

A Policy beyond Formalities: Fuelling Privet Sector Investment in Bhutanese Economy

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Introduction

Investment is a process of adding more value to the already existing stock of capital. In Bhutan, investment has been playing a vital role in building up the private sectors through making profitable investment. But the private sector investment in Bhutan is still in limited number though the country has stepped through 50 years of development. As a result private sector investment has been an overwhelmed issue ever since and Pokhrel (2014) has mentioned the importance of doing business in Bhutan and describe the situation that the private sectors are facing regarding the investment.

Ease of doing business for Bhutan is important where people who are interested to take up the business and people who have already taken interest must find it easy to do business in particular economy. Five indicators are used by the Ease of Doing Business Index (EDBI) to measure how easy it is to do business from a regulatory and bureaucracy perspective. According to the Doing Business Report (2015) Bhutan rank highest on getting credit (71th) while at the other end, it ranks lowest on resolving insolvency (189th). Therefore, this study has perform a bottom to top analysis on 5 EDBI indicators to identify whether there is a relationship between limited private sector investments and bureaucratic formalities in the Bhutanese economy.

Objective

This study intends to examine the five indicators used by EDBI ranking to measure how it is to do business from a regulatory and bureaucracy perspective to be aware of the ground reality of private sectors are facing regarding the investment in Bhutan.

Methodology

The methodology of this study involves both qualitative and quantitative aspects where gets use of appropriate graphical extensions (Bar Charts) coherent with 'bottom to top' analyses using the recorded data from doing business reports and the World Bank data base.

Results and Discussions

5 indicators used by EDBI ranking to measure how it is to do business from a regulatory and bureaucracy perspective are:

- *Starting a business*

For the immediate benefits to companies and business owners and employees, formal registration of companies is must to start a business. Because it is allows companies to have easy access to services and institutions from courts to banks including new markets. It covers or measures the ease of starting a business in the economy by keeping access to all the procedures required by an entrepreneur to start up and officially operate any business. Figure 1 (see Annexures) depicts the ranking of Bhutan and comparator economies with regional average (South Asia rank). Whereby, internationally, Bhutan stands at 92 in the ranking of 189 economies on the ease of starting a business. It provides information for assessing how easy it is for an entrepreneur in Bhutan to start a business.

Main problem that the company usually face while starting a business is due to 8 bureaucratic legal formalities which has to be followed and fulfilled. Such procedures not only consume time (maximum 17 days) it also adds cost 4.4% of income per capita and require paid-in minimum capital of 0% of income per capita to the producers which discourage the entrepreneurs to

start up the business. Whereby, the investors are discouraged to do the investment directly affecting the decisions on investment.

- *Dealing with constructions permits*

In order to protect the public, regulation of construction is important. To stay away from excessive constraints on a sector which plays an important role in every economy, it needs to be efficient. It measures and records the procedures, time and cost for a business in construction industry to gain all the required approvals to construct. Figure 2 (Annexures) depicts the ranking of Bhutan and comparator economies with regional average ranking (South Asia rank). Whereby, internationally Bhutan stands at 131 in the ranking of 189 economies on the ease of dealing with construction permits. It provides information for assessing how easy it is for an entrepreneur in Bhutan to legally build a warehouse.

According to data collected by doing business, dealing with construction permits involve 21 procedures taking 150 days with cost 1.3% of the warehouse value which indirectly tells us that it is a lengthy procedures involving huge cost. Due to such issue, many business men are discouraged to do business.

- *Getting Electricity*

For business having access to consistent and affordable electricity is significant. To achieve a permanent electricity connection and supply for a standardized warehouse it records all the procedures for a local business. Figure 3 (Annexure) explains the rankings for comparator economies and the regional average ranking (South Asia rank) providing an entrepreneur in Bhutan to hook up a warehouse to electricity. It portrays, Bhutan standing at 72 in the ranking of 189 economies on the ease of getting electricity.

It is reported that a set of specific procedures must be completed by an entrepreneur to possess a warehouse connected to electricity which involves acquiring 5 procedures taking 74 days costing 606.5% of income per capita. It requires completion and verification from electricity regulatory agencies and independent professionals for those procedures. And also due to lack of architects, civil engineers and construction lawyers in a country, it is costlier to hire. As a result, such formalities and cost discourages the investors in Bhutan to invest and do their business.

- *Registering Property*

The most essential thing in the business is to ensure formal property rights because informal property rights leads to limiting access to finance and slight possibility of being accepted as collateral for loans. Transferring the property title to owner and recording the full sequence of procedures which is crucial for a business to possess property from another business is what this indicator does. Figure 4 (see Annexures) depicts the rankings for comparator economies and regional average ranking providing information for assessing how easy it is for an entrepreneur in Bhutan to transfer property. Internationally, Bhutan stands at 86 in the ranking of 189 economies on the ease of registering property.

Since these indicators are also based on a set of specific procedures where both the buyer and seller must complete to relocate the property to the buyer's name, it brings barrier to the private sector preventing them from making profitable investment.

- *Getting Credit*

Getting credit is also the factor that prevents private sector from doing business in Bhutan. Ease of getting credit in Bhutan is very high as compare to other countries because interest rate on borrowings is charged high (12-14%) for Bhutanese entrepreneurs as compared to India. An investor will not borrow at higher interest rate if return of investment is low. While borrowing, requirement of mortgage place the entrepreneurs at risk. As a result, entrepreneurs avoid borrowing money from the banks leading to delay in starting of business. Bhutan ranked 71 out of 189 economies in the ease of getting credit.

Conclusion

The reasons that prevents private sector from making profitable investment are due to long bureaucratic legal formalities consuming more time and involving huge financial capital requirement. And also due to high interest rate charged on borrowing, it prevents entrepreneurs and investors to make

investment in private sectors whereby preventing them from making profitable investment.

Problem of investment faced in Bhutan is mainly due to lengthy policies and formalities involved. This issues can be resolved if government can reorganized and reframe the policies which are not ad equable. The government of Bhutan should reduce the number of formalities and the procedures by allowing investors to obtain their license through a single Ministry instead of undergoing through various Ministries. Making procedures simpler and faster by setting up technology like online facilities and making credit facility effective and also by reducing capital requirements (cost) for the procedures can also be the solutions. Increasing the scope, coverage and accessibility of credit information and building up the legal rights of lenders and borrowers under collateral and bankruptcy laws can also be the solution to those problems.

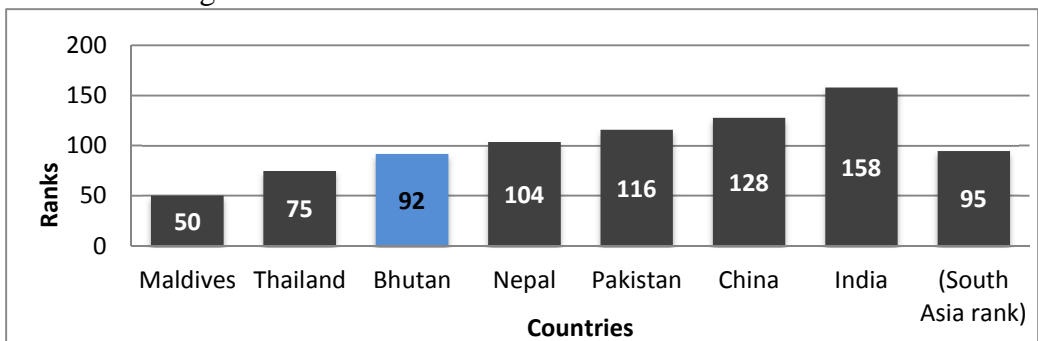
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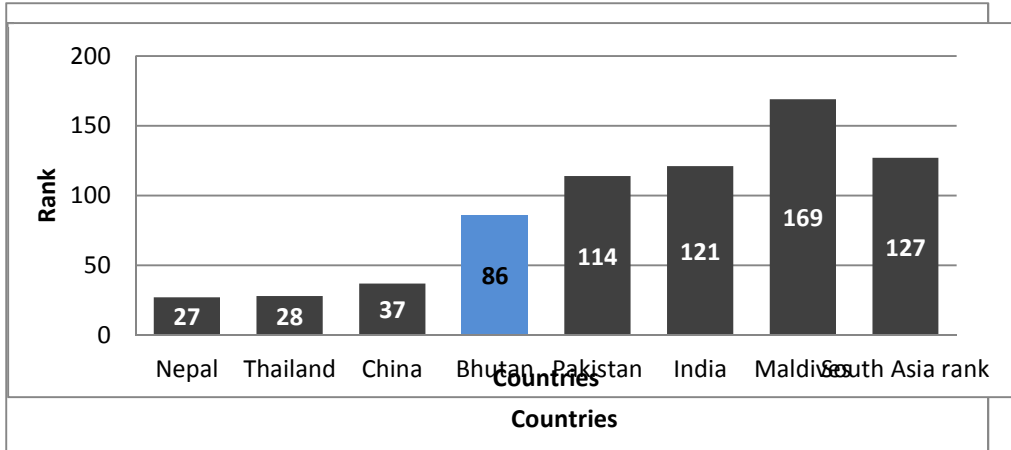
Annexures

Figure 1: How Bhutan and Comparator Economies Rank on the Ease of Starting a Business.



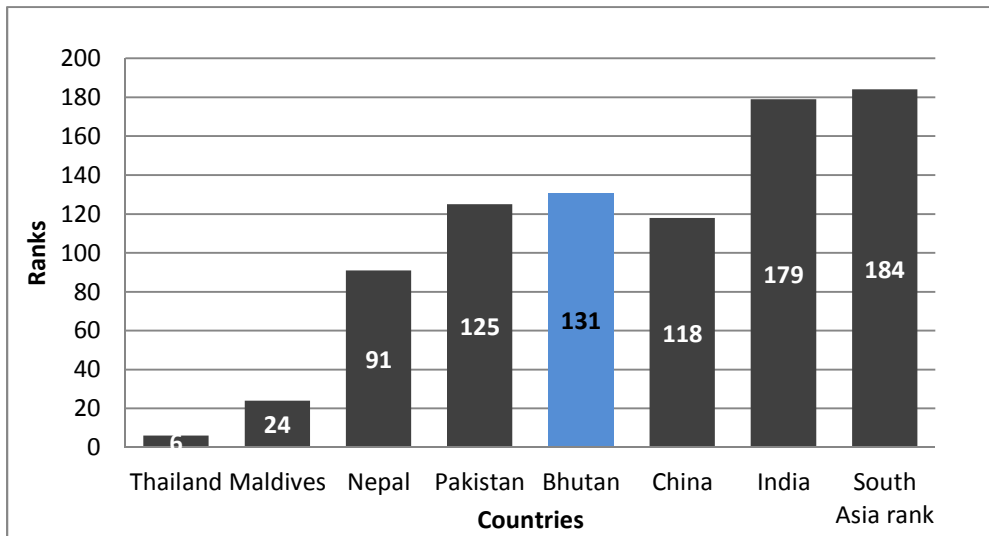
Source: Doing Business Database, World Bank

Figure 2: How Bhutan and Comparator Economies Rank on the Ease of Dealing with Construction Permits.



Source: Doing Business Database, World Bank

Figure 3: How Bhutan and Comparator Economies Rank on the Ease of Getting Electricity.



Source: Doing Business Database, World Bank