

Bhutan Policy Notes

Doing Business Reform

Key issues and challenges

Bhutan has been reforming its doing business environment in recent years as part of a policy shift to improving its investment climate and economic performance. Overall, it is ranked 75 out of 190 countries and is the highest ranked country in the South Asia region, significantly outperforming Bangladesh and Pakistan. In the last decade, as part of a Government policy agenda to improve competitiveness, Bhutan has launched across the board reforms in many areas. Specifically, there have been reforms in several metrics, including starting a business, getting credit, registering property, and enforcing contracts. Fifteen years ago, it cost more than 90 percent of the value of a claim to enforce a contract in Bhutan; now, it takes less than 25 percent, placing the country in the top 25 globally in this area. However, there has been some inertia since 2014, and a decline in DB ranking.

During the DB 2018 period, there was not a reform momentum in Bhutan. The very slight downgrading of the ranking can be attributed to reform inertia after a decade of success. Another factor for the lack of improvements in DC in 2018 has been Government focus on other reforms, especially involving hydropower, cottage and small industries and SOE's.

The trend in DTF indicates Bhutan is not improving or falling behind but is maintaining the status quo. Reforms clearly need acceleration after a decade of strong reform momentum, spurred by desire to see improvements in Bhutan's overall ranking has not moved significantly in either direction. There has been significant improvement in dealing with construction permits and in enforcing contracts but deterioration in protecting minority investors and registering property. The lack of forward momentum reflects slippages in reform momentum due to policy environment and shifting government priorities.

There are several key areas where there are important ongoing reforms that should pay dividends in the years to come. First, access to credit in Bhutan is improving due to the expansion of the scope of collateralizable assets and the deepening of the credit bureaus. Second, the National Land Commission, a competent and responsible public agency managing land administration, has made progress in terms of land registration and online portals. According to the National Land Commission (NLC), the average days to register property declined from 54 days in 2016 to 42 days in 2018. Finally, recent Government attempts to streamline regulations and dismantle administrative complexities should help reduce transactions costs for private operators.

On top of these areas, Bhutan's business climate remains constrained by imperfections in factor markets, limited access to product markets, and state dominance. Factor imperfections include an improperly functioning land market, constrained credit markets, and geographical challenges for labor mobility. Driven by the capital-intensive hydropower sector, the country achieved impressive growth rates, but created few jobs. The public sector has the capacity to absorb only about 1,000 graduates per year. The 2017 Investment Climate Assessment (ICA) survey revealed that employment remains concentrated in agriculture and the public sector, and that many firms are struggling to grow due to obstacles that hinder investment, productivity, and international trade. Limited access to finance — caused by both supply- and demand-side factors — constrains the growth of firms, especially small firms.

The Bank Group, together with IFC, has started working with the new Government team responsible for DB reforms. In 2019, a new Government has committed to improving Bhutan DB reforms and set up a special committee. The focus has been on ways to set up businesses, improve construction permits, improve credit bureaus, ensure better land registration, and protect minority investors. The Bank/IFC team is working in close collaboration with this new team and providing relevant international experience and support.

Policy Recommendations

To address these issues, in the short term, the government needs to:

- Ensure regular meetings of Bhutan Private Sector Development Committee, entrusted with the Doing Business reform agenda
- Ensure interagency coordination between technical team and concerned ministries, including RMA, MOEA, NLC, and Ministry of Energy.
- Make property registration electronic and online.
- Ensure that the new collateral registry is in line with international best practices.

In the medium to long term, the government needs to:

- Ensure long-term institutional structure for Doing Business reform program
- Amend Companies Act to ensure greater legislative protection for minority investors including: (a) corporate governance rules and regulations; (b) corporate social responsibility (CSR) guideline; are (c) procedural regulation on merger and acquisition (M&A).
- Set up a corporate dispute settlement body
- Coordinate with Bhutan Development Power Board for better electricity access for companies

WBG Recommendation	Action	UPDATE May 2019	Agency responsible for implementation	Comments
Starting a Business				
Introduce Electronic Signature Law and Electronic Transaction Law	- Perform a legislative review of the BICMA Act (2009), RMA Act, and the e-Money regulation to verify whether the digital signature and electronic payment provisions - Draft legislative changes as needed	in progress	MoIC	This work has been started but there is still much to be done.
	Submit the draft legislation to Cabinet		MoIC	Will take at least a year or two for legislation to be approved by Parliament
	Submit the draft legislation to Parliament		Cabinet	
	Approve the proposal		Parliament	
Make the Company Registry electronic	- Develop the software needed to manage the electronic records (database) - Input all the paper-based records into the electronic database - Purchase the necessary equipment to manage the database - Build capacity of the personnel which manages the database	on track	Company Registry Division (MoEA)	MoEA to take more leadership role on the submission of documents online
Introduce a single window for business registration	- Operationalize the single business identification number - Connect databases of the Company Registry and the Tax Authority - Set up the single window - Create standardized documents	on track	Company Registry Division (MoEA)	MoEA to review the actions required to operationalize the single business identification number, and develop the details of the implementation.

Introduce online registration for all businesses	Develop the online registration portal	on track	Company Registry Division (MoEA)	
Dealing with Construction permits				
Develop an online application to facilitate the processing of construction permits and connection to utilities	Operationalize the electronic registry for building permits	on track	Building Section, Thomde	Mostly done by NLC
Establish an expedited approval process in the municipality for low-risk commercial buildings to obtain construction permits	- Draft new regulations for expedite approval process based on risk - Operationalize the new procedures		Building Section, Thomde	
Registering Property				
Digitize the records at the Property Registry	Complete the digitization of the paper-based records		Land Records Section, Thomde	MoEA to follow up
Make the Property Registry electronic			Land Records Section, Thomde	NLC needs to verify
Introduce online registration	Operationalize the access to the land database via e-Sakor	on track	Land Records Section, Thomde	Issue of implementation of e-Sakor due to the free land given to people
Getting Credit				
Revise the law to allow for distribution of credit information from utility companies and retailers	Draft the required regulations Implement the required interoperability IT system to connect the utility companies to the credit registry	on track	RMA	Estimates will be based on whether the utility companies have paper-based or electronic registries
Ensure that the priority scheme ranks secured creditors as high as possible, while respecting other critical national policy objectives	Conduct a legal review of the Bankruptcy Act (1999) and the Company Act (2000)	on track	Attorney General	MoEA to check with Attorney General on the timeline

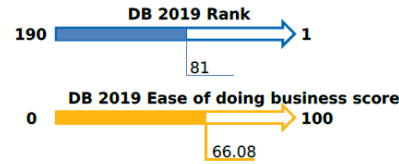
Ensure that the new collateral registry is in line with international best practices	<ul style="list-style-type: none"> - Introduce flat and reasonable fees for registration and searches - Introduce the possibility of non-cash payments - Implement a disaster risk management system of the database 		RMA	<ul style="list-style-type: none"> - RMA introduced a flat fee structure by range of loan values - MoEA to check with Deputy Governor on the timeline
Protecting Investors				
Ease the requirements governing the identification of documents requested in Court by one party to another	Draft amendment to the Civil and Criminal Procedural Code, Art. 45		MoEA	To be verified
	Submit the draft amendments to Cabinet		MoEA	
	Submit the draft amendments to Parliament		Cabinet	
	Approve the new amendments to the Civil and Criminal Procedural Code	Done	Parliament	
Allow direct examination by the plaintiff of the defendant and witnesses during trial	Draft amendments to the Evidence Bill of Bhutan,		RMA	MoEA to check whether capacity exists with Government lawyers to make the necessary amendments
	Submit the draft amendments to Cabinet		MoEA	
	Submit the draft amendments to Parliament		Cabinet	
	Approve the new amendments to the Evidence Bill of Bhutan		Parliament	
Paying Taxes				
Introduce electronic filing and payment of direct and indirect taxes, including corporate income taxes	Roll out the software RAMIS, which include provisions on electronic filing and payments	Done	DRC - Income Tax and Sales Tax Division	MoEA to check with PMU of ADB-funded project
Provide tax education and training to small and medium enterprises to ensure compliance, and carry out an extensive communications campaign	Trainings to SMEs on tax compliance Communication campaign, including awareness workshops		DRC - Income Tax and Sales Tax Division	Still not started

Trading Across Borders				
Increase the automation of customs-related procedures	- Complete the migration to RAMIS - Operationalize RAMIS, including giving the opportunity to traders to pre-submit documents		DRC - Customs and Excise Division	Verification needed of progress
Introduce risk-based cargo inspections	Conduct a diagnostic report		DRC - Customs and Excise Division	
	Set in place the regulatory system		DRC - Customs and Excise Division	
	Operationalize changes as required		DRC - Customs and Excise Division	
Evaluate the option of introducing a single window for trade	Conduct a feasibility report		DRC - Customs and Excise Division	
	Set in place the regulatory system		DRC - Customs and Excise Division	
	Operationalization of the single window, including harmonization of existing legislation		DRC - Customs and Excise Division	
Enhance border cooperation with authorities of neighboring countries to simplify border clearance process	- Conduct a diagnostic report to find out the most pressing cross-border issues - Mutual recognition of import/export documents		DRC - Customs and Excise Division	Government will need funding and analyticla support
Resolving Insolvency				
Consider reforming the 1999 Bankruptcy Act Consider establishing an expedited framework for SME insolvency	Conduct a legislative review of the Bankruptcy Act	on track	RMA	Bank/IFC will provide guidance
	Draft legislative changes as needed		RMA	
	Submit the draft amendments to Cabinet		RMA	
	Submit the draft amendments to Parliament		Cabinet	
	Approve the new amendments to the Bankruptcy Act, as necessary		Parliament	

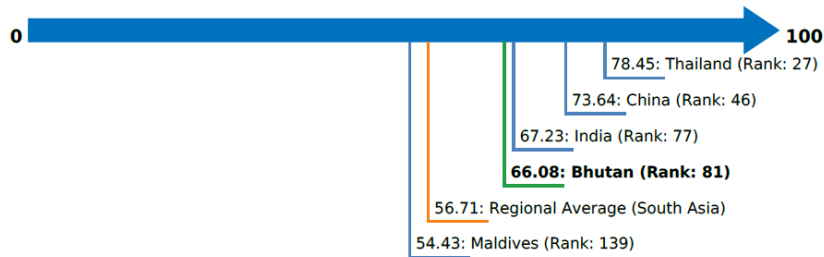
Ease of Doing Business in
Bhutan



Region	South Asia
Income Category	Lower middle income
Population	807,610
City Covered	Thimphu

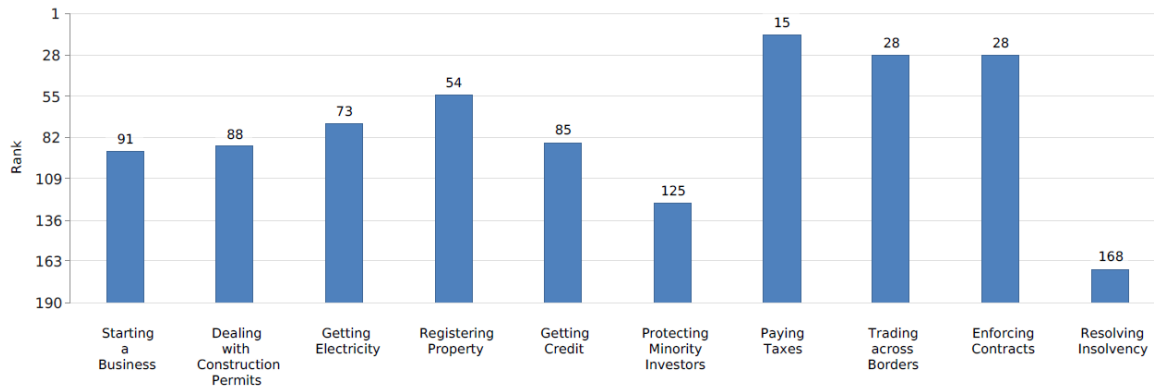


DB 2019 Ease of Doing Business Score



Note: The ease of doing business score captures the gap of each economy from the best regulatory performance observed on each of the indicators across all economies in the *Doing Business* sample since 2005. An economy's ease of doing business score is reflected on a scale from 0 to 100, where 0 represents the lowest and 100 represents the best performance. The ease of doing business ranking ranges from 1 to 190.

Rankings on Doing Business topics - Bhutan



Ease of Doing Business Score on Doing Business topics - Bhutan

