

1. Introduction

The Cottage and Small Industry (CSI) constitutes more than 95.84 % of the total industry in Bhutan. The sustainable growth of cottage and small industry is vital to achieving poverty alleviation, employment generation and economic development of the country.

1.1 Definition of CSI

The scale of industry in Bhutan is determined by the size of capital investment and the number of people it employs.

Table 1: Industry Classification

Scale of industry	Employment Size	Investment (m Nu.)
Large	100+	> 100
Medium	20 to 99	10-100
Small	5 to 19	1-10
Cottage	1 to 4	<1

1.2 Cottage, Small and Medium Industry (CSMI) Policy, 2012

Till 2012, there wasn't a national policy dedicated to steer the growth of the cottage and small industry. The Cottage, Small and Medium Industry (CSMI) Policy, 2012 was adopted by the Royal Government to provide a clear direction for the development of cottage, small and medium industry; to prepare them for the opportunities and challenges of globalization; to ensure that they play an increasing role in fostering economic development; to generate employment and support equitable distribution of income and bring about balanced regional development.

BOX 1

Six strategic objectives of the CSMI Policy, 2012

1. Strengthen the Policy Environment and Institutional Framework.
2. Strengthen the Legislative Framework and Enterprise Environment.
 3. Facilitate Access to Finance and Incentives.
 4. Enhance Competitiveness and Innovation.
 5. Improve Market Access.
6. Enhance Employment and Develop a Culture of Entrepreneurship.

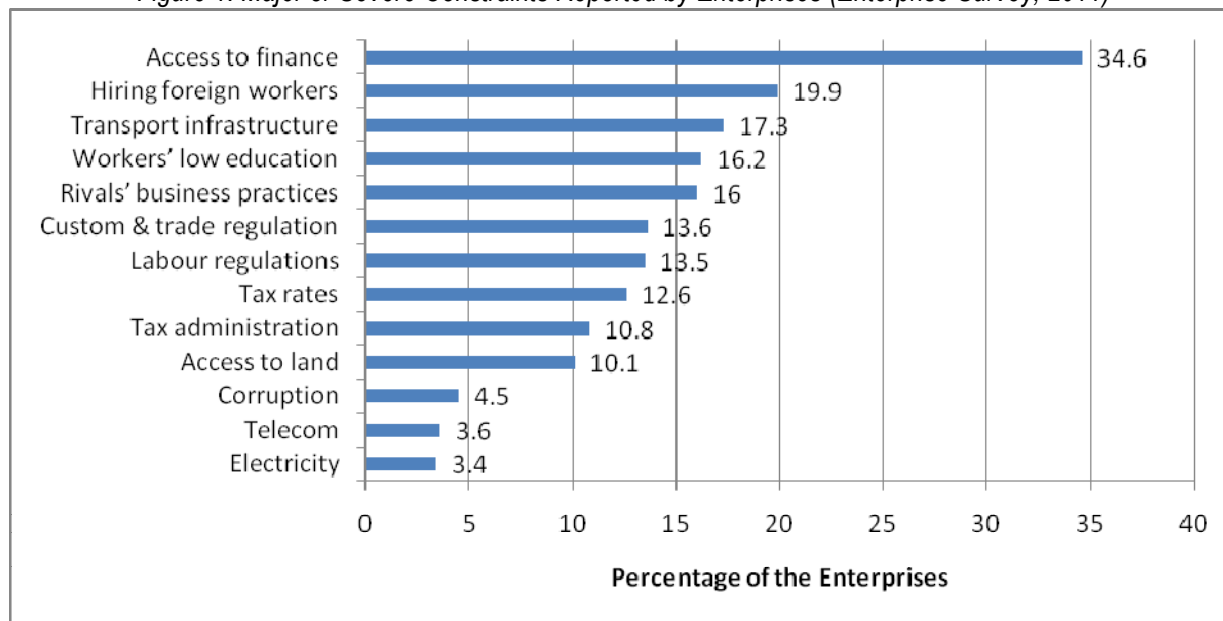
2. CSI in general

As per the records maintained by the six Regional Trade and Industry Office(s) of the Ministry of Economic Affairs, there are 29,820 registered cottage- and small-industries in the country. However, as per the latest 2012 data only 13,068 of these are still active.

Industry in Bhutan is categorized into three sectors, viz., Service, Production and Manufacturing (P&M) and Contract. Bhutan's CSI is dominated by the Service and Contract sector with a very P&M base. The P&M sector is characterized by use of old technology and low economy of scale.

Bhutanese's small entrepreneurs face many constraints in doing business. The Enterprise Survey, 2011 which surveyed more than 500 industries (cottage, small and medium industries) identified some of the major constraints to be; access to finance, hiring of foreign workers, transport infrastructure and low skills among workers.

Figure 1: Major or Severe Constraints Reported by Enterprises (Enterprise Survey, 2011)



3. CSI by sector

The cottage and small industry is largely dominated by the service and contract sector, accounting for more than 89%. There was growth in all three sectors; with P&M sector recording the highest at 31.71%. The service sector recorded the lowest growth with over 12%.

Table 2: Actual and % growth of CSI by group

Sector	CSI in 2011	CSI in 2012	Actual growth (decline)	% Change
Service***	7154	8079	925	+12.93
Production & Manufacturing	1009	1329	320	+31.71
Contract	2838	3660	822	+28.96
Total	11,001	13,068	2067	

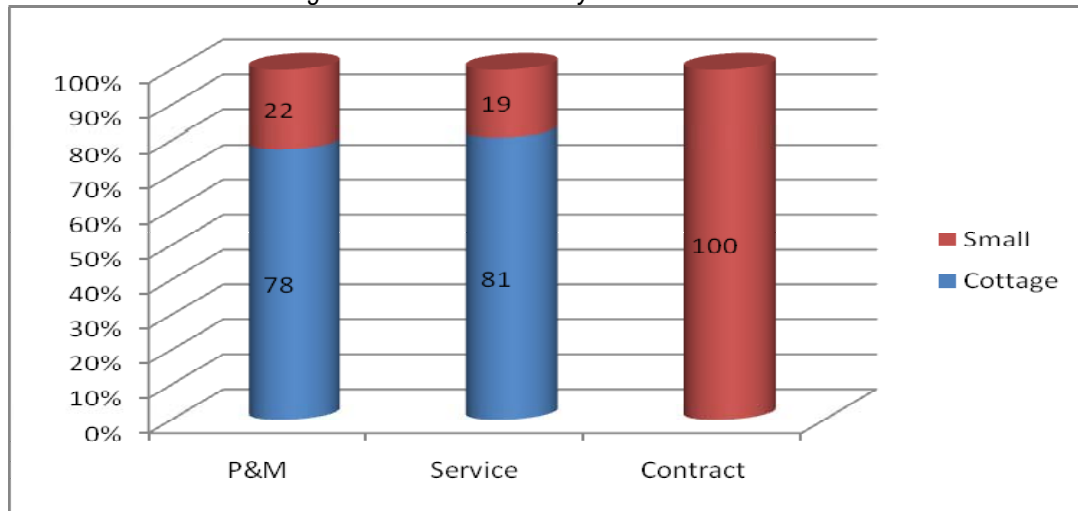
***Bars while being considered part of the service industry are not included in the count and analysis

4. CSI by scale

Cottage-scale industries are predominant in both the P&M and Service, accounting 78% and 81% respectively. The Contract industry, on the other hand is classified slightly differently. As per the Construction Development

Board, there are three classes of contractors, determined by the minimum numbers of employees and the number of construction equipments. The lowest category, i.e. the small-scale contractors needs to have a minimum of 2 (Manager and Site Supervisor) permanent employees but they are not required to possess any equipment.

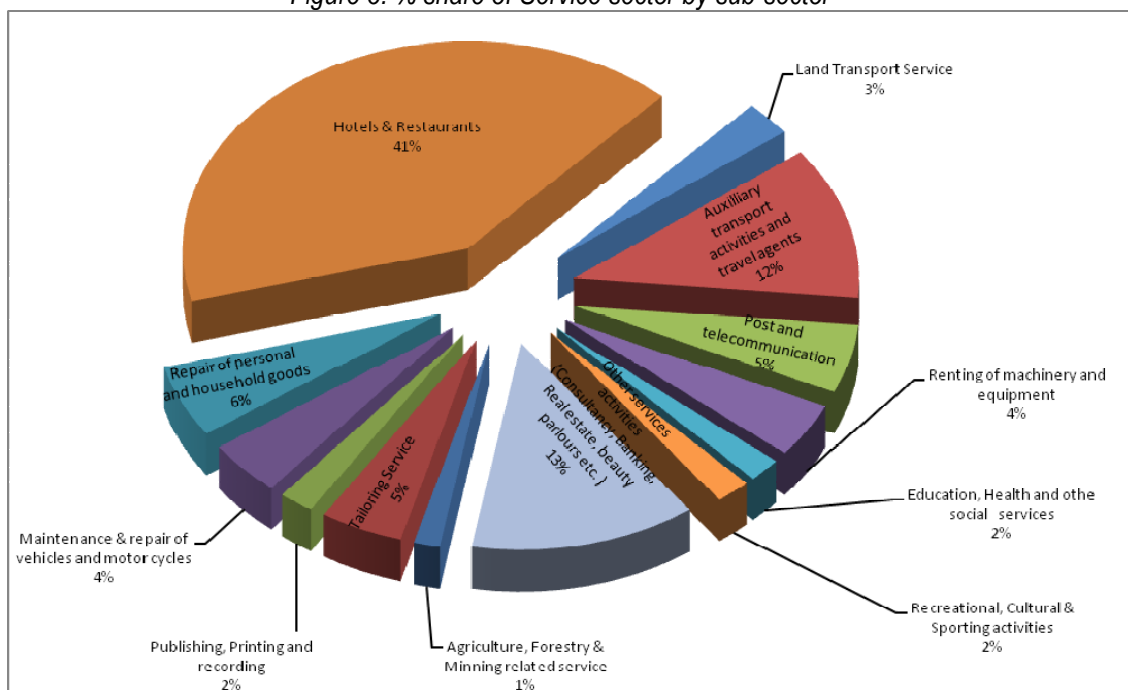
Figure 2: % share of CSI by sector and size



5. CSI by sub-sector

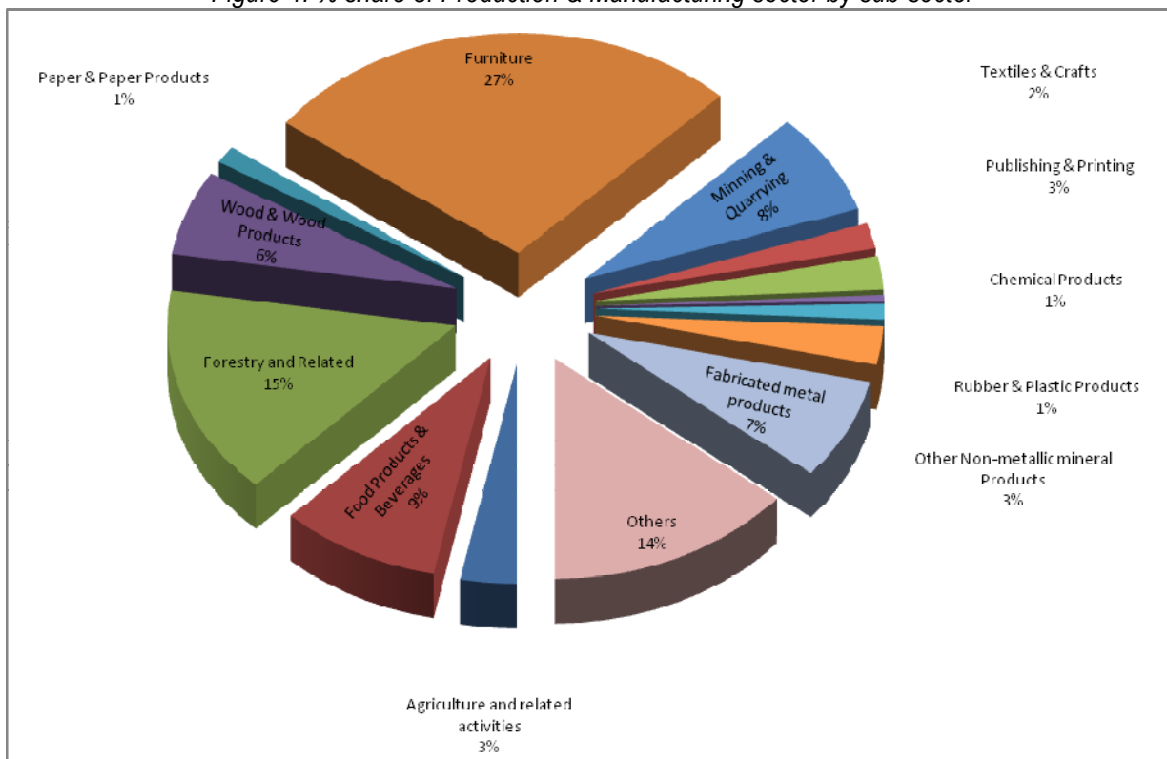
The Service sector is dominated by hotels and restaurants, accounting for around 41% of this sector (Fig. 3). Other dominant sub-sectors are transport and travel activities, telecommunication, tailoring and other household good repairing services.

Figure 3: % share of Service sector by sub-sector



Manufacture of furniture and other wood-based goods, food and beverages and mining are some of the more dominant sub-sector. This sector is heavily dependent on the natural resource derived raw materials, such as timber and minerals.

Figure 4: % share of Production & Manufacturing sector by sub-sector



6. CSI by legal status

From the 29,820 registered enterprises, 97.95% were started as sole proprietorship, with very minimal partnership and companies. There are also a limited number of government owned entities (others) which does not fall into any these categories.

Table 3: % share of CSI by type of ownership

	Sole Proprietorship	Partnership	Company	Others
Number of establishments	29,210	173	376	61
% share to total CSI	97.95	0.58	1.26	0.21

7. CSI by Region and Dzongkhag

There was growth in the number of industry in all regions; the highest being recorded in the Mongar region, with over 47.29% increase from 2011. The Phuentsholing region recorded the lowest with a growth of just over 5%.

Table 4: Region-wise growth of CSI

Region	No. of CSI in 2011	No. CSI in 2012	Actual growth (decline)	% change
Mongar	1032	1520	488	+47.29
Thimphu	5348	6355	1007	+18.83
Samdrupjongkhar	1019	1169	150	+14.72
Gelephu	1258	1486	228	+18.12
Trongsa	720	824	104	+14.44
Phuntsholing	1624	1714	90	+5.54

Likewise, growth in the number of CSI in the Dzongkhags ranged from as low as 3.32 % in Chukha Dzongkhag to as high as 52.08% in Lhuentse Dzongkhag. The very low growth rate of industries in Chukha Dzongkhag is a result of net zero growth in the Service sector between 2011 and 2012.

In terms of absolute number, Thimphu Dzongkhag continues to have the highest number of industries. Other relatively more industrialized Dzongkhags are Chukha, Sarpang, Paro, Samdrupjongkhar, Monggar, and Wangduephodrang. Gasa remained the least industrialized with just over 35 registered industries. Lhuentse, Punakha, Trashiyangtse, Trashigang and Monggar recorded impressive industrial growth averaging more than 45%; while Trongsa and Chukha recorded the lowest growth.

Table 5: Dzongkhag wise number of CSI

Dzongkhag	CSIs in 2011 (No.)	CSIs in 2012 (No.)	% growth (decline)
Thimphu	3766	4429	+17.60
Chukha	1234	1275	+3.32
Sarpang	795	959	+20.63
Paro	735	884	+20.27
Samdrupjongkhar	597	669	+12.06
Mongar	410	595	+45.12
Wangduephodrang	470	544	+15.74
Pemagatshel	422	500	+18.48
Trashigang	336	495	+47.32
Samtse	390	439	+12.56
Bumthang	336	405	+20.54
Dagana	224	262	+16.96
Punakha	164	244	+48.78
Tashiyangtse	190	284	+49.47
Tsirang	239	265	+10.88
Trongsa	216	227	+5.09
Haa	182	219	+20.33
Zhemgang	168	192	+14.29
Lhuentse	96	146	+52.08
Gasa	31	35	+12.90
Total	11,001	13,068	

8. CSI ownership by gender

Men dominate in all three industrial sectors. However, women are more involved in service-oriented industries and accounts for more than 41% in terms of ownership. Their participation in the Contract sector is just a little over 20%.

Table 6: CSI ownership by gender

Industry	Male	Female	Agency***
Production & Manufacturing	69.60	28.14	2.26
Service	57.09	41.94	0.95
Contract	78.55	20.90	0.55

*** Government, Dratshang, Schools, Companies, Corporations, etc.

9. CSI access to finance

Information related to source to finance to start a CSI is sketchy. It is reported that most cottage-scale industries source finance from internally generated funds or through informal borrowing from friends and family.

Furthermore, bank loans are not classified as per the MOEA classification of scale of industry nor are the purpose of loans specifically documented; as to whether a loan is for trade or for establishment of an industry. Nonetheless, the Bhutan Development Bank Limited had disbursed a significant number of micro-loans worth Nu. 3.7 billion in 2012, which would have benefitted the cottage and small industries significantly.

Table 7: CSI access to finance

Source	Amount (m Nu.)	Loan categorization
Bhutan Development Bank Ltd.	3,772.28	Micro loans up to Nu. 200,000 and Small loans above 200,000 and or equal to 1.00 million are considered as small industry loan
Bank of Bhutan Ltd. (Thimphu only)	1.49	All loans under Nu. 1.00 million, falling under any category other than personal loans are considered as small industry advance.
Druk PNB Bank	6.28	
Bhutan National Bank Ltd.	Not available	
T-Bank	Not available	
Total	3,780.05	

Source: BDBL, BOBL, Druk PNB

10. Total employment contribution by CSI

As per the Enterprise Survey, 2011, the average number of people employed by cottage industry and small industry in Bhutan is 1.9 and 6.8 per enterprise respectively. On the other hand, as per the CDB guidelines, it is mandatory for all small contract industries to employ a minimum of two people.

Using these average figures and the number of operational industry, it is possible to determine the minimum number of people employed directly by the CSI. In 2012, the minimum total employment contributed by the CSI is 34,246.

Table 8: Total number of people employed by the CSI

	Total number of cottage (Service & P&M) industry [A]	Total Employment (A* 1.9)	Total number of small (Service and P&M) industry [B]	Total Employment (B*6.8)	Total number of Contract [C] industry	Total Employment (C*2)
Mongar	905	1719.5	70	476	545	1090
Phuentsholing	1084	2059.6	285	1938	345	690
Gelephu	958	1820.2	88	598.4	440	880
Samdrupjongkhar	693	1316.7	81	550.8	395	790
Thimphu	3398	6456.2	1258	8554.4	1699	3398
Trongsa	523	993.7	65	442	236	472
Total	7561	14365.9	1847	12560	3660	7320

11. Download

A softcopy of this brochure may be downloaded from the website www.moea.gov.bt

12. Acknowledgement

The sources of all primary data used in this report are the Regional Trade & Industry Offices and the commercial banks. The Department of Cottage & Small Industry would like to thank all of these agencies and institutions for the support.

13. Contact address

DEPARTMENT OF COTTAGE & SMALL INDUSTRY,
 MINISTRY OF ECONOMIC AFFAIRS,
 P.O. BOX 141,
 THIMPHU, BHUTAN
 TEL: 00975 2 332745 (PABX), FAX: 00975 2 332749
 WEBSITE: www.moea.gov.bt