



# Bhutan: Improving Market Linkages for Cottage and Small Industries

Project Name	Improving Market Linkages for Cottage and Small Industries
Project Number	53428-001
Country	Bhutan
Project Status	Proposed
Project Type / Modality of Assistance	Technical Assistance
Source of Funding / Amount	
Strategic Agendas	Inclusive economic growth Regional integration
Drivers of Change	Governance and capacity development Partnerships
Sector / Subsector	Industry and trade - Small and medium enterprise development
Gender Equity and Mainstreaming	Effective gender mainstreaming
Description	The knowledge and support technical assistance (TA) Improving Market Linkages for Cottage and Small Industries (CSIs) will help Bhutan to develop the capacity of CSIs to expose and profitably operate in domestic and international markets. The TA will support the Government in streamlining its standardization and certification processes while implementing an integrated market access program to promote select high-end CSI products. The TA is aligned with three operational priorities of ADB Strategy 2030, i.e., addressing remaining poverty and reducing inequalities, accelerating progress in gender equality, and fostering regional cooperation and integration. The proposed project is also included in the Country Operations Business Plan (COBP) 2020-2022.
Project Rationale and Linkage to Country/Regional Strategy	<ol style="list-style-type: none"> <li>1. Socioeconomic Profile. Bhutan is one of the smallest, but fastest-growing economies. Its annual average economic growth of 7.0% since the late 1980s. Despite high growth rates, Bhutan has faced a persistent development challenge the economy remains relatively undiversified and heavily reliant on hydropower exports. CSIs account for 95% of total number of industries in the country and provide an estimated employment of 99,228. The CSI sector is considered significant in terms of future growth potential and economic diversification. While the sector is perceived to be promising for employment and broad-based economic growth, it faces a number of challenges.</li> <li>2. CSI growth in the country is impeded by factors including weak market access. Although CSIs are considered crucial to drive Bhutan's economic growth, the performance of CSIs is constrained by factors that prevent them from realizing their full potentials. Some of the main challenges faced by CSIs are poor entrepreneurship culture, lack of access to finance, lack of access to effective business development services, and weak market linkages. In order to expose and gain sustained market access for CSI products in higher value domestic and international markets, there is a need to undertake a multipronged strategy including direct and indirect support to CSIs.</li> <li>3. Weak coordination and limited capacity to formulate and implement a harmonized product standardization and certification. Currently, the Department of Cottage and Small Industry (DCSI), Bhutan Agriculture and Food Regulatory Authority (BAFRA), Department of Trade (DoT), and Bhutan Standards Bureau (BSB) are mandated to support CSI product standardization and certification. However, there is a lack of proper institutional network and coordination among these agencies. Fragmentation of strategy formulation, weak communication and coordination among agencies impedes the establishment of a harmonized framework for product standardization and certification as well as the setting up of a one-window service delivery system.</li> <li>4. CSI products need to leverage on Brand Bhutan to overcome inherent sector challenges. CSI products are not competitive in the regional and international market due to challenges posed by a lack of economies of scale, high transportation costs, and underdeveloped logistics. These challenges translate into higher prices for CSI products relegating them as uncompetitive in the regional international market. In order to capitalize on the unique features of Bhutanese CSI products demonstrated in aspirations of Brand Bhutan, CSIs must leverage on this brand to gain exposure first and then sustained access to international market.</li> <li>5. CSIs lack capacity for proper packaging and labeling. Packaging and labeling play an important role in influencing consumer choice and decision. While proper packaging ensures integrity and quality of the product, consumers rely on the information provided on the labels to understand the quality and value attributes of the products. Currently, CSIs do not understand and appreciate the value of proper packaging and labeling in promoting their products. It is, therefore, crucial to build the capacity of CSIs for enhanced packaging methods to realize the aspirations of Brand Bhutan and enhance access to regional and international market.</li> <li>6. Additional support needed in the sector to consolidate planned investment. The government recognizes that a strong CSI base can become the bedrock of economic development for the country. Cognizant of the importance of the sector, the government has approved a Nu. 1.2 billion flagship program for CSI development in the 12th five-year plan. The program aims to promote high growth potential CSIs to enable them to become competitive in creating a niche in regional and international markets and to mainstream CSIs into the economy (footnote 3). To help the government achieve the results of the program, it is important to rally all possible support to consolidate these results and fill in missing links.</li> <li>7. ADB experiences and Lessons. In 2007, ADB supported the CSI sector through the Micro, Small and Medium-Sized Enterprise Development Program to carry out policy reforms, stimulate credit to the sector and support business development services. The proposed TA reflects lessons from these ADB projects in terms of : (i) need for concerted efforts from agencies mandated to improve market linkages for SHG products; and (ii) emphasize product design, packaging and labeling to gain access to higher value markets.</li> </ol>
Impact	Increased contribution of CSIs to GDP and employment.
Outcome	CSIs' access to higher value domestic and international market improved.
Outputs	National level framework for CSI product standardization and certification established Bhutan CSI product brands developed. Integrated market access program for the promotion of select CSI products designed and implemented.
Geographical Location	Nation-wide, Bhutan
<b>Summary of Environmental and Social Aspects</b>	
Environmental Aspects	
Involuntary Resettlement	

Indigenous Peoples

Stakeholder Communication, Participation, and Consultation

During Project Design

During Project Implementation

Business Opportunities

Consulting Services (2) firms will be recruited for CSI Product Promotion through CQS  
(5) individual consultants will be recruited

Procurement no procurement envisaged

Responsible ADB Officer Tornieri, Francesco

Responsible ADB Department South Asia Department

Responsible ADB Division BHRM

Executing Agencies Ministry of Economic Affairs  
Thimphu, Bhutan

Timetable

Concept Clearance 05 Feb 2020

Fact Finding 27 Feb 2020 to 28 Feb 2020

MRM -

Approval -

Last Review Mission -

Last PDS Update 05 Feb 2020

Project Page <https://www.adb.org/projects/53428-001/main>

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