

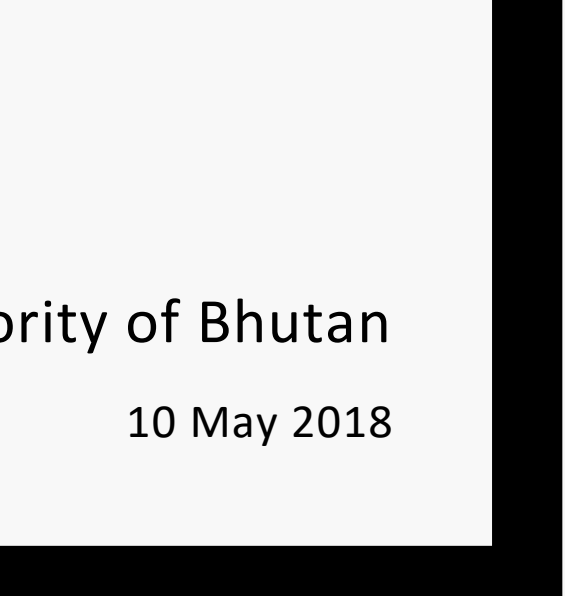


PRIORITY SECTOR LENDING

Quarterly Report: Q1-2018

Royal Monetary Authority of Bhutan

10 May 2018



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EXECUTIVE SUMMARY

Since the launch of the Priority Sector Lending (PSL) Guidelines in December 2017, there has been overwhelming support for the initiative by all the stakeholders. Following the issuance of Government Order C2/823 on 1 January 2018 instituting and empowering Dzongkhag PSL Committees, PSL Committees have been formed in all Dzongkhags. This report presents a summary of the major activities and PSL-related data for the first quarter of 2018 (with updates for April 2018 where available).

92 PSL applications were reviewed by seven Dzongkhags (Chhukha, Dagana, Gasa, Sarpang, Thimphu, Tsirang and Wangduephodrang) between January and March 2018, out of which, 67 projects were approved (52 agriculture CSI projects and 15 non-agriculture CSIs).

From the 67 Dzongkhag-approved projects, the Bhutan National Bank Ltd. and Bank of Bhutan Ltd. collectively received 44 applications, out of which, 27 projects were successful in securing loans. 7 projects were withdrawn by the clients themselves citing high livestock insurance costs and requirement to obtain a paid CSI license as reasons.

The first PSL loan was sanctioned by the Bhutan National Bank on 8th March 2018 to a 26-year-old farmer from Wangduephodrang for commercial potato cultivation. The second PSL loan was sanctioned by the Bank of Bhutan on 14th March 2018 to a 34-year-old farmer for mushroom/poultry integrated farming in Thimphu.

Updates from the banks for April 2018 indicate that an additional 17 applications were received, including projects from Paro and Trashigang dzongkhags, out of which loans for 6 projects have been sanctioned. Nu.4.87 million have been disbursed in the first quarter by the two banks with an additional Nu.15.35 million disbursed in April 2018.

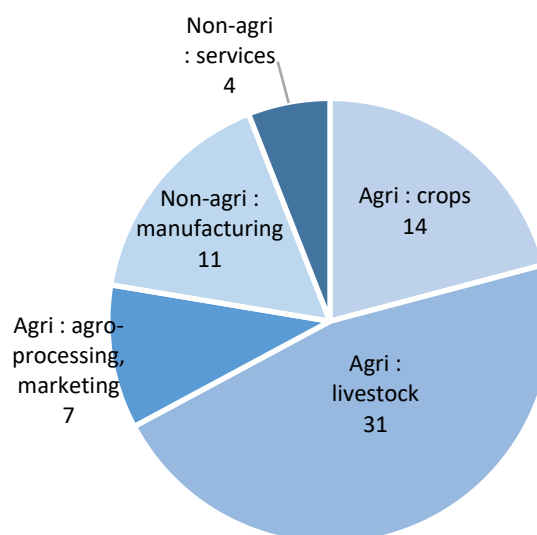
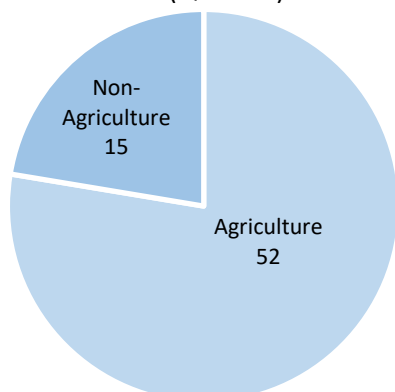
The Royal Monetary Authority of Bhutan is confident that the coordination and spirit of cooperation will continue and that the momentum of activities will pick up in the coming months. We thank all our partners for your valuable support!

PSL DATA-AT-A-GLANCE

PSL Applications by Dzongkhag Jan - Mar 2018						
SI	Dzongkhag	Received	Approved	Other (*)	Rejected	Loan Approved (**)
1	Chhukha	5	5	-	-	4
2	Dagana	6	0	4	2	-
3	Gasa	3	3	-	-	1
4	Sarpang	2	2	-	-	1
5	Thimphu	48	43	2	3	20
6	Tsirang	25	13	7	5	0
7	Wangdue	3	1	2	-	1
TOTAL		92	67	15	10	27

(*) Projects under review, advised for further development, pending documents etc... (**) Loans sanctioned up to 30 April 2018.

No. of Dzongkhag-approved PSL Projects: By Category (Q1 2018)

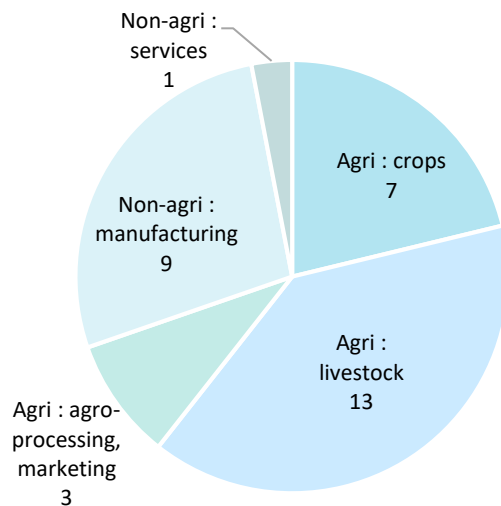
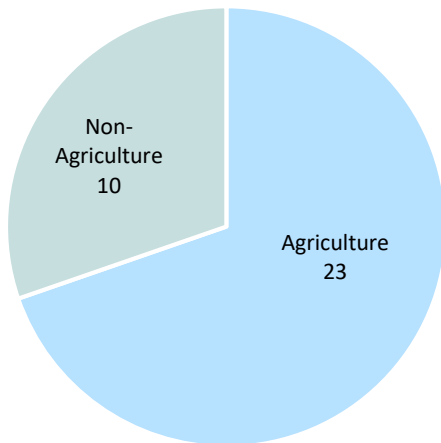


PSL Applications by Financial Institution								
Jan - Mar 2018					Updates for April 2018 (*)			
SI	FI	Received	Approved	Rejected	Received	Approved	Under Review	Rejected (**)
1	BOBL	6	6	-	22	11	0	11
2	BNBL	6	6	-	27	10	9	8
Total		12	12	-	49	21	9	19
<i>Of which: Agriculture CSI</i>			11		<i>Of which: Agriculture CSI</i>			12
<i>Of which: Non-agriculture CSI</i>			1		<i>Of which: Non-agriculture CSI</i>			9

(*) Includes projects approved by Dzongkhags in Q1 2018. (**) Includes 7 projects withdrawn by clients.

PSL Loan Data				
FI	Dzongkhag	Loan Sanctioned	Amount Disbursed	
			Q1 2018	April 2018
BOBL	Chhukha	951,150		391,150
	Gasa	500,000		
	Sarpang	500,000	170,000	
	Thimphu	6,195,300	1,304,000	2,544,500
BNBL	Chhukha	15,578,608	1,480,000	6,817,775
	Gasa	300,000		300,000
	Paro	6,930,000		1,203,896
	Thimphu	11,990,955	1,416,000	3,596,900
	Trashigang	500,000		500,000
	Wangdue	500,000	500,000	
TOTAL		43,946,013	4,870,000	15,354,221

No. of PSL Projects Approved by FIs
By Category : Jan - Apr 2018



TIMELINE OF ACTIVITIES

1 JAN 2018

- Government Order C2/823 empowering Dzongkhag PSL Committees issued
- PSL Guidelines come into effect

JAN. 2018

- Dzongdag Conference on PSL for all twenty Dzongkhags conducted (19 January in Gelephu; 22 January in Samdrupjongkhar; 26 January in Paro)

MAR. 2018

- 8 March: First PSL loan sanctioned (Nu.500,000 sanctioned by BNBL to a 26 year-old farmer from Wangduephodrang for commercial potato cultivation)
- 13 March: Coordination meeting with donors and development partners to discuss support in capacity building and access to market and technology
- 14 March: Second PSL loan sanctioned (Nu.846,000 sanctioned by BOBL to a 34 year-old farmer for mushroom/poultry integrated farming in Thimphu)
- 26 March: First Quarterly PSL Council meeting

Dzongdag Conference on PSL – Major Outcomes

19 January
(Gelephu)

- Dzongkhags covered: DAGANA, PUNAKHA, SAMTSE, SARPANG, TRONGSA, TSIRANG, WANGDUEPHODRANG & ZHEMGANG

22 January
(Samdrupjongkhar)

- Dzongkhags covered: LHUENTSE, MONGAR, PEMA GATSHEL, TRASHIYANGTSE & SAMDRUPJONGKHAR

26 January
(Paro)

- Dzongkhags covered: BUMTHANG, CHHUKHA, GASA, HAA, PARO, TRASHIGANG & THIMPHU

- The opening session of the inaugural Dzongdag conference held in Gelephu on 19 January 2018 was graced by the Prime Minister, Lyonchhen Dasho Tshering Tobgay.
- Representatives from the financial institutions as well as government agencies such as the GNHC, National Environment Commission, National Land Commission, Department of Cottage & Small Industries, MoEA also participated actively in the conference.
- The conference provided an overview of the Priority Sector Lending Guidelines, the insurance-based lending component of the PSL and the Standard Operating Procedure developed for the Dzongkhag PSL Committees:
 - Dzongkhag PSL Committees will assess prospective PSL proposals from a technical aspect and coordinate all regulatory clearances. The CIB report is an important prerequisite.
 - Approved PSL proposals will be forwarded to the financial institutions who will then conduct the financial and credit viability assessments of the proposals.
 - For projects that do not get clearance either from the Dzongkhag PSL Committees or from the Financial Institutions, it is important to record and understand the reasons for failure so that appropriate policy interventions can be formulated where required.
- The CEOs of REDCL and BDBL presented their experiences and challenges.

Key Messages from Lyonchhen, Dasho Tshering Tobgay

- ~ For Bhutan to achieve economic prosperity and self-reliance, both the Government and the people have to be self-sufficient....
- ~ For people to engage in development activities, the Government must provide the opportunities. One such opportunity is the PSL...
- ~ The choice is now in our hands and we must take advantage of the opportunity...
 - ~ **PSL is action in the right direction...**

Key Messages from RMA Governor, Dasho Penjore

Dasho Penjore put forth the following three requests to the Dasho Dzungdags of all twenty dzongkhags:

1. Develop Business Plans in each Dzongkhag

Dzongkhags should identify business opportunities in their respective Dzongkhags creating gewog-level profiles. Dzongkhags should also work together to take advantage of synergies and networks.

The RMA will find support to help Dzongkhags to develop the business plans and to build capacity in the Dzonkhags.

2. Institute discussions related to the PSL as part of the agenda for the GYTs and DYT

Discussions related to business opportunities must be institutionalized and regularized in the GYT and DYT with dedicated sessions

3. Create a database of available youths in the Dzongkhags

In preparation for the 12th FYP, data profiles of available youths and their backgrounds would assist Dzongkhags to plan better and take advantage of the Flagship projects to develop CSIs in their respective Dzongkhags.

Key Discussions and Feedback from Dzongkhags

- ❖ The PSL was timely and would greatly support the increasing focus on promoting entrepreneurship and enhancing incomes.
- ❖ Dzongkhags needed support in capacity building and technical assessments of business proposals. A dedicated workshop on PSL was also needed for the PSL Secretaries and focals.
- ❖ Since 2018 was a pilot year, there would be challenges but the lessons learnt would be useful in improving the PSL initiative.
- ❖ The Government Order empowers Dzongkhags to provide regulatory clearances. Government agencies will work towards delegating authority to the Dzongkhags and where such authority still rests with head offices because of existing law, the agencies will coordinate with the Dzongkhags to expedite the process.
- ❖ Sectors must ensure full support to the Dzongkhag PSL Committees. The representation of MOEA was important.
- ❖ The Flagship project under the 12th FYP has an allocation of Nu.100 million per Dzongkhag. Projects would have to fulfill macro criteria such as employment creation and economic diversification. Capacity building and engagements of project consultants could be considered.
- ❖ Enhanced support and focus could be given to a few successful projects.
- ❖ Tie-ups with the IT Park and inclusion of Dzongkhags in programs to meet prospective entrepreneurs such as in the Start-up weekend was important.

Key Discussions and Feedback from Dzongkhags... continued

- ❖ The various entrepreneurship trainings and programs that are currently being conducted must be matched to PSL opportunities.
- ❖ The turn-around-time of 10 working days for the Dzongkhags, stipulated in the SOP may be too ambitious for now. While Dzongkhags will work towards reducing the time, the TAT prescribed in the SOP can be reviewed based on the experiences in the coming year.
- ❖ It is not possible for all the financial institutions to be represented in the Dzongkhag PSL committees because of lack of staff and sanctioning authority for loans. It is more prudent for financial institutions to independently conduct the financial and credit assessments of the proposals. However, close coordination is required among all stakeholders, especially to understand why projects approved by Dzongkhags may be rejected by financial institutions and to address gaps if any.

PSL Council Meeting – Key Discussions

The first quarterly meeting of the PSL Council was convened on 26 March 2018 with the following major outcomes:

PSL Priority List: All proposals that are not in the PSL list of the PSL Guidelines 2018 will be recorded and discussed during the end of year review of the PSL Guidelines. In the meantime, for 2018, there will not be any changes in the Priority List and proposals for projects that not in the list will not be considered.

Support to the Dzongkhag PSL Committees: All Government member agencies of the PSL Council will direct their field staff to render full support to their respective Dzongkhag PSL Committees in assessing business proposals related to their concerned sectors and providing more detailed technical feedback.

Assessment by Dzongkhag PSL Committees: Dzongkhag PSL Committees will be requested to provide more detailed technical feedback on the proposals being assessed. In some cases, the CIB records of prospective clients were not considered.

The PSL Council is responsible for ensuring the success of the PSL initiative by addressing gaps and challenges; improving the PSL Guidelines; and, monitoring the implementation of the PSL Guidelines. The Council consists of representatives from the following agencies:

Royal Monetary Authority of Bhutan (Chair); Bhutan Agriculture & Food Regulatory Authority, MOAF; Ministry of Agriculture and Forests; Ministry of Economic Affairs (Department of Cottage & Small Industries); Ministry of Labour and Human Resources, National Environment Commission; National Land Commission; Bank of Bhutan Limited; Bhutan Development Bank Limited; Bhutan National Bank Limited; Druk PNB Bank Limited; TBank Limited; Bhutan Insurance Limited; Royal Insurance Corporation Limited.

Representatives from Bhutan's Civil Society Organization and entrepreneurs from Bhutan's CSI sector will be invited when required.

MESSAGE TO BORROWERS

The Priority Sector Lending is an integrated platform that coordinates government policy interventions and support schemes with improved access to finance towards promotion of Bhutan's Cottage and Small Industries (CSI) sector.

While the PSL provides a unique opportunity for our youths and farmers, four reciprocal responsibilities now lie with the youths and farmers towards instituting an overall **culture of responsible borrowing**:

1. Take advantage of the opportunity that has been created.
2. Use the loan for the intended purpose and pay back your loan on time.
3. **SAVE** a portion of the profit that your business generates.
4. Invest back into your business to make it grow further.

This report has been compiled by the Royal Monetary Authority of Bhutan based on data provided by the financial institutions and the Dzongkhag PSL focal officers.

While data pertains to the first quarter of 2018 (i.e. January-March), where available, updates for April 2018 have also been included.

Any revisions to the data published in this report will be reflected in the next report.

The RMA would like to thank all our partners for your support.

This report is available on the RMA's website www.rma.org.bt