

## **Business Enabling Environment in Bhutan – Demystifying the ‘Low Image on Ease of Doing Business’**

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### **Abstract**

This research paper assessed the business enabling environment in Bhutan mainly from the perspectives of the business operators using the ten parameters of Business Enabling Environment (BEE) as proposed by the World Bank. These parameters include: (i) business entry, (ii) business location, (iii) utility connections, (iv) labour, (v) financial services, (vi) international trade, (vii) taxation, (viii) dispute resolution, (ix) market competition, and (x) business insolvency. A quantitative method was used to carry out the study and get the responses from the business operators. Responses were obtained from 695 respondents which included 290 owners of small-scale businesses, 194 mediums.

The research highlights Bhutan’s competitive strengths in digital governance (1 day business registration for small businesses via G2B portal), utility reliability (77.1% satisfaction with electricity), and tax administration (ranked 15th globally). However, it also identifies critical challenges, including digital exclusion (93.5% of rural SMEs unaware of online services), labour market imbalances (19% youth unemployment despite

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70.6% literacy rate), and infrastructure disparities between urban and rural regions.

The findings reveal three key tensions in Bhutan's business landscape: (i) between rapid digitalization and rural inclusion, (ii) between environmental protection and economic scalability, and (iii) between regulatory quality and field-level awareness. To address these challenges, while preserving Bhutan's unique Gross National Happiness framework, the study proposes: (i) digital empowerment programmes combining mobile training units with localized awareness campaigns, (ii) sector-specific skills development focusing on green technology and high-value tourism, (iii) enhanced trade facilitation through Bhutan TradeFin Net optimization and regional logistics partnerships, (iv) targeted rural infrastructure development prioritizing last-mile connectivity, (v) improving financial accessibility for the businesses, and (vi) brand development initiatives leveraging Bhutan's carbon-negative status.

## **Introduction**

The World Bank's Ease of Doing Business Report (2020) ranked Bhutan 89th among 190 economies, reflecting a decline from its past positions. While the index was discontinued in 2021, its historical rankings continue to influence perceptions of Bhutan's business climate, potentially overshadowing recent reforms. This study challenges most of the outdated assessments by examining current conditions through two approaches: (i) direct feedback from 695 business operators using the World Bank's updated Business Enabling Environment (BEE) parameters, and (ii) comprehensive analysis of regulatory improvements implemented by Bhutan's government.

Bhutan stands at a critical juncture in its economic development, navigating the challenges of post-pandemic recovery while seizing new opportunities for growth and transformation.

The COVID-19 pandemic exposed vulnerabilities in the nation's traditional economic model, prompting a strategic shift toward greater resilience and diversification. As global supply chains reconfigure and digital economies expand, Bhutan is actively repositioning itself through innovative policies and targeted investments. This report examines the country's evolving business environment through the lens of these transformative changes.

The post-pandemic era has seen Bhutan implement comprehensive recovery strategies that prioritize economic resilience. The government has introduced stimulus packages worth billions of ngultrums, focusing particularly on sectors most affected by the global downturn. Tourism, once the cornerstone of Bhutan's economy, is being reimagined through high-value, low-volume models that align with sustainability principles. Simultaneously, new growth areas such as agri-business, renewable energy, and knowledge-based services are receiving unprecedented attention. These measures reflect Bhutan's commitment to building an economy that can withstand global shocks while creating diverse opportunities for its citizens.

Foreign Direct Investment (FDI) has emerged as a central pillar of Bhutan's development strategy. Recent reforms have significantly liberalized the investment landscape, with updated FDI regulations simplifying approval processes and offering attractive incentives. The ground-breaking Gelephu Mindfulness City project epitomizes this new approach - a planned special administrative zone that will combine sustainable urban development with cutting-edge economic activities. This ambitious initiative aims to position Bhutan as a regional hub for wellness tourism, green technology, and mindful business practices, potentially attracting billions in foreign investment while staying true to the nation's Gross National Happiness philosophy.

Digital transformation is revolutionizing Bhutan's business ecosystem. The Government-to-Business (G2B) and Government-

to-Citizen (G2C) portals have dramatically streamlined bureaucratic processes, reducing business registration times from weeks to mere days. However, the digital divide remains a significant challenge, particularly for small and medium enterprises (SMEs) in rural areas. Addressing this imbalance through expanded digital literacy programmes and infrastructure development is crucial for ensuring equitable access to Bhutan's growing digital economy.

With one of the youngest populations in Asia, Bhutan's demographic dividend presents both an opportunity and an imperative. Youth unemployment rates hovering around 19% (NSB, 2024) underscore the urgent need for private sector expansion that can create meaningful employment. The government is responding through targeted vocational training programmes and entrepreneurship initiatives designed to equip young Bhutanese with skills relevant to emerging industries. The success of these efforts will determine whether Bhutan can harness its youthful workforce as a driver of economic transformation rather than a source of social challenge.

Bhutan's commitment to sustainability remains its most distinctive competitive advantage. The country's carbon-negative status, extensive organic farming practices, and renewable energy surplus provide a strong foundation for green industries. These unique selling points are increasingly valuable in a global market that prioritizes environmental responsibility. From premium organic products to sustainable tourism and clean energy exports, Bhutan is well-positioned to develop niche markets that command premium prices while aligning with its environmental values.

This report assesses Bhutan's business enabling environment against this backdrop of transformation and opportunity. By examining both progress and persistent challenges across ten key parameters, it provides a comprehensive picture of Bhutan's evolving economic landscape. The findings aim to inform policymakers, investors, and entrepreneurs about the realities of

doing business in Bhutan today, while identifying pathways to further improvement in this unique and rapidly developing economy.

## **Literature Review**

The World Bank Group announced the discontinuation of the Ease of Doing Business Report on 16th September 2021 mainly due to allegations that there was external pressure to alter the rankings of other countries (Mbabazi, 2022). A statement released by the World Bank (2021) stated “The World Bank Group remains firmly committed to advancing the role of the private sector in development and providing support to governments to design the regulatory environment that supports this. Going forward, we will be working on a new approach to assessing the business and investment climate.” The statement also highlighted that a new benchmarking exercise will be developed in the Development Economics (DEC) Global Indicators Group and that the data collection and reporting process will be governed by the highest possible standards, including sound data gathering processes, robust data safeguards, clear approval protocols, transparency and public availability of granular data, and replicability of results.

Accordingly, on 4th February 2022, the World Bank provided a concept note on Business Enabling Environment (BEE) which would be a replacement for the Ease of Doing Business index. The ten parameters of BEE are: business entry, business location, utility connections, labour, financial services, international trade, taxation, dispute resolution, (ix) market competition, and business insolvency. Each of these parameters are explained below:

### *(i) Business entry*

This parameter assesses the quality of regulations, digital public services, transparency of information, and efficiency of business entry.

*(ii) Business location*

It examines regulations for property lease, property ownership, urban planning, quality of public services, transparency of information, and efficiency of obtaining a business location.

*(iii) Utility connections*

This parameter evaluates regulations for electricity, water, internet, performance and transparency of utility services, and efficiency of utility service provision.

*(iv) Labour*

It includes the quality of labour regulations, adequacy of public services for labour, and efficiency of labour regulations and public services.

*(v) Financial services*

This parameter covers regulations for commercial lending, secured transactions, e-payments, and green financing, accessibility of information in credit infrastructure, and efficiency of receiving financial services.

*(vi) International trade*

It assesses regulations for international trade, public services for trade facilitation, efficiency of importing and exporting goods, and engagement in digital trade.

*(vii) Taxation*

This parameter focuses on regulations on taxation, public services provided by tax administration, and efficiency of tax systems.

*(viii) Dispute resolution*

It examines the regulatory framework for dispute resolution, public services for resolving disputes, and ease of resolving commercial disputes.

*(ix) Market competition*

This parameter evaluates regulations promoting market competition, adequacy of public services for market competition, and efficiency in implementing key services promoting competition.

*(x) Business insolvency*

It measures regulations for insolvency proceedings, institutional and operational infrastructure for insolvency processes, and efficiency of resolving judicial insolvency proceedings.

The above indicators under the BEE framework are expected to reveal required information and better represent the economy unlike the EoDB in which indicators were focused more on: (i) efficiency of business regulations, and (ii) quality of business regulations. According to the World Bank (2022), “the BEE indicators cover additional issues and have a broader scope compared to the previous EoDB Indicators.”

Business enabling environment (BEE) encompasses a range of factors including institutions, laws, and policies that exert influence over the business climate within a specific country (World Bank, 2020). The BEE assumes a pivotal role in nurturing an environment conducive to private sector expansion and development (World Bank, 2019). A favourable BEE contributes to enhanced economic growth, job opportunities and competitiveness within a nation (Geda, 2021). Among the key components of the BEE is the regulatory environment where excessively stringent or lax regulations can impede private sector expansion. According to a World Bank report (2020), nations with

business-friendly regulatory environments are more likely to witness business expansion and innovation. Access to financing essential for business establishment, growth, and investment in new ventures, represents another critical facet of the BEE. Limited financial access can curtail organizational growth, particularly for small and medium-sized enterprises (SMEs).

In addition to regulations and financial access, the BEE encompasses governance, infrastructure, education, and skill development. Research by the World Bank in 2019 highlights that inadequate telecommunication, electrical, and transportation infrastructure can hinder private sector expansion. A reliable and efficient infrastructure is indispensable for businesses to transport goods and services, engage with clients and suppliers, and access markets (IMF, 2017). Policymakers must prioritize fostering a business environment conducive to stimulate economic development, job creation, and enhance a nation's competitiveness. However, businesses do face several challenges. Excessive bureaucratic procedures can impede operational efficiency and effectiveness (International Trade Centre, 2021). Poor infrastructure including inadequate roads, energy, and telecommunications systems can obstruct business operations and curtail economic growth (IMF, 2017). Lastly, insufficient financial infrastructure and weak regulatory frameworks pose obstacles for many small and medium-sized enterprises, particularly in developing countries in accessing financing (World Bank, 2018).

There are a variety of common attributes that contribute to a favourable environment for businesses, although the specific factors that determine an ideal business landscape can vary between countries. First and foremost, the United States is widely recognized for possessing one of the most favourable business climates globally, primarily due to its robust legal system, secure property rights, and highly skilled workforce. However, challenges arise for US firms too due to the high costs associated with

healthcare, the complexity of the tax code, and aging infrastructure (World Bank, 2020).

In recent years, China has made significant strides in improving its business climate through targeted measures aimed at facilitating capital access, reducing bureaucratic barriers, and protecting intellectual property rights. Nevertheless, Chinese enterprises continue to grapple with regulatory uncertainties and a lack of transparency (Asian Development Bank, 2020). Singapore consistently ranks as one of the world's top countries in terms of business-friendly environments, attributed to its strong legal system, efficient government administration, and exceptional infrastructure. Nonetheless, enterprises in Singapore face challenges due to the high cost of living and restricted market access (World Economic Forum, 2021).

India has witnessed advancements in its business-enabling environment through efforts to reduce bureaucracy, streamline regulations, and improve capital access. However, challenges persist for Indian enterprises in the form of corruption, inadequate infrastructure, and weak property rights (International Monetary Fund, 2021). On the other hand, the United Kingdom enjoys a favourable business climate characterized by a robust legal system, efficient government bureaucracy, and access to a highly skilled workforce. Nonetheless, the COVID-19 pandemic, evolving regulatory landscapes, and uncertainties surrounding Brexit pose challenges for businesses in the UK (British Chamber of Commerce, 2021).

While Bhutan is making its efforts to improve its Business environment, Asian Development Bank (2019) asserted that additional investment was required in the country, particularly in rural areas to improve access to markets and reduce transportation costs although new roads and other facilities have significantly improved. The high cost of electricity, the convoluted tax system, and the difficulty in obtaining finance are still problems for enterprises in Bhutan (World Bank, 2021). There is still room for

improvement when it comes to giving small and medium-sized businesses (SMEs) adequate access to financing and other resources, even though initiatives like the establishment of the Bhutan Development Bank Limited (BDBL) have supported SMEs.

To promote economic growth, job creation, and enhance competitiveness, establishing a supportive business enabling environment (BEE) is imperative. The BEE encompasses regulatory frameworks, institutions, laws, policies, governance, infrastructure, education, skill development, and financial access. Accessible funding opportunities and business-friendly regulatory frameworks are often correlated with increased innovation and expansion within the private sector of a country. However, challenges such as corruption, burdensome bureaucratic processes, inadequate infrastructure, and insufficient financial infrastructure pose obstacles to creating a conducive business environment. While different nations have taken steps to improve their economic landscapes, each country faces unique challenges. Examples of countries with varying degrees of business-friendly environments include the United States, China, Singapore, India, the United Kingdom, and Bhutan. Each country encounters its specific issues and opportunities for improvement.

## **Method**

This section outlines how the World Bank's Business Enabling Environment (BEE) framework was operationalized to assess Bhutan's business climate. The methodology was designed to systematically translate the conceptual BEE parameters into measurable research procedures while maintaining contextual relevance to Bhutan's unique economic landscape.

The study employed a quantitative survey approach to collect primary data from business operators across Bhutan. The research design incorporated:

### **Bee Framework Adaptation**

The 10 core BEE parameters (World Bank Group, 2022) were mapped to Bhutan-specific business conditions. Each parameter was broken down into measurable sub-indicators as given in the table below.

**Table 1**

*The 10 core BEE parameters and Bhutan-specific business conditions*

BEE Parameter	Operational Definition for Bhutan Study	Measurement Approach
Business Entry	Time/cost of registration via G2B portal	Likert scale (1-5) on efficiency
Business Location	Rental costs vs. infrastructure quality	% Satisfaction with facilities
Utility Connections	Reliability scores for power/water/internet	Frequency of service interruptions
Financial Services	Access to credit	Likert scale (1-5) on the accessibility to financial services

### **Population and Sample Size**

The research used simple random sampling to collect data from owners of small, medium and large-scale trade, services and industries sectors across the country. Approximately, there were a total of about 50,393 business establishments (inclusive of trade, services and industries sectors) in Bhutan as per the data records maintained by the IT department of Ministry of Industry, Commerce and Employment during this study period (2023-24). Similarly, there were approximately 2250 business establishments

under large scale, 1635 business establishments under medium scale and 46,508 businesses under small scale.

- Small scale refers to those business sectors in Bhutan that have an investment ranging from 1 million to 10 million ngultrum.
- Medium scale refers to those business sectors in Bhutan that have an investment ranging from 10.1 million to 99.99 million ngultrum.
- Large scale refers to those business sectors in Bhutan that have an investment scale of more than 100 million ngultrum.

Yamane formula was used to arrive at the sample sizes for all three types of scale. The sample sizes for the three categories of businesses using Yamane formula were arrived as follows:

- Big scale businesses=339.6
- Medium scale businesses=321.37
- Small scale business=396.59

#### **Ethical Consideration**

- Respondents were given the options to answer the survey questionnaire.
- Confidentiality was assured to the respondents by informing them that their individual identity would not be disclosed.

#### **Data Collection**

A semi-structured questionnaire survey was developed to collect data from business owners around the country. These questions were directly derived from BEE sub-indicators. The questionnaires consisted of both the close ended and open-ended questions. A pilot test of the questionnaire was conducted with 10 respondents to get their feedback on the overall design of the questions and accordingly their feedback was incorporated before the final circulation. Data was collected during 2023-24.

Statistical Package for Social Sciences (SPSS) and Microsoft Excel were used to record, organize and analyse the data collected through the survey link. Close-ended questions were analysed through descriptive statistics while thematic analysis was applied for the open-ended questions. Further, to ensure a comprehensive analysis, triangulation was conducted using secondary policy documents to validate and corroborate the findings.

## **Findings**

### **Demographic Information**

Responses were obtained from 695 respondents in total of which 290 respondents were owners of small-scale businesses, 194 medium businesses and 211 large businesses. Overall, 429 respondents were females amounting to 61.73% of the total respondents while the remaining were males. Table 1 gives an overview of the demographic background of the respondents. More small and medium scale businesses are owned by women than men while more large-scale businesses are owned by men. While small and medium scale businesses are scattered across manufacturing, services and trade sectors, most large-scale businesses belong to the trade sector. The overall response rate is 65.69%.

**Table 2**

*Demographic background of the respondents*

Variables	Category	(n=695)	%
Gender	Male	266	38.27
	Female	429	61.73
Sector	Manufacturing/Industries	35	5.04
	Services	133	19.14
	Trade	497	71.51
	Others	30	4.32
Location	Bumthang	5	0.72

	Chukha	114	16.40
	Dagana	5	0.72
	Gasa	2	0.29
	Haa	3	0.43
	Lhuntse	4	0.58
	Mongar	7	1.01
	Paro	43	6.19
	Pemagatshel	4	0.58
	Punakha	45	6.47
	Samtse	21	3.02
	Samdrup Jongkhar	13	1.87
	Sarpang	17	2.45
	Thimphu	332	47.77
	Trashigang	7	1.01
	Trashigang Yangtse	4	0.58
	Trongsa	10	1.44
	Tsirang	8	1.15
	Wangdue Phodrang	43	6.19
	Zhemgang	8	1.15
Business Scale	Small	290	41.73
	Medium	194	27.91
	Big	211	30.36

The findings of the study are presented based on the ten parameters of BEE provided by the World Bank: business entry, business location, utility connections, labour, financial services, international trade, taxation, dispute resolution, market competition, and business insolvency.

### **Business Entry**

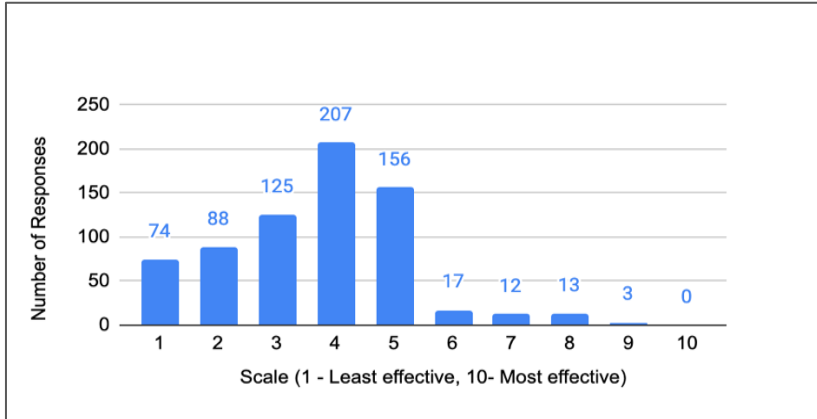
The Government to Citizen (G2C) initiative was launched in 2011 to bring public service reforms in Bhutan (Thinley, 2011), particularly on the backdrop of issues hindering the delivery of efficient public services due to lengthy and unclear bureaucratic procedures (RGoB, 2013). In 2021, the Government to Business (G2B) portal was unveiled which made Bhutan the fastest place in the world to start small business (UNCTAD, 2021). Through such

a facility, it is expected to take just a day on average to complete business registration in Bhutan for small businesses. This can be due to the fact that most retail businesses do not require sectoral clearances unlike the large-scale retailers. Nevertheless, the average day to obtain a license by someone in the manufacturing sector extended to 7 working days due to the requirement of sectoral clearance from various government agencies. Large scale businesses took about 5 working days to obtain and start business in general while it extended to 30 days to obtain a manufacturing license to start business operation for a large-scale business.

Figure 1 represents the views of the respondents on the effectiveness of online services for business registration which was rated below average by 93.52% (650) of business owners.

**Figure 1**

*Responses on effectiveness of online services for business registration*



When asked, most of the respondents were not aware that they could apply for business registration themselves through the online portals G2B and G2C indicating lack of awareness among clients on such services. This could also be partly due to digital divide especially among the small-scale business operators.

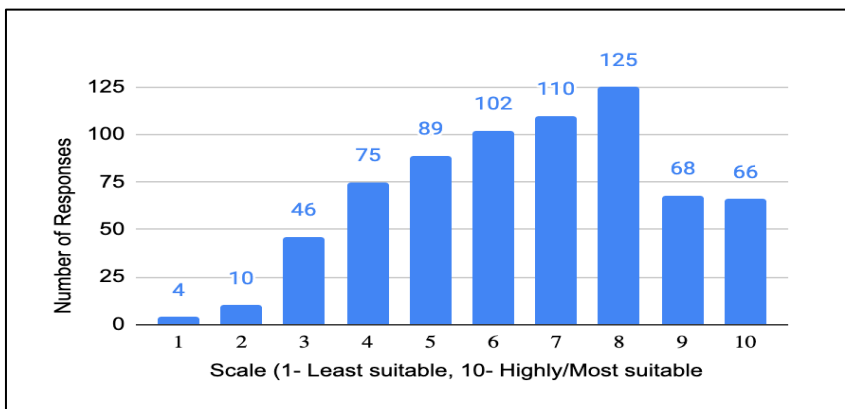
Although walk-in services provided at Regional Offices of the Ministry of Industry, Commerce and Employment have streamlined bureaucratic procedures to apply for business licenses, there is lack of awareness on the digital public services as most people are not familiar with the online web portal. When asked if the respondents would recommend Bhutan as a favourable destination for starting a business based on their experience, 52.95% (368 respondents) voted for a “Yes” response while the remaining 327 respondents (47.05%) voted for a “No” answer indicating that Bhutan is a fairly good destination for starting a business.

### **Business Location**

Figure 2 shows that the respondents agree with the availability of suitable commercial real estate options in spite of the fact that the rents are very high. While the availability of commercial spaces stipulates an opportunity for more upcoming businesses, issues like rental amount remain as a hindrance.

**Figure 2**

*Responses on availability of suitable commercial real estate options*



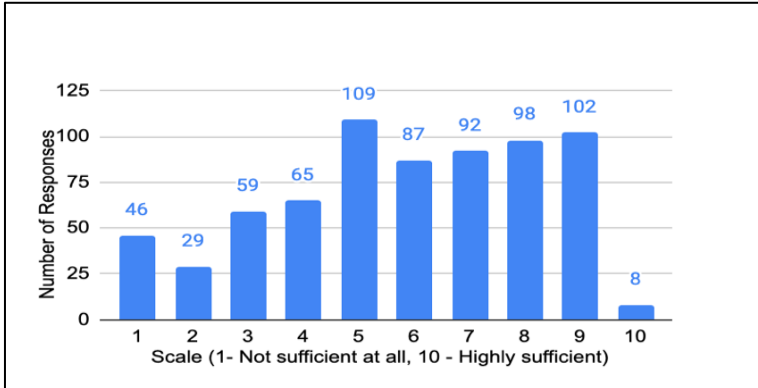
Bhutan's geographical terrain can be described as steep and high mountains crisscrossed by a network of swift rivers, which form deep valleys (Royal Society for Protection of Nature, 2023). Most commercial areas in Bhutan can be found in the core town areas or extended town areas of each district. 67.77% (471) respondents gave fairly high scores for suitability of commercial estate options in their business areas. The infrastructures required for smooth functioning of a business include a suitable commercial area, an accessible market, transportation, communication, energy, water supply, waste management, and public services (Oboloo Limited, 2023). In Thimphu (capital city), contrary to availability of more commercial spaces for lease, less people have been showing their interest in taking up the spaces (Choki, 2023) mainly because the economy is still taking time to recover after the COVID situation which was further aggravated by the migration of young people to other countries for higher education and better job opportunities. Even retailers in prime locations share that they are currently facing rental pressures with some having to run on a loss. Some have also closed their businesses which has led to an increase in commercial space for leasing or even for sale.

Location of the business is one of the new indicators under business enabling environment that affects a conducive business environment and covers three sub-indicators namely, quality of regulations for immovable property lease, property ownership and urban planning and efficiency of obtaining a business location in practice. These sub-indicators were not covered as a part of 'Registering Property' indicator under Ease of Doing Business (EoDB) and thus, is a more reliable indicator than the one in EoBD as it also dives into the qualitative part.

Majority of the respondents as shown in Figure 3 agreed that there is sufficient infrastructure such as road connectivity, transportation and other utilities to support business operations. However, while the urban areas are connected with all basic infrastructure to do business, rural areas still do lack such facilities.

**Figure 3**

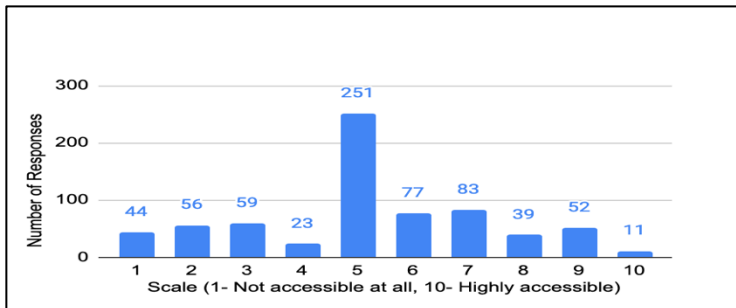
*Responses on sufficiency of infrastructure (road, transportation and utilities)*



Accessibility of business location to the customers, suppliers and employees is important in business operation. Based on the findings as presented in Figure 4, the majority of the respondents rated medium to high on the accessibility of their business locations to their clients, vendors, and staff.

**Figure 4**

*Responses on accessibility of business location for customers, suppliers and employees*



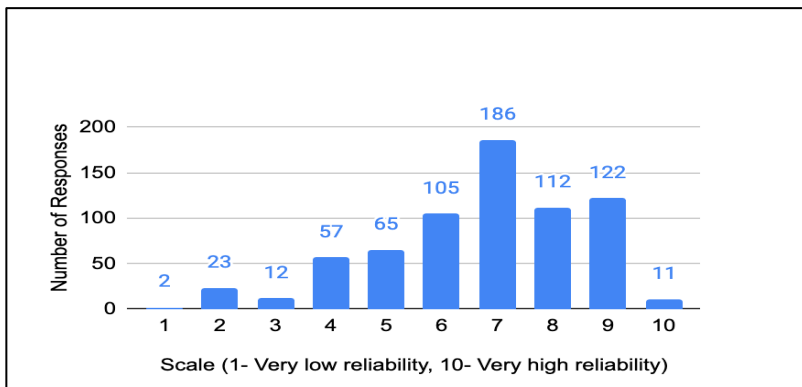
While the country continues to make concerted efforts to improve infrastructure development works, such issues will continue to be challenges given the mountainous terrain of the land and dispersed settlements. Besides improving connectivity across the country, the government has also promoted the development of regional commercial and industrial hubs and thereby providing better commercial facilities.

### **Utility Services**

Majority of businesses surveyed reported having access to reliable electricity supply as shown in Figure 5 below. 536 (77.12%) of the respondents gave a score of more than 6 for reliability of electricity supply which is a positive development.

**Figure 5**

*Responses on reliability of electricity supply for business*



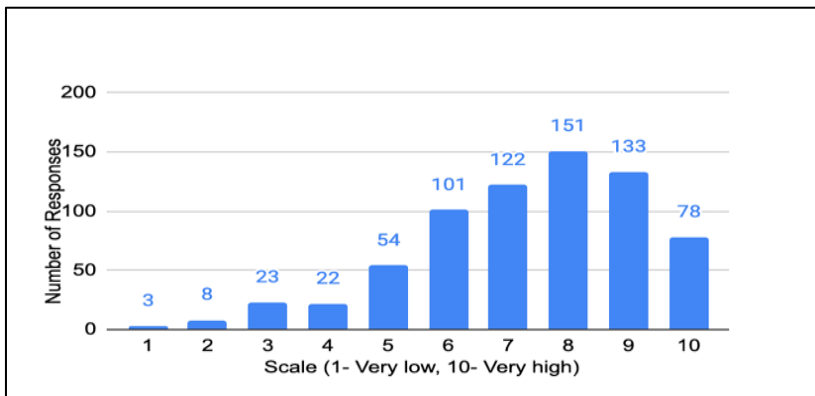
Bhutan scored an average score of 77.5 out of 100 under EoDB 2020 'Getting Electricity' connection with a rank of 78, a better rank than other countries in South Asia such as Sri Lanka (rank of 89), Nepal (rank of 135) and Bangladesh (rank of 176) - (World Bank Group, 2020). The EoDB report 2020 used different indicators to indicate the score for getting electricity connection

such as time, cost, procedures and reliability of supply and transparency of tariff index. Bhutan Power Corporation (BPC) which is under the Druk Holding Investment (DHI) has made significant progress in providing electricity connections to businesses especially through adoption of online systems.

The study found that the majority of businesses in Bhutan have access to water supply as shown in Figure 6 below. 585 respondents, which makes up about 84% of the total respondents, gave a score of more than 6 (on a scale of 1-10) on the reliability of water supply.

**Figure 6**

*Responses on reliability of water supply for businesses*

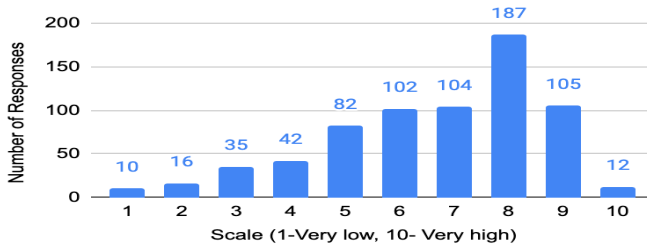


However, some businesses expressed that they face challenges in accessing reliable water connections. Inconsistent water supply, especially during peak hours of operations was reported as a concern in some areas.

With regard to reliability of telecommunication services in the country, the majority of the respondents gave a score of 6 and above (on the scale of 1-10) as shown in Figure 7 which is a better rating than the electricity connection.

**Figure 7**

*Responses on reliability and efficiency of telecommunication services for businesses*



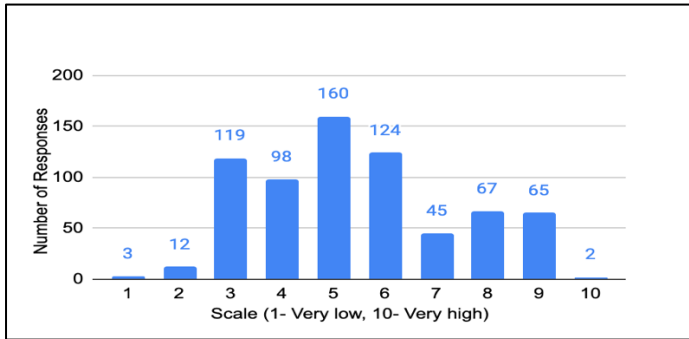
Bhutan's telecommunications infrastructure comprises both wired and wireless networks. The country has made substantial progress in expanding its network coverage, especially in urban areas. The key players in the Bhutanese telecom sector include Bhutan Telecom (BT) and TashiCell which provide fixed-line, mobile, and internet services. Internet connectivity has witnessed significant growth in Bhutan. The country has more than 600 internet users with internet penetration of above 85%. Bhutan has come a long way in the field of telecommunication services through massive investment in infrastructure development and expanding coverage through initiatives such as tower installations, network expansion projects and provision of effective online platforms.

#### **Availability Of Skilled Labour**

The presence of skilled labour plays a vital role in the prosperity of businesses and the overall economic development of Bhutan. The findings from this survey revealed a divided view among business owners in Bhutan regarding the availability of skilled labour as depicted in Figure 8 although the majority gave a rating of medium to high (i.e., 5 and above on the rating scale of 1-10).

**Figure 8**

*Responses on the availability of skilled labour*



This disparity could be attributed to variations in labour availability across different locations and specific nature of businesses. Bhutan has made remarkable strides in the field of education and human resource development. The country is ranked in the medium development category globally in the Human Development Index (HDI). Approximately 77% of the total population falls within the working-age bracket. Literacy rate of Bhutan in 2024 is approximately 72.1% with the labour force participation rate of 65% (NSB, 2024). While the general unemployment rate is 3.1%, youth unemployment is recorded at 19% indicating significant availability of youth for employment (National Statistical Bureau, 2024). Industries and service sectors could reap the population dividend in Bhutan besides drawing out workforce from the agriculture sector which has 43.5% of the population in its disguised form with its dwindling contribution to the national GDP (Agriculture sector contributes only 14.67% to the GDP – NSB 2023). However, challenges do persist in terms of developing and securing specialized skills, particularly for the emerging business sectors due to which some of the business sectors resort to hiring of expatriate personnel especially from across the bordering countries. As a result, the government is

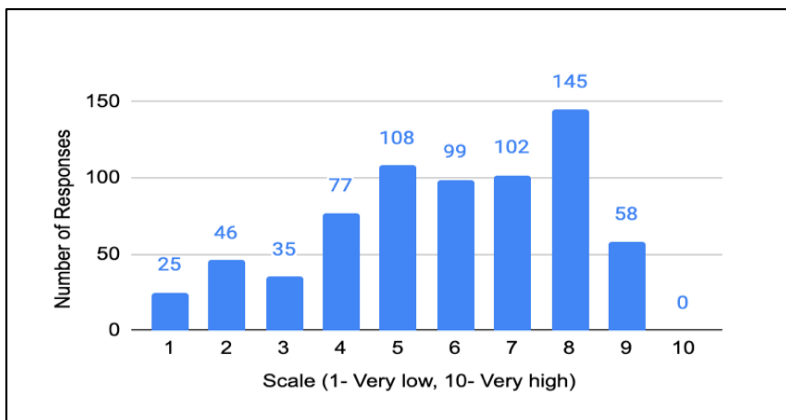
making every effort towards reforming education and skills development in the country.

### **Financial Services**

As seen in Figure 10, the majority of the respondents gave a rating score of medium to high (i.e., 5 and above on the scale of 1-10) on the accessibility to financial services to their businesses while around 29% indicated high accessibility. Having access to financial services especially banking and credit facilities is crucial for their operations, investments, and overall expansion. The EoDB Report (2020) highlighted bureaucracies associated with availing business loans in Bhutan. According to the World Bank, Bhutan ranks relatively low in terms of loan accessibility due to the need for collateral and the scarcity of credit information.

**Figure 9**

*Responses on ‘accessibility of financial services such as banking and credit facilities’*

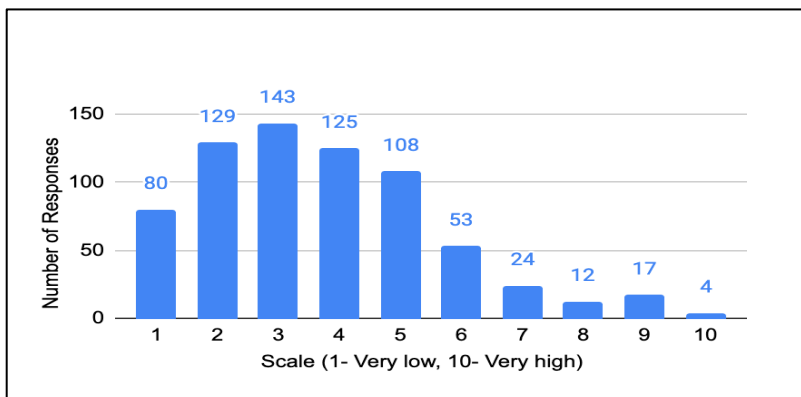


In order to address such problems, the government has launched the loans Guarantee Scheme to make it easier for small and medium-sized businesses to get credits. It is crucial to note that

Bhutan saw a considerable rise in non-performing loans (NPL) which increased by almost 54% between September 2022 and March 2023 (Kuensel, 2023). Following this, stronger rules had been put in place for loan acquisition including suspension of some of the loans till recently. While there have been improvements in financial services as shown in Figure 10, ongoing efforts to improve credit information systems, streamline lending procedures, and encourage financial literacy are essential to improving the accessibility of financial services, including banking and credit facilities for business owners in Bhutan. Presently, the government has launched the Economic Stimulus Plan (ESP) since May 19, 2024 with financial support of Nu. 15.00 billion from the Government of India. ESP targets supporting the new businesses and expansion of existing business for targeted sectors at a low loan interest rate of 4 percent without requiring collateral besides extending support to the distressed borrowers recover from setbacks caused by COVID-19 pandemic and other external factors.

**Figure 10**

*Responses on overall competitiveness of Bhutan's products and services in the international market*

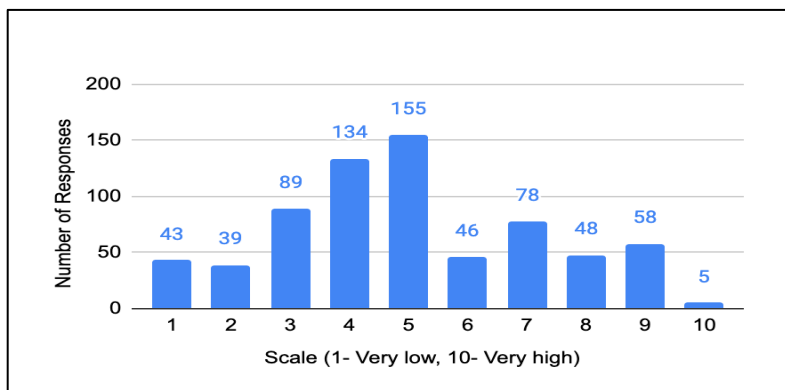


### **International Trade**

A significant number of respondents expressed apprehensions regarding the efficiency and effectiveness of customs procedures pertaining to international trade in Bhutan as shown in Figure 10. The World Bank's EoDB report (2020) portrayed Bhutan in the 30th position among the 190 countries in the ease of trading across borders index, indicating room for improvement in streamlining customs processes and minimizing trade barriers. Emphasizing the improvement of customs procedures, embracing digital technologies, and promoting transparent and efficient processes are crucial to facilitate international trade for Bhutanese businesses. Considering a significant proportion of respondents in the large-scale business category were traders in this survey, their opinions likely reflect their experiences primarily associated with import of goods and services from outside.

**Figure 11**

*Responses on efficiency and effectiveness of customs procedures in terms of facilitating international trade*



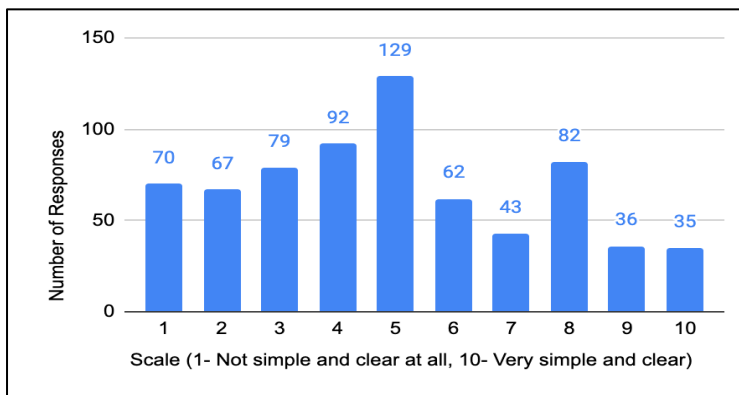
In order to address these concerns and enhance international trade, the Bhutanese government has introduced the Bhutan TradeFin Net (BFTN) system. Effective from July 1, 2023, this

system enabled import and export applications which was developed in collaboration with the Ministry of Finance, Royal Monetary Authority, Ministry of Industry, Commerce and Employment, and financial institutions in Bhutan. The primary objective of the BFTN system is to facilitate smooth functioning of import and export activities in the country while concurrently mitigating corrupt practices.

Bhutan has its unique selling points of its domestic products and services emanating mainly from its commitment to environmental protection, sustainable development and cultural preservation. However, it is crucial to recognize that there are some difficulties in Bhutan such as scale limitations in manufacturing, difficulty in transportation and its associated costs due to mountainous terrain of the country and lack of access to markets. As depicted in Figure 12, 68.63% (477) of the respondents agreed that Bhutanese products were less competitive compared to those from other countries in spite of certain unique selling points of such products.

**Figure 12**

*Responses on simplicity and clarity of the tax filing process for business*



Numerous actions have been made by the government in response to these issues such as interventions aimed at establishing brands, diversifying the market, and boosting capability. In an effort to market its products and draw in foreign investors, Bhutan participates extensively in international trade shows and exhibitions besides hosting such shows in Bhutan. Collaborations with international organizations and support for entrepreneurship and innovation further contribute towards enhancing competitiveness.

As of 2023, there were 108 approved Foreign Direct Investment (FDI) projects with 12 new ones being sanctioned in 2024 (The Bhutanese, October 26, 2024). Further to attract foreign investment in the country, new Foreign Direct Investment (FDI) Rules and Regulations have been drafted with a proposal to replace some of the earlier provisions as contained in 2019 (amended in 2020). The new proposal focuses on improving work permits, land lease tenure, business approval procedures, and dispute resolution among other attractive features which if approved by the government can facilitate Bhutanese businesses to link with international markets besides transfer of technologies and providing bigger pool of financial resources in critical areas for the development of the country (The Bhutanese, September 28, 2024).

### **Taxation**

Bhutan was ranked 15th among the 190 countries on the ease of tax payment with its first ranking in the South Asian region. This is also highlighted as the best indicator among others in terms of doing business in Bhutan. As part of its efforts to create a business-friendly environment, Bhutan has undertaken measures to streamline and simplify its tax structure. Bhutan implemented an online platform for filing corporate income tax and personal income tax, thereby facilitating easier tax payments. However, challenges persist in terms of understanding tax laws, ensuring

compliance, and navigating the complexities of the overall process. From the findings presented in Figure 13, it shows that the majority of businesses in Bhutan are expressing that the simplicity and clarity of filing taxes is just low to medium level only which could be attributed mainly to the low usage of online platforms.

Further, findings from the respondents revealed that individuals residing far from regional revenue and customs offices tend to have less familiarity with the tax filing processes. While there are policies in place on the taxation, further improvement of the tax filing procedures for businesses in Bhutan necessitates developing clear communication between the tax authorities and the corporate sector along with comprehensive guidance, standard operating procedures and educational awareness regarding taxation.

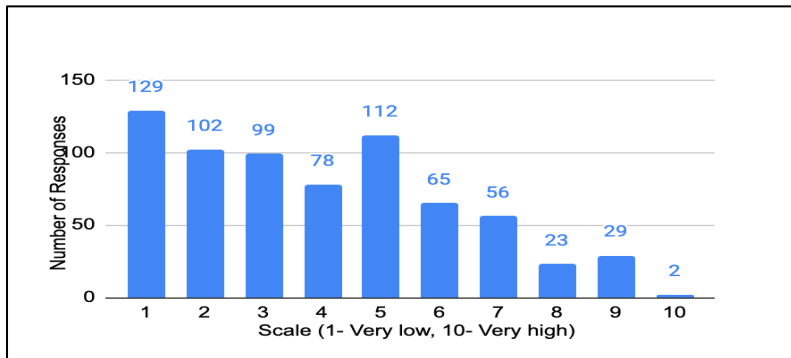
### **Dispute Resolution**

According to the EoDB report (2020), Bhutan ranked 29th on the ease of enforcing contracts among 190 economies, and first among the South Asian region. Bhutan has also commercial benches to resolve issues emanating from businesses in addition to the provision of alternative dispute resolution. In spite of having a fast and reliable system to resolve disputes, the majority of the respondents rated low to medium level of awareness and utilization of dispute resolution mechanisms as depicted in Figure 13.

While awareness and utilization may vary among businesses, efforts have been made by the government to raise awareness on disputes resolution through workshops, seminars, and information campaigns. Continuous engagement between relevant agencies and business owners, as well as providing accessible and transparent dispute resolution processes will be crucial in enhancing the level of awareness and utilization of these mechanisms.

**Figure 13**

*Response on level of awareness and utilization of dispute resolution mechanisms among businesses in Bhutan*



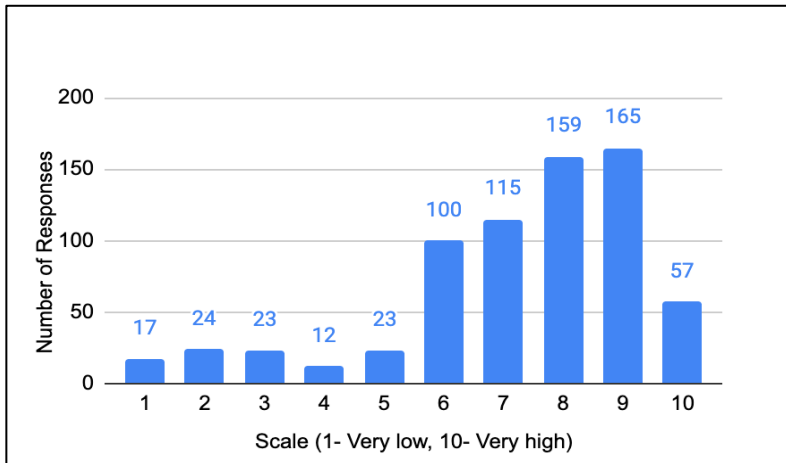
### **Market Competition**

Bhutan excels in a number of categories including social cohesion, cultural resources, and environmental sustainability. Above all, Bhutan's organic brand along with the country's guiding philosophy of Gross National Happiness (GNH) creates its own uniqueness. However, there are challenges for the Bhutanese businesses due to a small domestic market, unexplored external markets beyond the neighbouring countries, geographical terrain, high transportation costs and lack of access to finance. Due to these difficulties, local businesses face greater competition as expressed by them (findings are shown in Figure 14).

Majority of the respondents (85.75%) rated the level of competitiveness on the scale of 6-10 which is on the higher side. Further, according to business people, the tendency to imitate each other makes the competition fiercer which may be due to lack of high innovative culture and low risk taking in exploring new businesses despite the government's efforts to nurture innovation and entrepreneurship.

**Figure 14**

*Responses on 'level of competitiveness in the market for good and services'*



### **Business Insolvency**

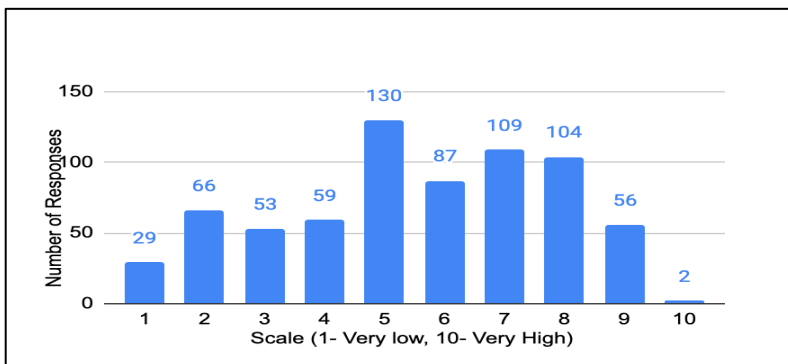
According to the EoDB study (2020), Bhutan does not have bankruptcy laws or regulations governing the length of time it takes to collect debt (in years), the expense of doing so (as a percentage of the debtor's estate), or the effectiveness of the framework to manage insolvency. However, the Companies Act of Bhutan which was revised in 2016 provides guidelines and provisions related to business insolvency. Efforts have been made to enhance awareness of such guidelines and provide resources through workshops, training programs, and publications by various government agencies and industry associations.

Majority of the respondents rated medium to high (5 and above on the scale of 1-10) on the accessibility and availability of information related to business insolvency in Bhutan. On the other hand, Bhutan was ranked in the 168th position on this factor among the 189 countries by the World Bank in the EoDB report

(2020) due to lack of proper insolvency mechanisms in place which may not fully hold true since Company Act of Bhutan does provide guidelines on insolvency.

**Figure 15**

*Responses on accessibility and availability of information and resources related to business insolvency in Bhutan.*



## **Discussions**

This section presents a structured analysis of Bhutan's business environment, examining key achievements and persistent challenges across nine critical dimensions. Drawing on recent data from government reports, international institutions, and empirical studies, the discussion highlights the progress made in digital governance, infrastructure, energy reliability, labour markets, financial inclusion, trade facilitation, taxation, innovation, and legal frameworks. However, it also identifies significant gaps, particularly in rural-urban disparities, skills mismatches, financial accessibility, and market competitiveness that require targeted policy interventions.

### *Streamlined processes and awareness gaps*

Bhutan's digital governance reforms, particularly the G2B portal, have significantly improved business registration efficiency, enabling 1-day processing (World Bank, 2020). However, 93.5% of surveyed businesses – especially rural SMEs demonstrated low awareness of these digital services (Kemp, 2022). This digital divide risks excluding traditional enterprises from Bhutan's modernization efforts and suggests a need for targeted awareness campaigns and digital literacy programmes in rural areas.

### *Accessibility and affordability of business location*

While urban centres like Thimphu show 67.8% satisfaction with commercial infrastructure (NSB, 2024), rural businesses face significant challenges including high rental costs (averaging 42% of revenue) and inadequate transportation links. These geographic disparities highlight the need for policy interventions to decentralize economic opportunities and improve rural business infrastructure.

### *Utility reliability with sporadic challenges*

Bhutan's hydropower-dependent energy system delivers 77.1% reliability in electricity supply (BPC, 2023), ranking among the best in South Asia. However, seasonal disruptions affect 23% of businesses, indicating the importance of diversifying energy sources through solar microgrids and other renewable alternatives to ensure consistent service delivery.

### *Labour market dynamics and skills development*

With a 72.1% literacy rate and 77% working-age population (NSB, 2024), Bhutan possesses strong human capital foundations. Yet the 19% youth unemployment rate (ADB, 2019) reveals critical skills mismatches, particularly in growing sectors like green technology

and high-value tourism, underscoring the need for vocational training realignment.

*Financial services and access to credit*

Despite progress in the Loan Guarantee Scheme and financial inclusion, Bhutan faces several persistent challenges in ensuring equitable access to credit and financial services. Some of the key issues include: urban-centric banking infrastructure where financial institutions are concentrated in cities like Thimphu and Phuntsholing, leaving rural SMEs with limited access; mobile banking and digital finance adoption remains low in remote areas due to connectivity gaps and low financial literacy; many rural entrepreneurs lack awareness of formal credit procedures, and complex documentation and lengthy approval processes deter businesses to access loan services.

*Facilitating international trade and market expansion*

The Bhutan TradeFin Net system has reduced import/export processing times by 40% (MoICE, 2023). However, 68.6% of exporters cite prohibitive transportation costs due to Bhutan's landlocked geography, suggesting the need for regional logistics partnerships and targeted subsidies to enhance trade competitiveness.

*Tax simplification and outreach*

While Bhutan ranks 15th globally for tax payment ease (World Bank, 2020), 61% of businesses report difficulties with compliance procedures, particularly in remote areas. Simplified filing systems and expanded taxpayer education programmes could improve compliance rates and reduce administrative burdens.

*Promoting market competitiveness and innovation*

Protective policies have successfully nurtured cultural industries, but 85.8% of firms report market saturation and limited innovation uptake. Strategic investments in R&D and development of distinctive export brands (e.g., “Carbon-Negative Bhutan”) could help businesses expand beyond domestic market constraints.

*Addressing insolvency and legal frameworks*

The Companies Act (2016) provides a modern insolvency framework, yet many remain unfamiliar with restructuring options. Comprehensive business education initiatives and simplified guidance materials could enhance utilization of these legal protections during financial distress.

## **Conclusion**

In conclusion, despite the widespread perception that Bhutan faces a “Low Image on the Ease of Doing Business,” this study reveals a nuanced reality grounded in the perspectives of local business operators. While global rankings like the World Bank’s EoDB index have highlighted bureaucratic hurdles, lengthy procedures, and infrastructural challenges, the ground reality suggests that Bhutan’s business environment is more favourable than is often portrayed. Many entrepreneurs have expressed satisfaction with access to utilities, infrastructure, and the availability of skilled human resources, especially in urban areas. The country’s rich natural resources, cultural uniqueness, and ongoing reforms in digitalization and regulatory processes are further creating opportunities for business growth. However, challenges such as digital divide, limited specialized skills, and insufficient awareness of online platforms still hinder optimal utilization of the existing supportive mechanisms. To truly demystify the “Low Image on the

Ease of Doing Business” narrative, targeted recommendations are essential. These include strengthening digital infrastructure to bridge the digital divide, enhancing awareness and capacity-building at the grassroots level, streamlining bureaucratic procedures further, and promoting skill development tailored to emerging sectors. Additionally, fostering a culture of innovation and entrepreneurship, along with enhancing market access through diversification and international collaborations, can significantly improve Bhutan’s business climate. By addressing these areas, Bhutan could better leverage its existing strengths and create a more enabling environment that aligns with ground realities, ultimately fostering sustainable economic growth and private sector development.

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