposed to be organized under the responsibility of an Assistant General Secretary. The unit will assume the following activities:

- o Trade and investment information library. Based on the networking and partnership arrangements made with overseas CCIs and sectoral industry associations, information that are of

relevance to its members should be compiled and collated in the library. But these information should not remain in the library shelves. Efforts should be made to make whatever information the library has acquired known to its members. One possible way is the publication of a regular BCCI newsletter, on a quarterly basis to begin with and more frequent if members find it useful. The BCCI should also make arrangements with the Kuensel for the publication of a regular column devoted to the chamber and written by chamber officers or members.

o The organization of a raw materials procurement cooperative among BCCI members should be explored, particularly among small enterprises whose raw materials requirements are not adequately met because of the small amounts they need. These raw materials may either be locally procured such as lumber or imported such as metals and chemicals. This would, however, require some studies and surveys to be conducted among its members to determine their raw material constraints. This activity could be undertaken in cooperation with the Sectoral Committees being proposed in the new organization chart.

o A sub-contracting exchange could also be initiated by the Chamber, wherein large enterprises will be encouraged to sub-contract some of their component requirements to small industries. In many instances, it is more advantageous and less costly for large enterprises to procure some components from small enterprises than to manufacture the components themselves. This system of sub-contracting is widely practiced in Japan and other countries. In this regard, the role of the BCCI is that of a facilitator or broker since it has the facilities to determine the needs of its members.

o Export promotion activities. Because of its small market, Bhutanese products will eventually have to find export markets in order to develop its industries. It is the legitimate role of the BCCI to be a catalyst in export promotion activities. An important pre-requisite to export promotion and marketing is the determination of local capabilities to meet the standards required in foreign markets in terms of quantity, quality, price and delivery schedules. This determination is an important function that the BCCI could perform. Only after this activity is performed can the Chamber consider other export promotion efforts: participation in trade fairs, sending of trade missions abroad, promotion of Bhutanese products through other chambers of commerce and industry abroad, etc. []

## V. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

1. Based on observations and findings during the fieldwork in Bhutan, the mission concludes that the prospects for the promotion and development of cottage, small and medium industries (CSMI) in the country during the 7th Plan period (1992-97) is bright. But the constraints and needs that have been identified should be addressed and the institutions providing assistance to CSMI need to be further strengthened. Of particular concern is the lack of access of CSMI to financing and the role the Bhutan Development Finance Corporation (BDFC) should play in this regard.

2. The lack of an industrial entrepreneurial base in the country is a major constraint to industrialization. Efforts should be made to increase the number of participants in the entrepreneurship development programme (EDP) and to continue this activity beyond the current project period (ending in June 1993). Since most of the EDP graduates eventually become the clients of the financing institutions (BDFC, Bank of Bhutan, and the Royal Insurance Corporation of Bhutan), representations should be made with these institutions to tap the fund they have been setting aside annually for "entrepreneurship development" so that a more vigorous and integrated programme in CSMI promotion could be implemented.

3. The mission reiterates the recommendation made in an earlier mission (DP/BHU/88/001/11-02) of allowing spouses of civil servants to be engaged in business as long as no conflict of interest exists. This measure will substantially increase the entrepreneurial potential in the country, especially of women.

4. The draft strategic plans prepared for the Business Opportunities and Information Centre (BOIC) and the Bhutan Chamber of Commerce and Industry (BCCI) should be pursued and implemented.

In addition to the specific organizational and programme proposals embodied in the proposed strategic plans of BOIC and BCCI, the following specific recommendations are also submitted for consideration:

5. The emphasis for the promotion and development of CSMI should be on the provision of assistance and support services rather than on fiscal incentives. It is, of course, understood that whatever fiscal incentives are granted to large enterprises will also apply to CSMI. The "missing ingredients" approach in

CSMI promotion and development is recommended, i.e., the micro constraints in starting and operating a business in Bhutan should be addressed as soon as possible.

6. The strengthening of the major institutions providing assistance and support to CSMI should be given high priority, particularly the BOIC, BCCI, and BDFC. These institutions should also be working in full coordination and cooperate with each other. The proposed CSMI Coordinating Council within BOIC, to include representatives of agencies involved in CSMI promotion and development should be institutionalized and given legal status if necessary. The Council should be given the immediate task of addressing the issues and constraints affecting CSMI, which the Ministry of Trade and Industry may not be able to resolve by itself.

7. From the allocation of \$10,000 made by the UNDP/UNIDO-assisted BIEDP project, the BOIC should immediately take the necessary steps to procure basic information handbooks and manuals. Information materials that currently exists should be properly documented for easy retrieval and access by CSMI. The actions already taken to contact sources of technical information abroad should be pursued, with the aim of finalizing arrangements for accessing technical information needed by industry. A basic Technical Information Services unit should be operational within BOIC by the end of June 1992.

8. The creation of the proposed Cottage and Small Industries Credit Guarantee Fund (CSI/CGF) should be given priority to address the problem of the collateral deficiencies of viable projects. Pending the creation of the CSI/CGF, the BDFC should consider liberalizing their collateral requirements on viable projects recommended by BOIC and BCCI. The character of the proponent should also be considered.

9. Since the industrial estates programme planned for some areas will take time to develop, interim measures should be taken by the Industrial Estates Division of the Ministry of Trade and Industry to identify factory locations suitable for cottage and small industries and provide the necessary infrastructure.

10. The HRD programme for the private sector in the 7th Plan should address the lack of managerial and technical skills in CSMI. Meanwhile, the UNDP/UNIDO-assisted BIEDP project has allocated \$60,000 so that a meaningful management and business development activity could immediately commence through BCCI. This activity should be implemented in 1992.

11. The BCCI should be supported in its efforts to obtain technical assistance from overseas in order to strengthen the chamber in complementing the activities of the MTI's Business Opportunities and Information Centre. It would also be necessary to strengthen the National Women's Association of Bhutan (NWAB), in order that it can provide more effective assistance to cottage and rural handicraft industries which are mostly run by women.

12. Donors have also an important role to play in ensuring that programmes and projects intended for CSMI promotion and development are effectively coordinated and complement each other so that a greater impact can be attained. The UNDP could be the focal point in this regard. []

UNIDO

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

DP/BHU/88/001/11-03

**JOB DESCRIPTION**

Post Title : Expert on Strengthening of Bhutan's CSMI Institutions  
Duration : 3.0 months  
Date required : 1 September 1991  
Duty Station : Thimphu, with some travel to other parts of the country

Overall duty to be performed:

Strengthen government and non-governmental organizations in Bhutan involved in CSMI promotion (DTI, EDP Unit, Industrial Extension Services, Financial Institutions, Bhutan Chamber of Commerce and Industry, National Women's Association of Bhutan, others) to provide improved support and assistance in the creation and development of the CSMI sector through classroom training; field applications; establishment of client/participant follow-up and monitoring systems; establishing effective coordination relationships between agencies; provide specific recommendations for further institution building.

Duties to be performed:

1. Organize, prepare materials and conduct a six-week workshop on industrial enterprise diagnostics and industrial extension to about 20 participants (staff) from DTI, BDFC, NWAB, and BCCI.

The workshop should allow immediate application of concepts (by participants) to actual situations of industries in Bhutan. A preferred lecture, discussion, real life application format shall be followed.

2. Provide training for five entrepreneurship development facilitators (EDFs) and direct assistance to 18 graduates of the pilot course in repackaging project reports (business plans), loan packaging and start-up activities.

3. Set up a computerized client assistance, follow-up and monitoring system for the EDP Unit and an Operations Manual for the management of the DTI Business Opportunities and Information Centre (BOIC).



4. Propose and implement (whenever possible within the given duration) specific action steps for strengthening of the DTI/BOIC in the areas that include accessing information on appropriate technologies; CSMI-specific financing schemes; an office of industrial standards; industrial extension service; master craftsmen programme, etc.

5. Conduct discussions with DTI and other agencies involved in CSMI promotion and propose specific action steps towards a coordinated and consistent approach in the provision of services. This includes specific proposals for the strengthening of the organizational structure of each agency.

6. The expert will be expected to prepare a final report setting out the findings of the mission and recommendations to the government on further action to be undertaken to development of a strong and vigorous CSMI sector.

#### **QUALIFICATIONS**

Two specialists are expected to work together to accomplish all of the above stated activities for a total of 5 man-months within a three month duration (September to November 1991).

Specialists must have extensive experience working in, training or providing advice to governmental and private sector institutions concerned with the promotion of CSMIs including extending the services of business consulting, entrepreneurship development, industrial extension services, CSMI financing and appropriate technologies. An in-depth understanding of the effects of these services to CSMIs is required.

A bachelor degree is required and an advance degree (preferably in business administration or industrial economics) would be desirable.

Fluency in English is required.

#### **BACKGROUND AND JUSTIFICATION**

During the first year period of the UNIDO project Bhutan Integrated Entrepreneurship Development Programme (BIEDP) (July 90-July 91), there is determined to be a large potential for CSMI sectoral development, but an overall deficiency in the country in a capacity to provide a consistent and integrated approach in the provision of services between and among agencies. Meanwhile, it has also been determined that many existing industrial enterprises shall require further assistance in streamlining operations ensuring their long-term viability and profitability. The CSMI sector is a top industrial priority of the Royal Government of Bhutan. []

**PARTIAL LIST OF ORGANIZATIONS AND INDIVIDUALS CONTACTED**

- o **Ministry of Trade and Industry**
  - . Lyonpo Om Pradhan, Minister of Trade and Industry
  - . Sangay Khandu, Director, Dept of Trade and Industry
  - . Bap Kuenga, Joint Director, BOIC
  - . Pema Rinzing Rinchen, BOIC Trainer-Consultant
  - . Kinley Wangchuk, BOIC Information Officer
  - . Kesang Wangdi, DTI Planning Officer
  - . Kunzang Norbu, DTI Planning Officer
  
- o **Ministry of Finance**
  - . Lyonpo Dorji Tshering, Minister of Finance
  - . Dawa Sherpa, Dept of Revenue and Customs
  - . Tenzing Norbu, Dept of Revenue and Customs
  
- o **Planning Commission**
  - . Lyonpo C Dorji, Minister of Planning
  - . Dasho Sangay Dorji, Joint Secretary
  
- o **Royal Civil Service Commission**
  - . Khandu Wangchuk, Secretary
  
- o **Bhutan Chamber of Commerce and Industry**
  - . Dasho Passang Dorji, Actg President
  - . Lt Tenzing Dhendup, Vice President
  - . Thinley Penjore, General Secretary
  - . Wangchuck Gyeltshen, Executive Member
  - . M T Nadik, Executive Member
  - . Namgyel Dorji, Executive Member
  - . Sonam Tshering, Advisory Member
  - . Chandra B, Asst General Secretary
  - . Sigey Dorji, Asst General Secretary
  - . Game Tshering, BOIC Trainer-Consultant
  
- o **Bhutan Development Finance Corporation**
  - . Pema Tenzin, Managing Director
  - . Joint Managing Director
  - . Tenzin Thinley, Industrial Credit Officer
  - . Tandin Dukpa, BOIC Trainer-Consultant
  - . Sonam Penjor, BOIC Trainer-Consultant
  - . Sonam Tashi, Credit Officer

- o National Women's Association of Bhutan
  - . Suman Pradhan, Deputy Secretary
  - . Karma G Dorji, Assistant Secretary
  - . Ms Thinley Lam, BOIC Trainer-Consultant
  
- o Handicrafts Emporium
  - . Lungten Wangdi, Manager
  - . Thinley Jamtsho, Administration and Finance
  
- o Royal Monetary Authority
  - . Managing Director
  
- o United Nations Agencies
  - . Terence D Jones, UNDP Resident Representative
  - . Michael O'hara, UNDP Deputy Resident Representative
  - . Jeffrey Avina, UNDP Asst Resident Representative
  - . Ms Nuzhat Ehsan, UNDP Asst Programme Officer
  - . Karl L Udarbe, UNIDO Chief Technical Adviser
  - . Richard S Lissack, UNIDO Chief Technical Adviser
  - . Dennis Kondo, UNIDO Consultant
  - . Peter Gunn, UNCDF Chief Technical Adviser
  - . Ms Athena Flores, UNDP/Royal Audit Authority
  - . Ingemar Ljung, ITC Consultant
  - . Ms Sylvia Ospina, ITC Consultant
  - . Ari Huhtala, UNIDO Programme Officer
  - . Mr Islam, UNIDO Country Director
  
- o Asian Development Bank
  - . Tomasito V Alcantara, Consultant
  
- o International Rice Research Institute
  - . Julian A Lapitan, Scientist
  
- o Austrian Trade Commission
  - . Hans P Kaufmann, Trade Commissioner for Bhutan
  
- o Agro Industries Development Project
  - . Sonam P Wangdi, General Manager

o **Factories Visited**

- . Bhutan Marbles and Minerals Co, Ltd
- . Jattu Furniture and Woodworks
- . Kaydee Sawmills
- . Handpaper Factory
- . Government Printing Press

o **EDP Graduates**

- . Ms Dikkey Namgyal Dorji  
Druk Incense Manufacturing
- . Ms Zangay Zam  
Rinchen Chopstick Manufacturing
- . Ms Rinzzy Chhoden  
Ngasum Shoes and Leather Goods
- . Ugyen Puntsho  
Ugyen Motor Service
- . Karma Gyaltsen  
Karma Lights (matches)
- . Dago Tshering  
Druk Offset Printing
- . Sherub Cyeltsin  
L R Noodles Manufacturing
- . Ms Karma Wangmo  
Druk Embroideries
- . Geden Dorji  
Bhutan Oxygen and Acetylene Gas

[ ]

**INDUSTRIAL EXTENSION TRAINING COURSE (BHUTAN)**

Thimphu, 16 October to 06 December 1991  
(BOIC/Department of Trade and Industries)

**OBJECTIVES:**

1. To introduce to CSMI related institutions (and their staff) in Bhutan a consistent understanding of the concepts and tools of industrial extension and entrepreneurship development.
2. To upgrade the skills of officers providing services to CSMI in assisting new and existing enterprises in business start-ups, rehabilitation and expansion activities.
3. To enable Government and NGO staff to identify opportunities, constraints and provide solutions to problems of CSMI.

**TRAINING FORMAT**

- o Classroom sessions from 0915 to 1230 (with 15 minutes break), consisting of lectures, discussions, case studies, exercises, and quizzes, to be held at BOIC/DTI.
- o Practicum work in the afternoons, evenings and weekends (as necessary), consisting of individual or group industrial firm assignments, industry specific and overall industry approach, site visits and technical report writing. Wherever possible, practicum will be devoted to assisting BIEDP clients and existing firms.

**RESOURCE PERSONS:**

- o Dr Leon V Chico, Karl L Udarbe, and Dennis Kondo (UNIDO)  
Tomas Alcantara (ADB/BDFC), Ms Athena Flores (UNDP/Royal Audit Authority), and Dr DNS Dakal (MTI/DTI).

**MAIN REFERENCE MATERIALS:**

- o Industrial Extension Manual for small and medium industries in developing countries, Volumes One and Two, Technonet Asia, Chico, et al (ed).
- o Trainer's Manual on Entrepreneurship Development and Entrepreneur's Handbook, Technonet Asia, Chico, et al (ed).

## COURSE OUTLINE

### WEEK 1

16 to 17 Oct 1991

1. a) Opening Ceremony  
Course Introduction (Chico)
  - b) Entrepreneurship and Development (Udarbe)  
Communication and Adoption Process
  - c) The Role of Industrial Extension  
and Other Support Services (Chico)  
Introduction to Technical Report Writing
  2. a) Overview of the Economy of Bhutan and the  
Role of CSMI; Government Policies and Programs (Dakal)  
on CSMI; Economic Cycle of Entrepreneurship
  - b) Starting a Business in Bhutan: BIEDP (Udarbe)  
CSMI Issues and Constraints
- PM Visits to factories to be used for practicum

### WEEK 2

21 to 25 Oct 1991

1. a) Review the Process of Business Management (Chico)
- b) Review of the Marketing Mix: People,  
Product, Price, Place, and Promotion (Chico)
2. a) Do-It-Yourself Marketing Research  
and Sales Forecasting (Udarbe)
- b) Product Positioning and Marketing Strategy (Udarbe)
3. a) Analyzing Channels of Distribution  
Making a Client Competitive (Udarbe)
- b) Developing Export Markets: An Introduction (Chico)
4. a) Appropriate Technology; Sources and  
Choice of Technology (Chico)
- b) Production System, Planning and Control (Chico)

5. a) Tools: Production Flow Process Chart  
and Routing Diagram (Chico)
- b) Tools: Work Sampling Techniques (Chico)

**WEEK 3**

28 Oct to 01 Nov 1991

1. a) Tools: Time Study; Critical Analysis  
Worksheet (Chico)
- b) Tools: Value Analysis/Value Engineering (Chico)
2. Holiday (In-plant exercises; homework)
3. a) Tools: Introduction to Low-Cost Automation;  
Technology and Energy Audit (Chico)
- b) Tools: Introduction to Purchasing and  
Inventory Control;  
Quality Control Techniques (Chico)
4. Site Visit: In-plant exercises
5. Introduction to Accounting and Recordskeeping;  
Exercises (Flores)

**WEEK 4**

04 to 08 Nov 1991

1. Financial Statements: Balance Sheet, Profit and Loss  
Rules on Taxation (Flores)
2. a) Tools: Financial Ratios Analysis (Kondo)
- b) Tools: Funds Flow Analysis (Kondo)
3. a) Management of Working Capital (Alcantara)
- b) Developing a Cash Budget (Alcantara)
4. a) Exercises (Alcantara)
- b) Tools: Breakeven Point Analysis  
(Cost/Volume/Profit) (Kondo)
5. In-plant exercises  
BOIC Strategic Planning Session, multi-agency (Chico/Udarbe)

**WEEK 5**

14 to 15 Nov 1991

1. to 3. Holiday (preparation of exercises and homework)
4. Discussion of in-plant exercises and homework (Chico)
5. a) Tools: Cost Accounting and Control (Chico)  
b) Tools: Overall Firm Diagnosis (Chico)

**WEEK 6**

18 TO 22 Nov 1991

1. Project Appraisal and Supervision  
Capital Investment Decision Making (Alcantara)  
BCCI Strategic Planning Session, multi-agency (Chico/Udarbe)
2. Cost of Capital and Financial Risk;  
Modes of Financing (Alcantara)
3. Practicum Industrial Extension: Technical Report Writing  
Practicum actually commences from the start of the course;  
the rest of the week will be devoted to consolidation and  
preparation of technical reports.

**WEEK 7**

25-29 Nov 1991

1. Discussion of technical reports with a panel consisting of  
resource persons, owners/managers of firms, and invited  
evaluators.
- 2-4. Seminar in Business Consultancy (Kondo)
5. Workshop of CSMI Coordinating Council (Chico/Udarbe)

**WEEK 8**

02-06 Dec 1991

1. Presentation of Aide Memoire to MTI/UNDP (Chico/Kondo)
- 2-4. Seminar in Business Consultancy (Kondo)
5. Integration (Chico/Kondo)  
Graduation Ceremony [ ]



**INDUSTRIAL EXTENSION TRAINING COURSE**

**LIST OF PARTICIPANTS**

<u>Name</u>	<u>Organization</u>
1. Pema Rinzing Rinchen	DTI/BOIC
2. Game Tshering	DTI/BOIC
3. Tandin Dukpa	DTI/BOIC
4. Sonam Penjor	DTI/BOIC
5. Kinley Wangchuk	DTI/BOIC
6. Ms Thinley Lham	DTI/BOIC
7. Lungten Wangdi*	NWAB/HDC
8. Thinley Jamtsho	NWAB/HDC
9. Sonam Tashi*	BDFC
10. Ogyen Phuntsho Dorji*	BDFC
11. Kesang Wangdi*	MTI/DTI
12. Kunzang Norbu*	MTI/DTI
13. Chandra B	BCCI
14. Ms Dikkey Namgyal	EDP graduate
15. Ms Zangay Zam	EDP graduate
16. Ms Rinzzy Chhoden	EDP graduate

\* did not graduate

**Abbreviations:**

BCCI	Bhutan Chamber of Commerce and Industry
BDFC	Bhutan Development Finance Corporation
BOIC	Business Opportunities and Information Centre
DTI	Department of Trade and Industries
EDP	Entrepreneurship Development Programme
HDC	Handicrafts Development Corporation
MTI	Ministry of Trade and Industry
NWAB	National Women's Association of Bhutan

[ ]

**COURSE ASSIGNMENTS**

Industry group assignments:

- Group 1 - Junshi Handmade Paper Factory
- Group 2 - Bhutan Marbles and Minerals, Ltd.
- Group 3 - Government Printing Press
- Group 4 - Kaydee Sawmills
- Group 5 - Jattu Furniture and Woodworks

Practical exercises:

1. Prepare a brief profile of the enterprise assigned, its history, and perceived problems. State the objectives of your studies.
2. Draw an organization chart of the enterprise and briefly outline the functions of each major unit/position.
3. Prepare a sales forecast from the products of the firm (at least one year) and develop a marketing plan/strategy.
4. Determine the export potential (if any) of the products manufactured by the enterprise and outline the actions or steps necessary in developing an export market.
5. Describe briefly the production system and production planning and control of the enterprise and suggest possible improvements.
6. Prepare a production flow process chart and a routing diagram of the operations of the enterprise.
7. Conduct a work sampling study of the manufacturing operation of the enterprise, pointing out delays and suggest ways of improving productivity and increasing efficiency.
8. Conduct a value analysis (if applicable) on the major products of the enterprise.
9. Conduct a technology audit of the production of the enterprise and suggest improvements wherever necessary.

10. Briefly describe the purchasing and inventory control system used and recommend improvements; similarly, describe the quality control system and suggest improvements if necessary.

11. Describe the accounting/recordkeeping procedures used by the enterprise and recommend improvements as may be necessary.

12. If the latest financial statements of the company are made available to you, prepare a financial ratios analysis pointing out strengths and weaknesses; similarly, do a funds flow analysis.

13. Develop a budgeting system for the enterprise and prepare a cash budget for one year.

14. Prepare an analysis of the breakevenpoint in the sales of the enterprise and, if sufficient data is available, also prepare a social/cost benefit analysis.

15. Describe briefly the cost accounting and control system implemented by the firm; recommend a system if none exists, or suggest improvements to the existing system.

16. Consolidate your findings on the diagnosis of the firm and integrate your overall conclusions and recommendations.

17. Finalize your full technical report and print 25 copies for discussion in the class and with the evaluation panel. The report should be ready for distribution by 22 November 1991 to resource persons, panel members, owner/manager of the enterprise, and course participants.

18. Discuss your report in class, before a Review Panel, on 25 November 1991 for about 15 minutes, allowing another 15 minutes for discussion.

During the study of the enterprise, you may consult any of the resource persons in case you encounter difficulties or need clarification. Use as much of the diagnostic tools you learned in class.

GOOD LUCK!

[ ]

## REFERENCES

1. UNDP. *Bhutan: Development Co-operation Report 1989*. Thimphu: September 1990.
2. *Royal Government of Bhutan. Sixth Five Year Plan, 1987-92*. Planning Commission. Thimphu.
3. *Planning Commission. Statistical Yearbook of Bhutan 1989*. Royal Government of Bhutan. Thimphu: May 1990.
4. *NWAB. A Woman in Development Guidebook for Planners*. Thimphu: July 1988.
5. *National Women's Association of Bhutan*. Thimphu: October 1986.
6. *BCCI. Annual Magazine 1989-90*. Bhutan Chamber of Commerce and Industry. Thimphu: 1990.
7. *Brion, Horatio P. The Forest-Based Industries of the Kingdom of Bhutan*. UNIDO. Vienna: November 1990.
8. *Awasthi, Ravi. Assistance in Industrial Planning and Monitoring*. UNIDO. Vienna: November 1990.
9. *Hill, Neville R. Mineral-Based Industry Sectoral Analysis*. UNIDO. Vienna: November 1990.
10. *Ministry of Trade and Industry. Trade and Industrial Proposals for Seventh Plan*. Thimphu: 1991.
11. *World Bank. Bhutan: Development Planning in a Unique Environment*. Washington, DC: July 1988.
12. *Liedholm, Carl and Mead, Donald. Small Scale Industries in Developing Countries: Empirical Evidence and Policy Implications*. Michigan State University. East Lansing: 1987.
13. *Royal Monetary Authority. Selected Economic Indicators*. Thimphu: June 1989.
14. *Ministry of Industry. The Companies Act of the Kingdom of Bhutan 1989*. Thimphu: 1989.
15. *Stewart, Frances (editor). Macro-Policies for Appropriate Technology in Developing Countries*. Westview Press. Boulder, Colorado: 1987.
16. *Chico, Leon V., etc. Industrial Extension Manual for Small and Medium Industries in Developing Countries, Volumes One and Two*. Technonet Asia. Singapore: April 1985.
17. *Nanjundan, Subrahmanyam. Small and Micro Enterprises and Overall Development Policy in Small Enterprises, New Approaches*. Netherlands Development cooperation. The Hague: December 1989.
18. *Hiemenz, Ulrich and Bruch, Mathias. Small- and Medium-Scale Manufacturing Establishments in Asean Countries: Perspectives and Policy Issues*. ADB. Manila: March 1983.
19. *Kuensel, Bhutan's national newspaper*. Thimphu: 15 June 1991.
20. *Bautista, Romeo M. Macro Policies and Technology Choice in the Philippines*. AT International. Washington, DC: 1990.

The writer wishes to acknowledge with deep gratitude the valuable inputs and advice provided by Karl L. Udærbe, Chief Technical Adviser of the UNIDO/RGOB Entrepreneurship Development Programme (DP/BHU/88/001), and Richard S Lissak, Chief Technical Adviser of the UNIDO/RGOB Industrial Planning Project (SI/BHU/87/027), and their respective counterparts, Bap Kuenga, Joint Director of the DTI Business Opportunities and Information Centre, and Sangay Khandu, Director of the Department of Trade and Industry.