

Royal Government of Bhutan

Ministry of Finance



**Share of State-Owned Enterprises in the Bhutanese
Economy**

“Opportunities for State-of-the-Art Enterprises”

2025

Department of Macro-Fiscal and Development Finance

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Abbreviations

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| ADB: Asian Development Bank | FMCL: Farm Machinery Corporation Limited |
| BBPL: Bhutan Board Product Limited | GBCL: Green Bhutan Corporation Limited |
| BBSCL: Bhutan Broadcasting Service Corporation Limited | GDP: Gross Domestic Product |
| BDBL: Bhutan Development Bank Limited | GVA: Gross Value Added |
| BLDCL: Bhutan Livestock Development Corporation Limited | KCL: Kuensel Corporation Limited |
| BOBL: Bank of Bhutan Limited | KIL: Kofuku International Limited |
| BPCL: Bhutan Postal Corporation Limited | MoF: Ministry of Finance |
| BPCL: Bhutan Power Corporation Limited | MSPCL: Menjong Sorig Pharmaceuticals Corporation Limited |
| BSIC-V1: Bhutan Standard Industrial Classification, Version-1 | NHDCL: National Housing Corporation Limited |
| BTL: Bhutan Telecom Limited | NRDCL: National Resources Development Corporation Limited |
| CDCL: Construction Development Corporation Limited | NSB: National Statistics Bureau |
| DACL: Druk Air Corporation Limited | OECD: Organization for Economic Co-operation and Development |
| DCCL: Dungsam Cement Corporation Limited | PAT: Profit After Tax |
| DHI: Druk Holding and Investments | PPP: Public Private Partnership |
| DMDF: Department of Macro-Fiscal and Development Finance | SMCL: State Mining Corporation Limited |
| DPL: Dungsam Polymers Limited | SOE: State Owned Enterprise |
| DGPCL: Druk Green Power Corporation Limited | STCBL: State Trading Corporation of Bhutan Limited |
| FCBL: Food Corporation of Bhutan Limited | TTPL: Thimphu Tech Park Limited |

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The DMDF acknowledges the following principal contributors to the report:

- **Investment and Corporate Governance Division, DMDF:** Nima Yangchen, Pema Zangmo, Rinchen Dorji, and Thinley Penjor.
- **Development Coordination and Debt Management Division, DMDF:** Yeshi Lhendup.
- **Macro-Fiscal Policy Division, DMDF:** Pema Wangdi and Phurpa Gyeltshen.
- **Economic and Environmental Statistics Division, NSB:** Sonam Laendup and Yeshi Wangchuk.
- **Department of Planning, Budget and Performance, MoF:** Tshewang Penjor.

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Executive Summary

This study employs the production approach to calculating the Gross Value Added (GVA) for Bhutan's economy for 2023, with a specific focus on measuring the value generated by the production activities of State-Owned Enterprises (SOEs). GVA is part of the National Accounting to measure economic activity. It tracks the value added at each stage of production, starting from the gross output and subtracting intermediate inputs. The idea is that higher value added indicates greater productivity and economic efficiency within an economy, as they generate more output per unit of input, often leading to profits and economic growth.

The key findings of this study are summarized below:

- The State-Owned Enterprises contributed 23.06 percent to Bhutan's Gross Domestic Product (GDP). Breaking this down, SOEs under the MoF account for 0.91 percent of GDP, while companies under Druk Holding and Investments (DHI) represent a substantial 22.16 percent of the economic output.
- Despite their significant economic footprint, SOEs employ only 3.55 percent of the total workforce, primarily concentrated in the electricity, communications, and financial services sectors. Their total assets amounted to Nu. 204.85 billion, equivalent to 82.14 percent of GDP, highlighting substantial capital concentration in strategic economic activities like electricity, finance and insurance, transport and storage, communication and manufacturing.
- The labor productivity across SOEs averaged Nu. 1,420.32 in 2023, marginally exceeding the South Asian average, with economic activities like mining, electricity, and finance and insurance demonstrating greater productivity. Although exhibiting high productivity, these economic activities are predominantly driven by capital-intensive operations rather than labor efficiency. Additionally, several underperforming sectors, including agriculture, professional, administrative and support services, real estate, construction, and manufacturing, present significant opportunities for economic growth. Targeted interventions in innovation, technology adoption, and workforce development could significantly enhance their productivity, aligning it with regional practices.

- The SOEs show limited reliance on external financing, accounting for just 6.49 percent (Nu. 13,906.79 million) of total domestic credit. Manufacturing, transport, and electricity sectors receive the largest share of this credit allocation.

Introduction

Bhutan's unique economic profile is shaped by its landlocked geography, abundant hydropower resources, commitment to cultural preservation, and strong economic ties with India. These factors insulate the nation from some global economic pressures, while exposing it to others. One crucial component of Bhutan's economic structure is its SOEs, which play a pivotal role in driving the nation's development, particularly in sectors like hydropower, transportation, and telecommunications. As Bhutan navigates the complex landscape of economic development and aims to increase GDP to USD 22 billion by 2050 (Bhutan's 21st Century Economic Roadmap – A 10X Economic Vision), understanding the extent of influence of SOEs has become more critical. The aim to increase GDP requires an annual growth rate of approximately 8 percent and to achieve this the government plans to invest significantly in core and emerging sectors such as hydropower, tourism, agriculture, digital economy, mining and manufacturing. Globally, economists have long debated the delicate balance between state ownership and market dynamics. Mainstream economic discourse has raised concerns about state ownership—potential market distortions, overmanning, limited innovation and nascent private sector (World Bank Economic Review, 2023).

This study provides an analysis of Bhutan's economic landscape, with a particular emphasis on the share of SOEs relative to the total economy drawing comparisons with global and regional trends. The findings from the study will, in essence, demystify claims associated with crowding-out of the private sector by the presence and extent of the SOEs, and in the long run, serve as a key reference for government decisions on investment and divestment strategies. The long-term vision is to foster a new generation of Bhutanese SOEs that are not only state-owned, but state-of-the-art, embodying innovation, efficiency, and global competitiveness.

Overview of State-Owned Enterprises in Bhutan

Government interventions to address market failure in an economy take various forms such as command and control measures, taxes and subsidies, price control, and SOEs. According to the Organization for Economic Co-operation and Development (OECD), a SOE is any undertaking recognized by national law as an enterprise in which the state exercises ownership or control (OECD, 2015).

The Public Finance Act (amendment 2012) defines SOE as “a body incorporated under the Companies Act of the Kingdom of Bhutan, 2000 as amended from time to time or established under any other Act and in which the Government or State Enterprise own more than fifty percent of the issued share capital”. This definition has been adopted for the purpose of the study and it highlights two salient features - incorporated and with more than fifty percent ownership of the Government.

SOEs in Bhutan were initially formed, among others, for the provision of goods and services not catered by the private sector, for social and strategic reasons, and in areas of natural monopolies. The Ministry of Finance (MoF) oversees the ownership interests in the SOEs on behalf of the people of Bhutan. Currently there are twenty-four SOEs, of which seventeen are wholly owned. Fifteen of the twenty-four SOEs are subsidiary companies of the Druk Holding and Investments (DHI), in which the MoF has 100 percent shareholding. The other nine SOEs are directly overseen by the MoF.

Sectoral Distribution of SOEs

As per the Bhutan Standard Industrial Classification of All Economic Activities, Version-1 (BSIC-V1), the SOEs in Bhutan are classified into eleven sectors. The BSIC-V1 classification is based on the International Standard Industrial Classification Revision 4 of the United Nations Statistics Division, ensuring alignment with international standards for comparability. The main criterion for classification is the nature of goods and services produced, providing a structured approach to understanding the diverse economic activities undertaken by SOEs and their contributions to the economy.

Table 1 : SOEs by Sector

| Sectors | SOEs |
|---|---|
| Agriculture, Livestock & Forestry | Bhutan Livestock Development Corporation Limited Green Bhutan Corporation Limited Natural Resource Development Corporation Limited |
| Communication | Bhutan Broadcasting Service Limited Bhutan Postal Corporation Limited Bhutan Telecom Limited Kuensel Corporation Limited Thimphu TechPark Limited |
| Construction | Construction Development Corporation Limited |
| Electricity | Bhutan Power Corporation Limited Druk Green Power Corporation Limited |
| Finance & Insurance | Bank of Bhutan Limited Bhutan Development Bank Limited |
| Manufacturing | Dungsam Cement Corporation Limited Dungsam Polymers Limited Koufuku International Limited Menjong Sorig Pharmaceuticals Corporation Limited |
| Mining & Quarrying | State Mining Corporation Limited |
| Professional, Administrative and Support Services | Farm Machinery Corporation Limited |
| Real Estate & Dwellings | National Housing Development Corporation Limited |
| Transport & Storage | Drukair Corporation Limited |
| Wholesale & Retail Trade | Food Corporation of Bhutan Limited State Trading Corporation of Bhutan Limited |

Sectoral Performance of SOEs: Trend

Past Performance

Over the past five years (2020-2024), SOEs' financial performance demonstrated a strong trajectory of profit growth. The Profit After Tax (PAT) increased significantly by 208.08 percent, from Nu. 5,206.92 million in 2020 to Nu. 16,041.41 million in 2024. Notably, the most substantial

annual growth of 36.38 percent occurred between 2023 and 2024. The operational efficiency has exhibited a positive trend, improving from 99.97 percent in 2020 to 82.21 percent in 2024.¹ The decline in the efficiency ratio indicates that the operating expenses have decreased relative to revenue, reflecting enhanced productivity and improved cost management. The divergence trends of improving operational efficiency and substantial profit growth suggests that by refining operational processes and maximizing efficiency, the SOEs can achieve greater financial gains, reinforcing their strategic role in Bhutan’s economic development.

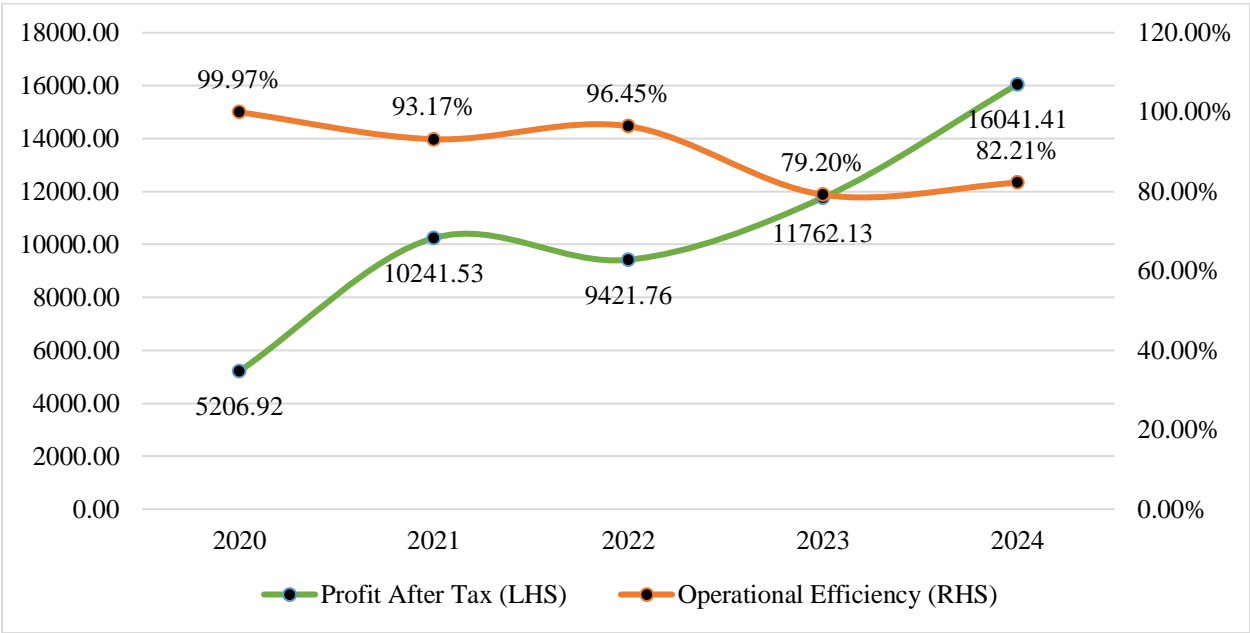


Figure 1: Financial Performance of SOEs (2020-2024): Trend

Sectoral Performance

The performance of SOEs across various sectors of the economy showed distinct trends over the past five years. These sector specific trends illustrate the diverse operational landscape of Bhutan's SOEs, highlighting the need for adopting tailored approaches to address sector-specific challenges while leveraging the strengths of consistently high performing sectors.

¹ Operational Efficiency measures the ratio of Ngultrum spent to earn one Ngultrum

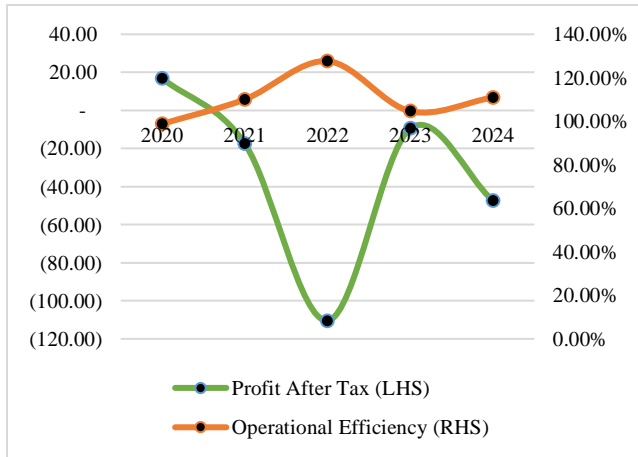


Figure 2: Agriculture Sector

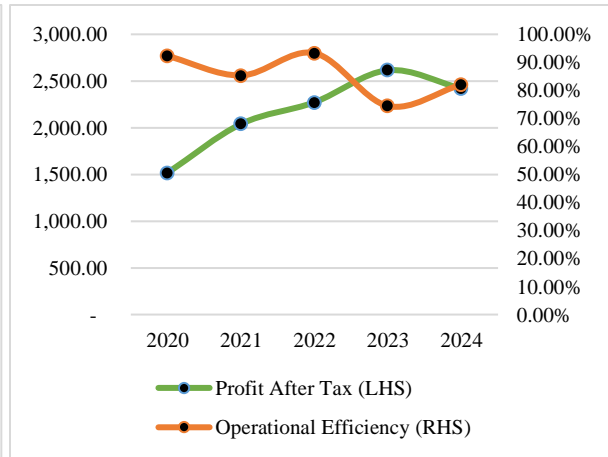


Figure 3: Communication Sector

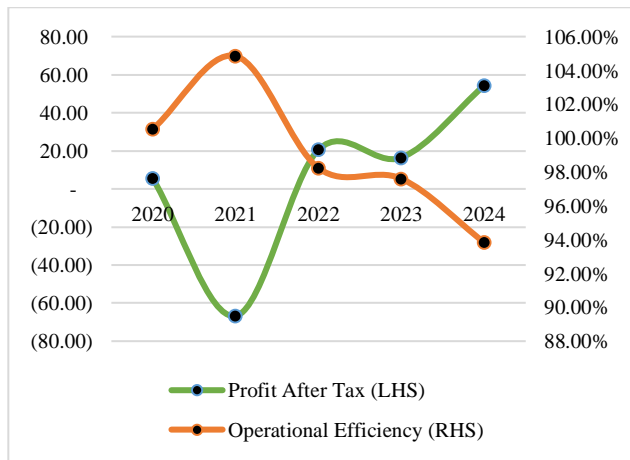


Figure 4: Construction Sector

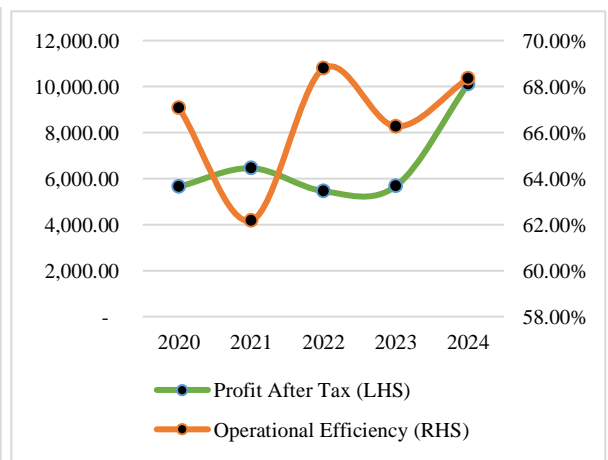


Figure 5: Electricity Sector

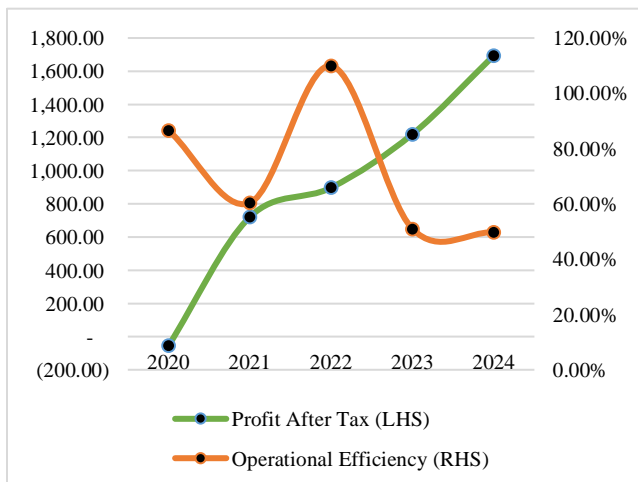


Figure 6: Finance and Insurance Sector

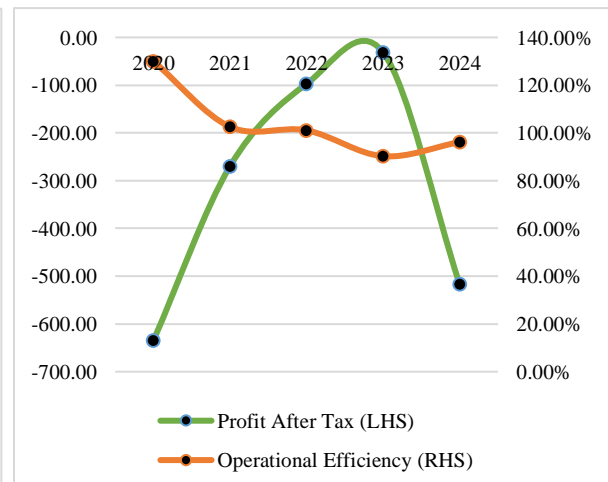


Figure 7: Manufacturing Sector

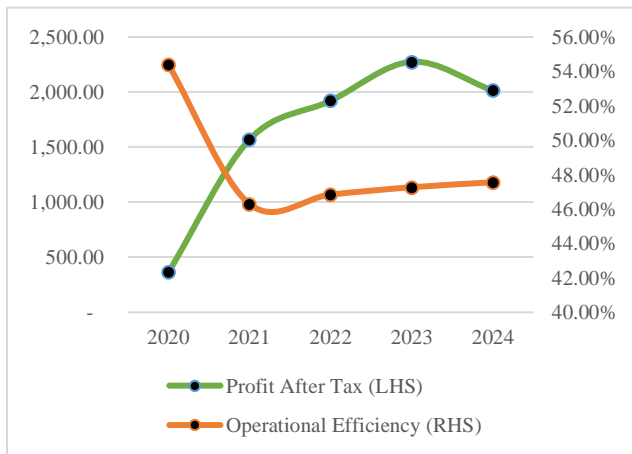


Figure 8: Mining and Quarrying Sector

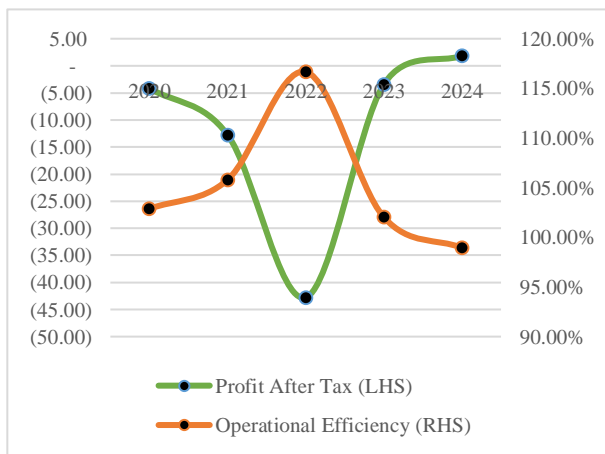


Figure 9: Professional, Administrative and Support Services

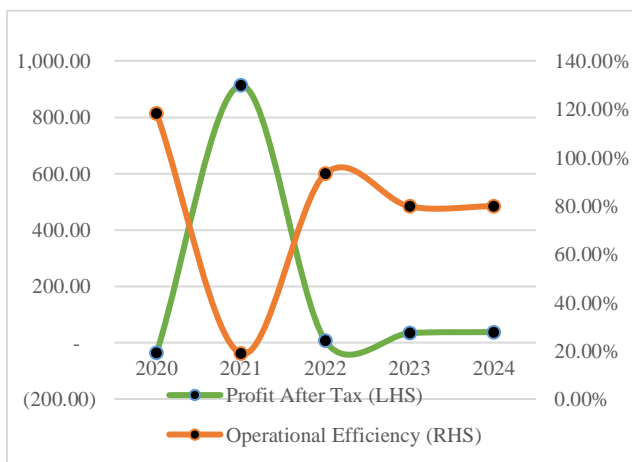


Figure 10: Real State and Dwellings Sector

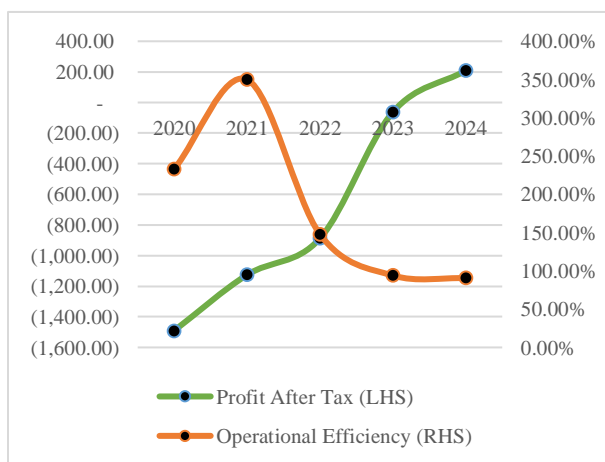


Figure 11: Transport and Storage Sector

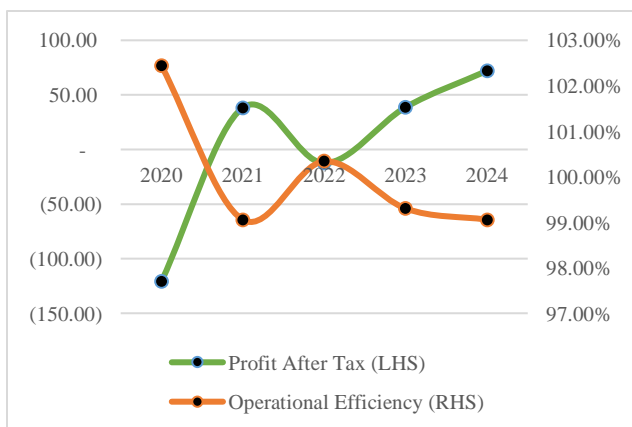


Figure 12: Wholesale and Retail Trade Sector

Performing Sectors

The electricity sector showed consistent profitability and operational efficiency throughout the period, emerging as the best performing sector. This sector has been a cornerstone of Bhutan's economic stability, with its performance reflecting the country's strategic investment in hydropower infrastructure. Similarly, the communication sector had consistent improvement in both profitability and operational efficiency. The mining and quarrying sector demonstrated stable performance, but the growth remains concentrated in raw materials exports rather than fostering high-value industries, underscoring the need for strategic interventions to promote value-added processing.

Challenged Sectors

The manufacturing sector faced persistent challenges, recording consistent financial losses with varying levels of operational efficiency. This trend underscores underlying structural issues that need to be addressed to revitalize and enhance the sector's viability and contribution to Bhutan's economic diversification. Targeted interventions such as improving productivity, optimizing supply chains, and fostering innovation could help revitalize this critical sector.

Similarly, the agriculture sector has faced major challenges, with volatility in both profit and operational efficiency. This highlights the sector's vulnerability to external factors, including climate variability, market fluctuations, and supply chain disruptions. Strengthening climate resilience, enhancing market access, and investing in modern agricultural techniques could mitigate these challenges and improve overall sectoral performance. The professional, administrative, and support services sector recorded consistent high operational efficiency, which translates persistent into financial losses, in all years except 2024. This indicates the need to reassess cost structures, service models and revenue streams to ensure long-term financial sustainability.

Recovering Sectors

The transport and storage sector experienced the highest level of volatility, initially incurring substantial losses before embarking on a gradual recovery. This volatile performance highlights the sector's exposure to global disruptions, such as economic slowdowns, followed by strategic adaptation efforts to restore stability. Further investments in logistical efficiency, infrastructure enhancements, and digital transformation could strengthen the sector's resilience and long-term

sustainability. The construction sector demonstrated gradual improvement from its initial financial losses with high operational efficiency. The improving trend indicates that the sector is regaining stability after a challenging period, supported by increased investments in infrastructure.

The wholesale and retail trade sector, showed gradual improvement indicating the sector's ongoing adaptation to evolving market dynamics, such as shift in consumer behavior and supply chain restructuring. Strengthening market linkages, enhancing operational efficiency, and leveraging digital commerce could help accelerate its recovery and ensure long-term growth. The real estate sector showed fluctuating performance, initially facing challenges before gradually improving in later years². The sector's improvement is attributed to factors such as increased urbanization, infrastructure investments, and evolving demand for residential and commercial properties. To further enhance stability, policies that promote sustainable real estate development, housing affordability, and investment-friendly regulations could help drive consistent growth in the sector.

The finance and insurance sector demonstrated strong resilience, with periods of steady improvements in profitability. The trend indicates effective management strategies, prudent risk mitigations, and the sector's ability to adapt to evolving economic conditions. The sector's sustained growth underscores its critical role in financial stability and economic development. However, opportunities remain for further growth and stability, particularly through financial innovation, enhanced digital services, and broader financial inclusion initiatives to strengthen long-term stability and growth.

² The spike in profit after tax in 2021 was due to the significant increase in the fair valuation gain of investment properties

Analysis of Share of State-Owned Enterprises in Bhutanese Economy

Methodology

This study adopted the production approach to estimate the Gross Value Added (GVA) of SOEs relative to the total economy in 2023. The production approach is one of the methods for computing GVA, focusing on the economic contributions derived from the production activities of SOEs. The financial statements of the SOEs were analyzed along with other data and information to compute the SOE's;

1. Share of the economy;
2. Share of employment;
3. Share of credit; and
4. Asset size scaled by GDP.

The study used financial data extracted from the audited financial statements of various SOEs in Bhutan. These financial reports serve as a primary source for estimating Gross Value Added (GVA) using the production approach, providing a detailed assessment of the economic contributions of SOEs. Moreover, this study integrates data from the Labor Force Survey and other relevant macroeconomic datasets. The Labor Force Survey offers valuable information on employment trends, workforce productivity, and sectoral labor distribution, complementing the financial data in assessing the efficiency and overall economic impact of SOEs. This integration of labor market indicators helps contextualize the role of SOEs in job creation and economic development.

Furthermore, official publications from government agencies, National Statistics Bureau, and policy reports were analyzed to cross-validate data accuracy and ensure consistency with broader national economic indicators. This multi-source approach enhances the reliability of the findings, providing a comprehensive and well-rounded analysis of the performance and economic significance of SOEs in Bhutan.

SOE's Contribution to Economy

SOEs play a crucial role in the country's economy, contributing approximately 23.06 percent of GDP in 2023. This underscores their significant role in driving economic activity, generating employment, and supporting key sectors. However, their contribution to GDP remains comparatively lower than the global average, where SOEs contribute up to 40 percent of GDP (World Bank, 2018). This disparity highlights potential areas for growth and optimization within Bhutan's SOE sectors. Strengthening operational efficiency, enhancing governance frameworks, and exploring new investment opportunities could help expand the economic footprint of SOEs.

Table 2: Share of SOEs to GDP

| <i>Sector</i> | <i>Share (percent)</i> |
|--------------------------------------|-------------------------------|
| 1. Agriculture, Livestock & Forestry | 0.26 |
| 2. Industry | 14.65 |
| <i>o.w. Electricity</i> | <i>11.61</i> |
| 3. Service | 8.15 |
| Total | 23.06 |

The contribution of SOEs in the agriculture sector remains marginal, accounting for just 0.26 percent of GDP. This reflects the government's limited direct ownership in agricultural enterprises. The direct state ownership of production entities is complemented through subsidies, infrastructure development, and policy interventions aimed at enhancing productivity and food security. The sector remains predominantly private and community-driven.

The SOEs in the industry sector contribute a substantial 14.65 percent of GDP, with the hydropower sector alone contributing 11.61 percent. The Bhutanese economy heavily relies on hydropower, which is predominantly state-owned and serves as the backbone of the industrial sector. Besides hydropower, the government holds stakes in other industrial ventures such as mining and quarrying, manufacturing and construction, though their contributions are comparatively lower.

The SOEs in the service sector collectively contribute 8.15 percent of GDP, encompassing various enterprises in finance, telecommunications, transport, and trade. The presence of SOEs is more pronounced in financial services and telecommunications, which are also witnessing increasing participation of the private-sector.

While SOEs continue to play a dominant role in key sectors, their relative contribution to GDP suggests opportunities for policy-driven improvements. Strengthening governance, optimizing operational efficiency, and fostering public-private partnerships could enhance the impact of SOEs across all sectors. Additionally, diversifying state-owned industrial ventures and modernizing service-oriented SOEs could help improve overall economic resilience and competitiveness in Bhutan’s evolving market landscape.

Employment Share

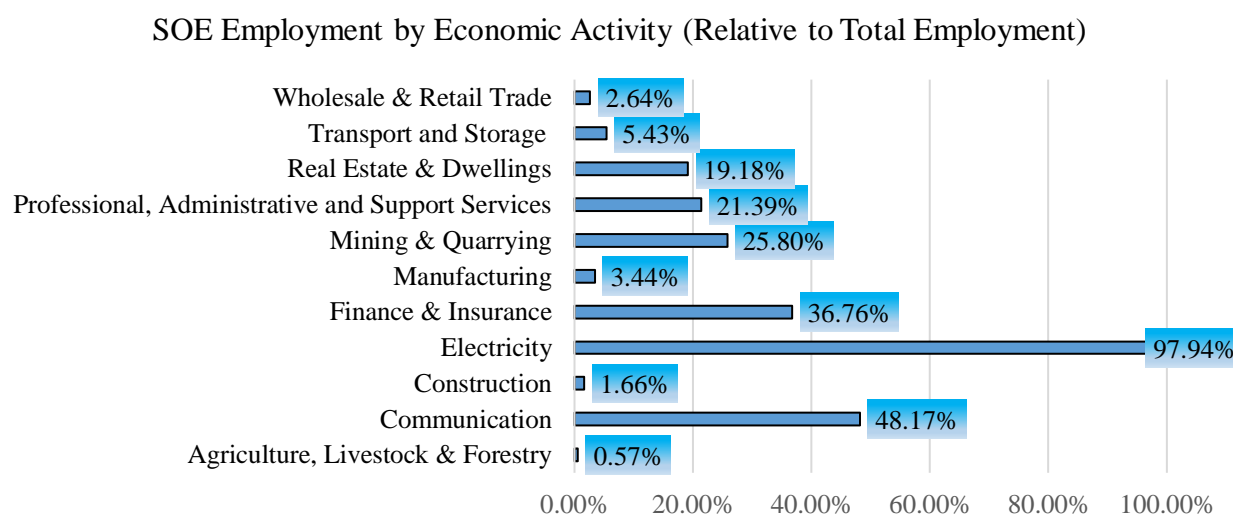


Figure 13: SOE Employment by Economic Activity (Relative to Total Sectoral Employment)

The SOEs accounted for 3.55 percent of total employment in 2022, reflecting their role as a key employer in strategic sectors of the economy³. The distribution of SOE employment across various economic sectors reveals the government’s targeted involvement in sectors deemed critical for national development, economic stability and infrastructure resilience. The electricity sector holds the highest concentration of SOE employment, underscoring the government’s prioritization of hydropower as a vital national asset under state ownership.

Following electricity, communications and financial services rank among the largest SOE employers reflecting the government's focus on ensuring stable, efficient, and accessible telecommunications and financial systems, which serve as a backbone of national infrastructure and economic activities. Beyond these core sectors, professional services, mining, and real estate

³ The total employment is on account of the recent Labor Force Survey Report 2022

also maintain notable levels of SOE employment. This suggests targeted government involvement in these sectors, likely serving specific developmental objectives.

In contrast, sectors like agriculture, construction, manufacturing, wholesale and retail trade, and transport show markedly lower proportions of SOE employment, indicating the government's deliberate policy approach to encourage greater private sector participation in these areas, fostering entrepreneurship, competition, and market-driven growth. This employment distribution pattern suggests a carefully calibrated mixed-economy model where the government maintains control over sectors deemed critical to national interests or requiring large-scale investment, while empowering private enterprise to drive employment generation, innovation and economic diversification in other sectors.

Share of Credit

The credit allocation to State-Owned Enterprises (SOEs) stands at Nu. 13,906.79 million, accounting for 6.49 percent of the total domestic credit. This indicates that SOEs receive a relatively small share of overall bank lending, with the remaining 93.51 percent being directed toward the private sector, individuals, or other entities. Their debt-to-equity (leverage) ratio of 0.31 indicates a moderate reliance on debt financing, suggesting that SOEs are not heavily dependent on bank loans to fund their operations and investments. Instead, their capital needs are financed primarily through retained earnings, government on-lending, equity injection by the holding companies and/or shareholders, or through issuance of commercial papers and bonds.

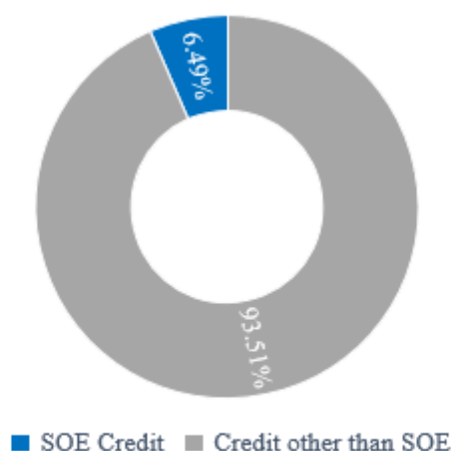


Figure 14: SOE Credit Share

Domestic credit to SOE is highest in the Manufacturing sector at Nu. 3,898.97 million, followed by Transport & Storage at Nu. 3,689.65 million and Electricity at Nu. 2,466.08 million. On the other hand, the Mining & Quarrying sector received the lowest allocation at Nu. 18.54 million, followed by Wholesale & Retail Trade at Nu. 173.71 million and Communication at Nu. 245.00 million. Notably, Professional, Administrative & Support Services did not receive any recorded credit allocation as shown in Figure 15.

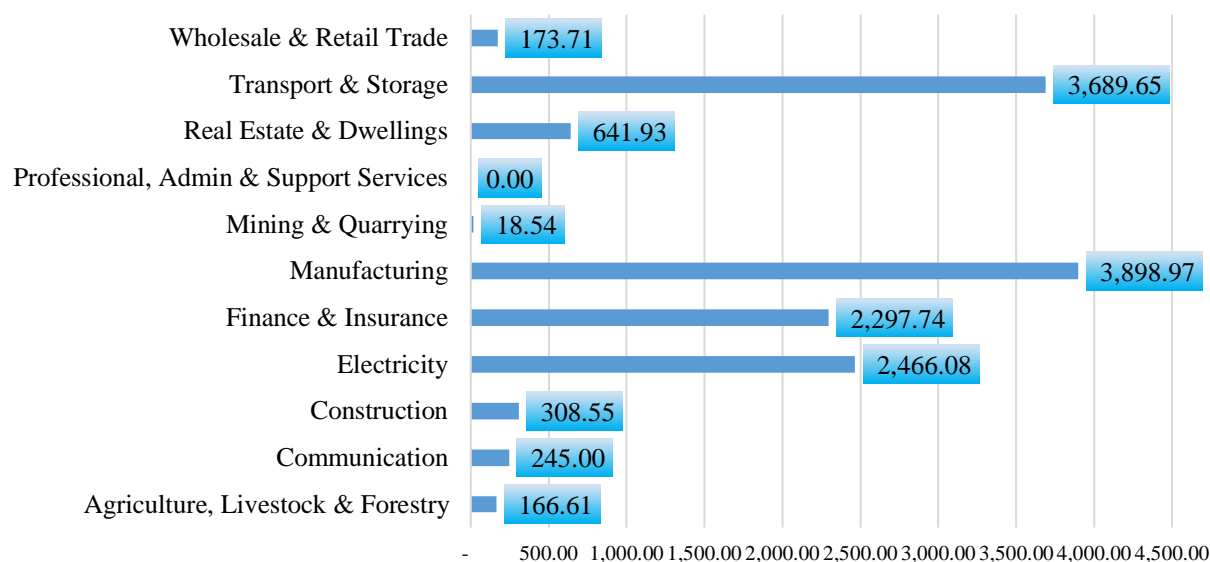


Figure 15: Sector-wise Credit Allocation

Asset Size

The total asset size of SOEs stood at Nu. 204.85 billion in 2023, equivalent to 82.14 percent of GDP in 2023. The Bhutanese economy exhibits distinct asset concentration patterns, highlighting the areas where SOEs exert the greatest influence. As illustrated in Figure 16, capital-intensive sectors, such as electricity, finance and insurance, manufacturing, communication and transport and storage demonstrate substantial asset concentration, indicating a strong SOE presence. Among these, the electricity sector stands out with the largest asset-to-GDP ratio, underscoring its role as the cornerstone of Bhutan's economic strategy. This dominance aligns with Bhutan's longstanding focus on hydropower development, a sector that has been spearheaded by Bhutan's state-owned entities, reinforcing its position as a key driver of economic growth and national revenue.

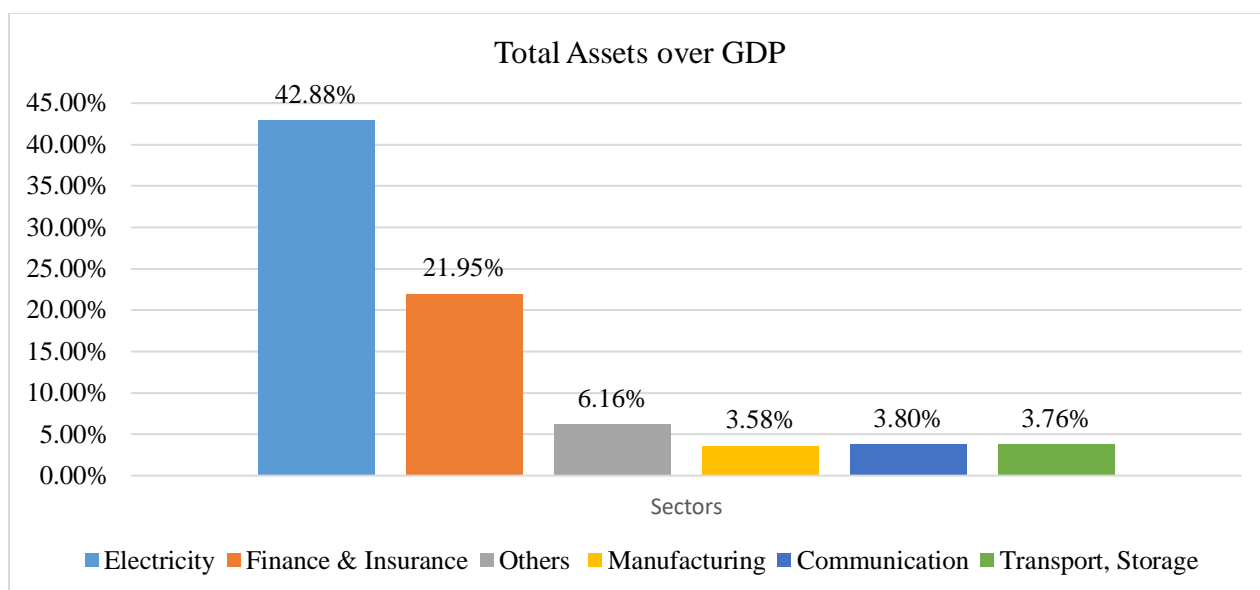


Figure 16: Total Assets over GDP (Sector-wise)

Labor Productivity

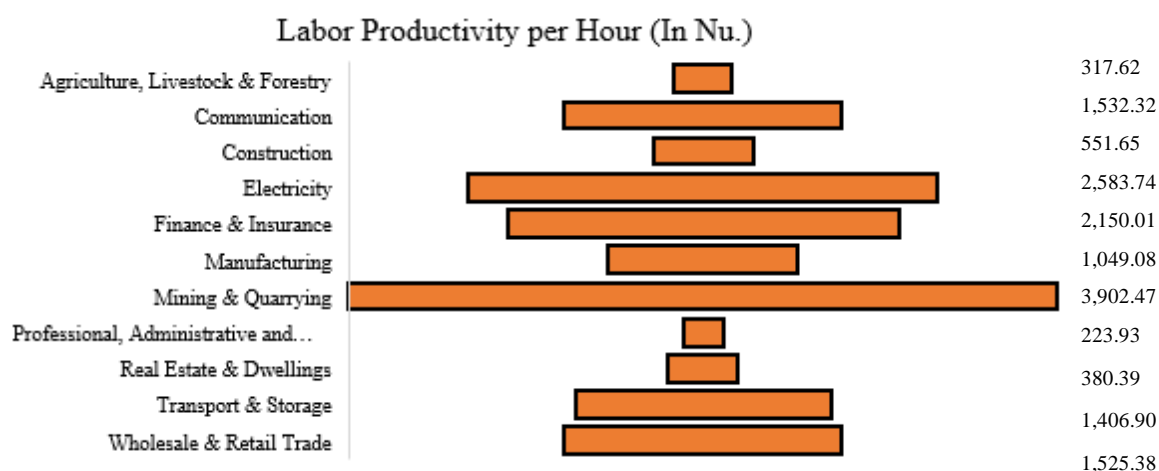


Figure 17: Labor Productivity per Hour (In. Nu)

In South Asia, per hour labor productivity growth has decelerated over time, declining from 4.7 percent in 2010-2015 to 3.7 percent in 2015-2022 (*Asian Productivity Organization*). Despite this slowdown, the region has witnessed a steady increase in average labor productivity rising from USD 6.6 in 2000 and to USD 17.4 (Nu. 1,420.01) in 2022. In 2023, the labor productivity of SOEs in Bhutan stood at Nu. 1,420.32, slightly surpassing the regional average. Among SOEs, the mining and quarrying sector recorded the highest labor productivity of Nu. 3,902.47, followed by the electricity sector (Nu. 2,583.74) and the finance and insurance sector (Nu. 2,150.01). These figures indicate that these sectors significantly outperformed the national SOE average in

productivity. However, despite their high productivity levels, these sectors remain capital intensive, meaning that their efficiency and output growth are primarily driven by substantial investments, and high capital deployment rather than labor driven expansion. The low labor productivity observed in sectors such as agriculture, professional, administrative and support services, real estate and dwellings, construction and manufacturing suggest significant potential for improvement. This indicates the need for strategic interventions to enhance efficiency and output per worker, particularly when compared to regional best practices. By leveraging innovation, technological advancements, and skill development, these sectors can accelerate productivity gains.

Way Forward

Given the critical role SOEs play in Bhutan's economy, their continued success and evolution are essential for the nation's development. It is argued that “diversification of funding sources is critical for the sustainability of SOEs”, suggesting that these organizations should reduce their reliance on government equity initiatives (Bhattacharyay, 2019, p. 45). Exploring private-public partnerships (PPPs) and tapping into capital markets through the issuance of bonds and other instruments could provide access to additional funding for infrastructure and expansion.

Innovation and technology adoption represent another crucial area for improvement, with SOEs needing to invest in technological advancements to drive productivity gains across sectors where labor productivity remains suboptimal (OECD, 2021). Leveraging digital tools, automation processes and sustainability focused technologies can significantly reduce operational costs while improving overall competitiveness in the market (Ginting and Naqvi, 2020). By streamlining operational processes, leveraging resources and maximizing efficiency, SOEs can unlock even greater performance gains, reinforcing their strategic role in Bhutan's economic development. The implementation of tailored policies and support mechanisms is equally important, particularly in sectors facing unique challenges like mining, agriculture, and construction, where targeted interventions for business strategy and innovation are essential for improving sectoral performance.

Corporate governance and transparency must also be strengthened within SOEs through clear accountability frameworks and improved financial reporting practices that ensure effective utilization of public resources while minimizing inefficiencies. A shift towards data-driven decision making will enhance accountability and productivity. SOEs must carefully align their operational goals with broader national development plans to effectively balance economic and social objectives. Finally, enhanced collaboration with private sector entities should be pursued to maintain competitiveness and organizational dynamism, as these partnerships often generate improved resource mobilization, technological advancement opportunities, and operational synergies that benefit all stakeholders.

Conclusion

SOEs in Bhutan have played a critical role in the country's economic development, contributing significantly to sectors such as electricity, finance, manufacturing, and communications. However, to remain competitive and support Bhutan's sustainable growth, SOEs must adapt to an increasingly dynamic global environment. The need for greater operational efficiency, innovation, and strategic financing has never been more pressing. By improving governance, diversifying funding sources, and fostering private-sector collaboration, Bhutan's SOEs can position themselves as modern, competitive entities that not only contribute to economic growth but also drive socioeconomic development across the country.

As Bhutan continues to evolve economically, it is crucial that SOEs align their strategic objectives with national priorities, ensuring that they remain responsive to changing market dynamics while maximizing their contribution to the nation's long-term sustainability and prosperity. Through these strategic reforms and initiatives, Bhutan's SOEs can be positioned to meet the challenges of the future and continue playing a pivotal role in the country's development trajectory. Moving forward, enhancing operational efficiency, diversifying funding sources, accelerating technological adoption, and strengthening governance will be critical to maximize SOEs' contribution to Bhutan's economic development goals and the country's vision of increasing GDP to USD 22 billion by 2050.

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