



# PRIORITY SECTOR LENDING

Quarterly Report: Q4-2018

Royal Monetary Authority of Bhutan

4<sup>th</sup> April 2019



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# PSL – Review of Implementation

## Overview

The Priority Sector Lending (PSL) initiative was launched on 13 December 2017 for implementation with effect from 1 January, 2018. This report provides updates for the fourth quarter of 2018 as well as a review of the past one year's experience in implementing the PSL (some past data have been revised).

All the 20 Dzongkhags/districts and 7 financial institutions were involved in reviewing PSL proposals in 2018. The Dzongkhags collectively received 1,274 PSL applications, out of which 1,009 projects were approved. The capital, Thimphu, received the highest number of applications (247 projects). The majority of the projects (78%) were agriculture-related projects with the highest concentration in primary production. Projects were clustered around similar ideas while proponents were all individuals with only a handful of groups.

The financial institutions collectively assessed 779 projects in 2018, out of which 316 projects were approved. More than half the projects rejected by the financial institutions were on account of poor credit history of the clients. The financial institutions collectively sanctioned Nu. 305.8 million out of which Nu. 229.8 million were disbursed by the end of 2018.

While there were no NPLs reported as of December 2018, current updates reveal that 7 accounts are classified under NPL category (overdue for more than 91 days) and 8 accounts were overdue by more than 45 days.

## Review of Implementation

Since 2018 was introduced as a pilot year for the PSL, the RMA has maintained close contacts with all relevant stakeholders while also engaging with PSL clients and entrepreneurs in general to gain first-hand information on experiences from the implementation of the PSL to guide improvements for 2019. The RMA team visited the Dzongkhags<sup>7</sup>, interacted with the Dzongkhag PSL committee members and also visited PSL clients in each district. The visits were used to gather insights on how to improve the PSL and also as a joint monitoring event. The RMA team was accompanied by representatives from the Dzongkhag PSL committees as well as branch level officers of the financial institutions and by members of the PSL Council. The visits have been instrumental in identifying challenges and further interventions required to improve the PSL.

The visits were also used to spread awareness among the clients to institute a “culture of responsible borrowers.” During all its interactions with PSL clients and entrepreneurs in general, the RMA emphasized four key messages related to being “responsible borrowers”:

- i. Youths and farmers should take advantage of the PSL opportunity to productively engage themselves
- ii. Loans should be used for the intended purpose
- iii. Save a portion of the profit generated by the business
- iv. Invest back into the business to make it grow

A key feature of the PSL initiative is the shared responsibility between the government and the financial sector. Since the Dzongkhag PSL Committee plays an important role in assessing and approving projects from a technical stance, the committee members are actively involved in monitoring the projects. Information on overdue loans are reported by the financial institutions and shared with the respective Dzongkhags for follow ups. In

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<sup>7</sup> As of March 2019, the RMA team visited 17 out of the 20 Dzongkhags.

addition to the financial institutions and the Dzongkhags, the RMA team is also involved in contacting and following up with PSL clients.

The RMA team also conducted bilateral meetings with the management of Financial Institutions to improve the PSL for 2019. The following areas were discussed:

- Setting of binding PSL targets for 2019 to ensure more balanced participation by all FIs
- Delegation of sanctioning authority to Branches
- Instituting dedicated PSL focal teams
- Assessment of equity for loan eligibility
- Uniformity in interpreting CIB reports.

### **Key Challenges and Way Forward**

Capacity building continues to be an important area that needs sustained focus and investment. The Dzongkhag PSL Committees shoulder a key responsibility in assessing PSL proposals. While committee members have good experience in the crop and livestock sectors, there is limited capacity in assessing non-agricultural proposals. There is also a general requirement for capacity building in business proposal assessments. Most clients also lack capacity in aspects such as accounting and book-keeping while ideas have not been very innovative so far.

While the level of commitment and due diligence of the Dzongkhag PSL Committees during assessment of PSL proposals have been commendable, there is a need to institute a formal accountability mechanism to incentivize efficiency and performance and ensure sustained efforts in monitoring and due diligence.

A common feedback from prospective clients have been related to long turn-around-times in processing applications especially by the financial institutions. For some financial institutions, the branch level staff do not have any authority to recommend or approve loans and their responsibility has been limited to collecting the PSL applications and forwarding it to headquarters. Delegation of some authority to branch level staff along with accountability may increase the efficiency of the assessment process while on the other

hand financial institutions have expressed concern on the ability to fix accountability.

Another possible reason for the delay may be tied to the fact that targets for the financial institutions were non-binding. Consultations are underway to explore how all the financial institutions can participate in a fair manner in PSL lending. For 2018, two banks accounted for over 80 percent of the approved PSL projects. While these two banks are the oldest banks and have better presence in the districts, there is room for all the financial institutions to improve their participation.

While mandatory insurance was introduced to substitute for collateral or guarantor requirements, clients have found the insurance premiums, especially for livestock, to be high and adding to the cost of funds. On the other hand, the insurance companies are exposed to high risk with premiums collected disproportionately lower than the sum insured. The insurance companies are exploring expansion of insurance products beyond the PSL while some form of cost-sharing with the government have also been suggested to reduce the cost for PSL clients. Alternative means to de-risk lending to the CSI such as alternate credit scoring models and credit guarantees need to be explored.

Many entrepreneurs, especially young entrepreneurs and startups are unable to produce the 30% equity required to access the PSL loans. While the PSL was a crucial step to encourage more inclusive participation of the financial institutions in lending to Bhutan's CSI sector, there is a need for product diversification and alternate financing mechanisms such as supply-chain financing, crowdfunding, venture capital and other forms of risk capital.

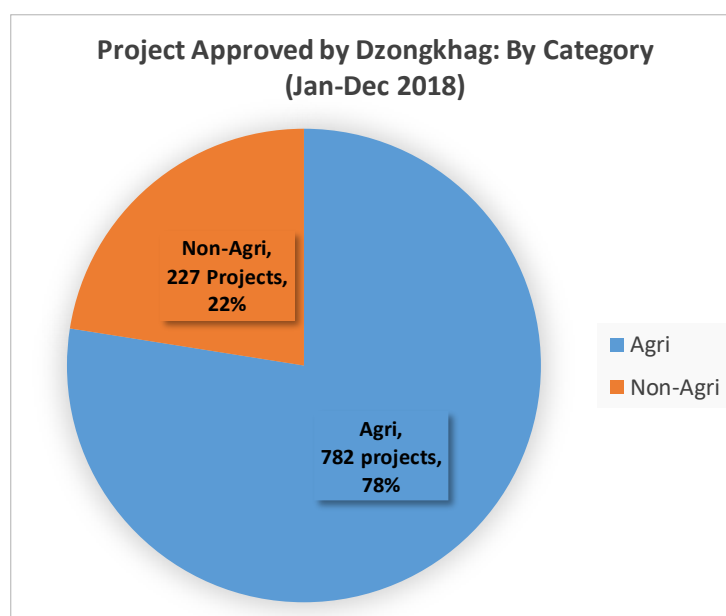
Finally, related to the institution of a culture of responsible borrowers, more work is needed on the possible identification and segregation of clients into willful defaulters, fund diverters and genuine failures with differentiated responses, ranging from efficient and timely punitive action to rehabilitation through mentoring, debt restructuring etc. Further, since PSL lending is not backed by mortgage, risks to the financial institutions and avenues for recourse need to be further clarified.

An online system to process the PSL applications that is accessible to both the Dzongkhags and the financial institutions has been developed by the Department of Cottage and Small Industries and is currently being tested by the users.

The PSL initiative has gained immense momentum in the first year of implementation itself with participation of all stakeholders and good awareness among the general public. Going forward, we remain optimistic about the success of the PSL given the collective support from the various partners. Capacity building will be a key focus area for 2019 along with the continuation of joint monitoring programs. The implementation has not been without its challenges while many unforeseen issues have cropped up over the year. However, the approach of viewing the PSL Guidelines as a dynamic and live document that will be subject to a continuous process of evaluation and evolution ensures improvement and relevance.

## PSL DATA-AT-A-GLANCE

SL No.	Dzongkhag	Summary of PSL Applications Processed: January - December 2018					
		No. of Projects Received by Dzongkhag	No. of Projects Approved by Dzongkhag	No. of Projects Received by FIs	No. of Projects Approved by FIs	Loan Sanctioned (Nu. in millions)	Loan Disbursed (Nu. in millions)
1	Bumthang	116	87	50	21	21.47	17.08
2	Chukha	40	37	38	21	30.73	25.40
3	Dagana	139	81	46	11	3.66	3.01
4	Gasa	10	9	9	5	1.98	1.98
5	Haa	40	36	51	15	7.19	4.73
6	Lhuentse	4	4	4	1	0.34	0.10
7	Mongar	10	7	8	1	0.45	0.41
8	Paro	82	46	44	18	16.24	13.71
9	Pemagatshel	61	59	11	2	10.55	5.00
10	Punakha	17	15	15	9	9.18	3.52
11	Samdrupjongkhar	15	11	12	4	7.38	6.22
12	Samtse	106	99	70	29	9.99	6.77
13	Sarpang	117	112	50	28	13.35	11.28
14	Tashigang	46	36	33	21	16.59	11.43
15	Tashiyangtse	4	4	3	1	0.50	0.06
16	Thimphu	247	193	169	91	119.72	90.20
17	Trongsa	18	13	8	5	4.58	2.63
18	Tsirang	131	103	90	18	12.63	11.52
19	Wangduephodrang	24	17	22	8	13.78	11.31
20	Zhemgang	47	40	46	7	5.46	3.43
	<b>Total</b>	<b>1,274</b>	<b>1,009</b>	<b>779</b>	<b>316</b>	<b>305.77</b>	<b>229.78</b>





PSL Applications Processed by Dzongkhag

Dzongkhag	Q1 2018				Q2 2018				Q3 2018				Q4 2018				TOTAL FOR 2018			
	Received	Approved	Under Review	Rejected	Received	Approved	Under Review	Rejected	Received	Approved	Under Review	Rejected	Received	Approved	Under Review	Rejected	Received	Approved	Under Review	Rejected
Bumthang	-	-	-	-	43	27	12	4	68	56	15	9	5	4	-	1	116	87	15	14
Chukha	5	5	-	-	31	28	1	2	4	4	1	-	-	-	-	-	40	37	1	2
Dagana	6	-	3	3	18	11	7	3	90	45	52	-	25	25	-	-	139	81	52	6
Gasa	4	4	-	-	6	5	-	1	-	-	-	-	-	-	-	-	10	9	-	1
Haa	-	-	-	-	34	34	-	-	6	2	4	-	-	-	-	-	40	36	4	-
Lhuentse	-	-	-	-	1	1	-	-	3	3	-	-	-	-	-	-	4	4	-	-
Mongar	-	-	-	-	6	5	-	1	4	2	1	1	-	-	-	-	10	7	1	2
Paro	-	-	-	-	50	39	4	7	26	1	29	-	6	6	-	-	82	46	29	7
Pemagatshel	-	-	-	-	1	1	-	-	60	58	-	2	-	-	-	-	61	59	-	2
Punakha	-	-	-	-	11	10	-	1	-	-	-	-	6	5	-	1	17	15	-	2
Samdrupjongkhar	-	-	-	-	6	3	-	3	1	1	-	-	8	7	1	-	15	11	1	3
Samtse	-	-	-	-	69	65	1	3	32	29	2	2	5	5	-	-	106	99	2	5
Sarpang	2	2	-	-	24	21	1	2	80	78	2	1	11	11	-	-	117	112	2	3
Tashigang	-	-	-	-	34	24	10	-	12	12	10	-	-	-	-	-	46	36	10	-
Tashiyangtse	-	-	-	-	-	-	-	-	4	4	-	-	-	-	-	-	4	4	-	-
Thimphu	48	44	1	3	119	80	40	-	49	41	48	-	31	28	3	-	247	193	51	3
Trongsa	-	-	-	-	16	11	-	5	2	2	-	-	-	-	-	-	18	13	-	5
Tsirang	27	15	5	7	85	76	10	4	3	-	10	3	16	12	-	4	131	103	10	18
Wangduephodrang	3	2	1	-	9	5	5	-	12	10	7	-	-	-	-	-	24	17	7	-
Zhemgang	-	-	-	-	9	3	1	5	38	37	-	2	-	-	-	-	47	40	-	7
<b>Total</b>	<b>95</b>	<b>72</b>	<b>10</b>	<b>13</b>	<b>572</b>	<b>449</b>	<b>92</b>	<b>41</b>	<b>494</b>	<b>385</b>	<b>181</b>	<b>20</b>	<b>113</b>	<b>103</b>	<b>4</b>	<b>6</b>	<b>1,274</b>	<b>1,009</b>	<b>185</b>	<b>80</b>



**PSL Applications: Status with Financial Institutions**

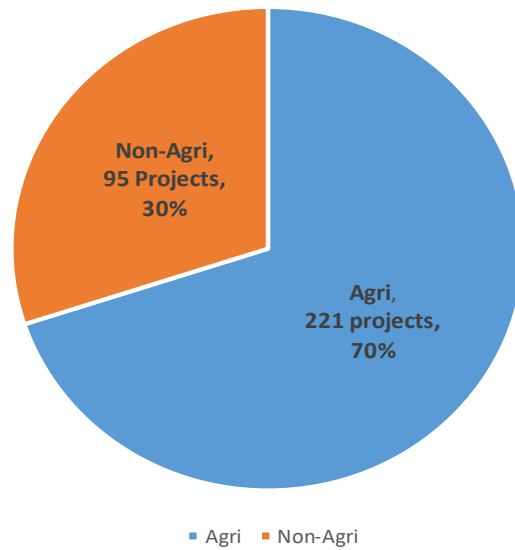
**January - December 2018**

SL No.	Dzongkhag	PSL Projects Processed by Dzongkhag		Status with Financial Institutions				
		Total Received	Total Approved	Received by Fls	Of which: Loan Approved	Of which: Under Review	Of which: Withdrawn by Client	Of which: Rejected
1	Bumthang	116	87	50	21	13	3	13
2	Chukha	40	37	38	21	1	2	14
3	Dagana	139	81	46	11	18	0	17
4	Gasa	10	9	9	5	2	1	1
5	Haa	40	36	51	15	6	2	28
6	Lhuentse	4	4	4	1	1	0	2
7	Mongar	10	7	8	1	2	0	5
8	Paro	82	46	44	18	0	1	25
9	Pemagatshel	61	59	11	2	5	0	4
10	Punakha	17	15	15	9	1	0	5
11	Samdrupjongkhar	15	11	12	4	2	0	6
12	Samtse	106	99	70	29	9	2	30
13	Sarpang	117	112	50	28	3	2	17
14	Tashigang	46	36	33	21	2	1	9
15	Tashiyangtse	4	4	3	1	1	0	1
16	Thimphu	247	193	169	91	18	9	51
17	Trongsa	18	13	8	5	0	1	2
18	Tsirang	131	103	90	18	0	10	62
19	Wangduephodrang	24	17	22	8	4	0	10
20	Zhemgang	47	40	46	7	15	1	23
	<b>Total</b>	<b>1274</b>	<b>1009</b>	<b>779</b>	<b>316</b>	<b>103</b>	<b>35</b>	<b>325</b>

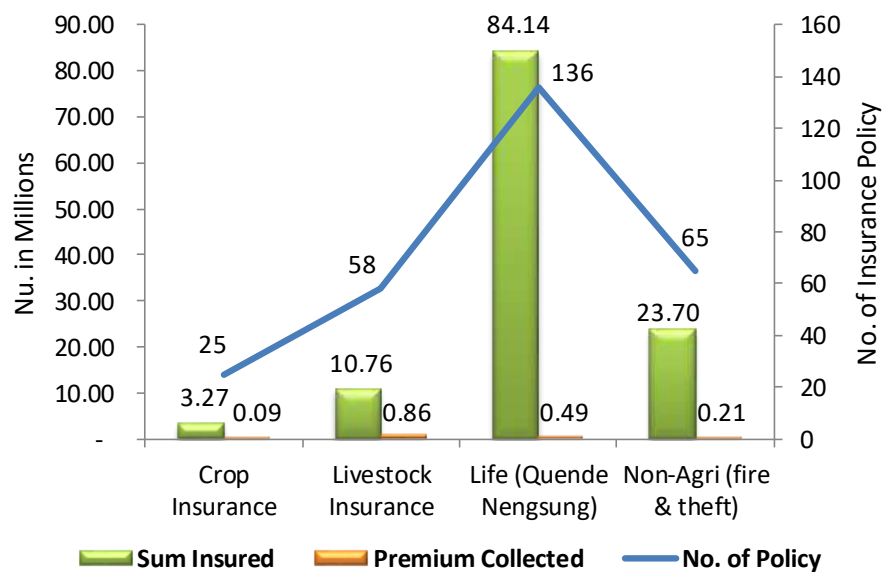
## PSL Projctcs Approved by FIs - Dzongkhag wise

Financial Institution	Dzongkhag	No. of Projects	Loan Sanctioned (Nu. in millions)	Loan Disbursed (Nu. in millions)
BOBL	Bumthang	7	1.28	1.25
	Chukha	11	11.30	7.72
	Dagana	7	2.16	1.51
	Haa	5	2.74	1.73
	Lhuentse	1	0.34	0.1
	Mongar	1	0.45	0.41
	Paro	5	2.04	1.18
	Punakha	4	1.20	0.67
	Samdrupjongkhar	4	7.38	6.22
	Samtse	12	3.54	1.98
	Sarpang	13	4.15	2.54
	Tashigang	10	9.43	4.26
	Tashiyangtse	1	0.50	0.06
	Thimphu	40	33.02	25.79
	Trongsa	4	1.58	0.63
	Tsirang	15	10.47	9.46
	Zhemgang	5	1.68	0.62
<b>Total</b>	<b>145</b>	<b>93.27</b>	<b>66.13</b>	
BNBL	Bumthang	13	11.86	7.503
	Chukha	8	18.43	16.83
	Dagana	1	0.21	0.21
	Gasa	5	1.98	1.98
	Haa	10	4.45	3.00
	Paro	8	12.21	10.89
	Pemagatshel	2	10.55	5.00
	Punakha	5	7.98	2.85
	Samtse	12	4.05	3.23
	Sarpang	4	3.29	2.84
	Tashigang	10	4.17	4.17
	Thimphu	32	55.15	38.20
	Tsirang	3	2.16	2.06
	Wangduephodrang	6	12.28	10.06
	Zhemgang	2	3.78	2.81
<b>Total</b>	<b>121</b>	<b>152.54</b>	<b>111.63</b>	
BDBL	Dagana	3	1.29	1.29
	Samtse	1	0.50	0.50
	Sarpang	11	5.90	5.90
	Thimphu	5	2.05	2.05
	Wangduephodrang	1	0.70	0.70
	<b>BDBL Total</b>	<b>21</b>	<b>10.44</b>	<b>10.44</b>
DPNBL	Chukha	1	0.50	0.50
	Paro	4	1.49	1.32
	Samtse	3	1.40	1.07
	Thimphu	4	2.59	1.98
	Wangduephodrang	1	0.80	0.55
	<b>Total</b>	<b>13</b>	<b>6.77</b>	<b>5.42</b>
TBANK	Chukha	1	0.50	0.35
	Paro	1	0.50	0.32
	Thimphu	4	14.20	12.83
	Trongsa	1	3.00	2.00
	<b>Total</b>	<b>8</b>	<b>18.70</b>	<b>15.50</b>
BIL	Thimphu	1	0.33	0.16
	<b>Total</b>	<b>1</b>	<b>0.33</b>	<b>0.16</b>
RICBL	Bumthang	1	8.33	8.33
	Tashigang	1	3.00	3.00
	Thimphu	5	12.39	9.18
	<b>Total</b>	<b>7</b>	<b>23.71</b>	<b>20.51</b>
<b>Grand Total</b>		<b>316</b>	<b>305.77</b>	<b>229.78</b>

Project Approved by FIs: By Category  
(Jan-Dec 2018)



PSL Insurance: January - December 2018



PSL Insurance Data: January - December 2018

SI	Insurance Product	No. of Policy	Sum Insured (Nu. in Mill.)	Premiums Collected (Nu. in Mill.)
1	Crop Insurance	25	3.27	0.09
2	Livestock Insurance	58	10.76	0.86
3	Life (Quende Nengsung)	136	84.14	0.49
4	Non-Agri (fire & theft)	65	23.70	0.21
<b>TOTAL</b>		<b>284</b>	<b>121.86</b>	<b>1.65</b>

## MILESTONES

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)

MAY 2018

- PSL Workshop for Dzongkhag Focals

NOV. 2018

- 03 November: PSL monitoring tours for all 20 Dzongkhags kick-started with Chhukha Dzongkhag
- 05 November: PSL System launched by DCSI, MoEA

FEB. 2019

- PSL bilateral meetings conducted with the Financial Institutions

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.

Data pertains to the four quarters of 2018 (i.e. January-March, April-June, July-September & October-December). Some data for the first three quarters of 2018 have been revised.

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](http://www.rma.org.bt)