

## **Priority Sector Lending (PSL) awareness program completed in the Sarpang Dzongkhag . Reported by Ugyen Drji, DLO& Yam Nath Acharya, LPO**

Economic growth has been driven largely by the hydropower sector, while agriculture remains the largest economic sector, providing employment to over 58 percent of the country's labor force. The sector is faced with several challenges, associated with the extant practice of subsistence farming and resulting rural poverty and rural-urban migration. However, rising demand from the growing urban populace and Bhutan's environmental policies and subsequent



brand image present numerous opportunities especially in the organic and niche food market to transform agriculture into a more enterprising and commercially-oriented CSI business that can also engage our youth in productive and meaningful employment.

The Priority Sector Lending (PSL) is the outcome of the vision of His Majesty the DrukGyalpo as articulated during His Majesty's National Day Address in Trongsa in December 2016, wherein, the opportunities that the financial sector can create for our youths and farmers in entrepreneurship and commercial farming were articulated.

The PSL identify the cottage and small industries (CSI) sector as a priority sector for targeted lending and increased coordination and efficiency in the delivery of government support schemes and incentives.

The PSL scheme initiated and co-ordinated by Royal Monetary Authority (RMA) of Bhutan is an integrated platform that coordinates interventions of several Government agencies to stimulate the CSI sector as an important driver of Bhutan's economic transformation through improved access to finance. Integrating Government support and interventions with collective commitment from the financial sector for better financing is expected to catalyze the CSI sector into a growth driver that will contribute to achieving Bhutan's overarching national goal of sustainable and inclusive socio-economic development.

### **Rationale**

The CSI sector has immense relevance to the Bhutanese economy as the largest source of domestic production and employment, especially for our growing youth population while also addressing challenges in the agriculture sector and challenges related to rural-urban migration. Recognizing this potential of the CSI sector to diversify and promote inclusive growth, boost employment and reduce inequality, and the need to improve access to finance to the sector, a directed lending strategy that identifies various activities under the CSI sector as priority

CSI sector has the potential to boost employment and reduce inequality and the need to improve access to finance to the sector as priority activities which leverages on various Government support schemes, is being implemented in the form of the PSL. But Dzongkhag PSL committee, Sarpang felt that the turnout of PSL clients is comparatively low in the Sarpang and hypothesizing this low turnout to be attributed by lack of awareness among the farmers and youths in the geogs, this awareness program was felt necessary. A total of 579 participants attended in the awareness program. The participants were curious to know about the PSL scheme. Increase in flow of clients opting for PSL after the awareness is a promising outcome of the program.

### **Objectives of awareness program**

- To make the general public including the youths aware of the PSL scheme
- To make the probable PSL clients aware of the guidelines to avoid repeated visits for the same purpose
- To make public aware of the procedure of application for PSL loan
- To understand the public view about PSL

### **Introduction to PSL**

Priority Sector Lending is aimed towards promotion of cottage and small Industries. This is a scheme initiated by RMA inspired by DrukGyalpo's valuable speech to support farmers and young entrepreneurs with capital in the form of loan to start the cottage *and* small scale enterprises. PSL is an integrated platform that will coordinate the interventions of the Government agencies with improved access to finance from the Financial Institutions towards promotion of CSIs. To stimulate the Cottage and Small Industries (CSI) sector as an important driver of Bhutan's economic transformation. The CSI sector is divided into agricultural CSI and non-agricultural CSI activities. Agricultural CSI includes primary production and value-added activities such as processing, packaging, marketing and sales. Non-agricultural CSI comprises production and manufacturing, and services.

### **Objectives of PSL scheme**

- i) To transform the CSI sector into a more enterprising and commercially-oriented sector through coordinated interventions and better access to finance
- ii) To increase opportunities for youth employment
- iii) To promote domestic production and import substitution
- iv) To catalyze the CSI sector as a driver of Bhutan's economic transformation

### **Insurance, Collateral and Other Requirements**

Within the category of Agricultural CSIs, all loans to primary production shall be insured to substitute for collateral requirements. The insurance premium will be deducted from the loan amount, where applicable.

Loans for all other activities will be based on cash-flow or project financing along with fire and theft insurance. The option of additional insurance will be left to the borrower.

Loans may be granted against pledge or hypothecation of assets of the borrower. Insurance companies shall ensure that adequate insurance products are available for the priority sector activities.

Priority sector borrowers must produce Credit Information Report from the Credit Information Bureau of Bhutan. Priority sector borrowers must ensure timely payment of insurance premiums/renewals, where applicable.

### Eligibility for financing

Farmers and young entrepreneurs are the preferred clients for PSL lending. PSL clients can avail loans as individuals, as groups/cooperatives or as a company incorporated in Bhutan (within the CSI investment size as defined by the MOEA). Please see **Annex 2** for more details on eligibility and other criteria.

PSL financing will be available for both new CSI businesses/startups as well as for CSI business expansion. Financial institutions must ensure that loans are provided for both categories.

Groups and/or cooperatives wishing to avail Agricultural CSI related financing must register with the MOAF.

PSL clients must fulfill the requirements stipulated in the Government’s “Rules on the Fiscal Incentives Act of Bhutan 2017” to be eligible for the incentives.

### Output

Participation was considerable in all the geogs (Fig.1). A total of **579** participants participated in the awareness program. The participants were curious to know about the PSL scheme. Substantial amount of time was provided to clear their doubts through question/answer session.

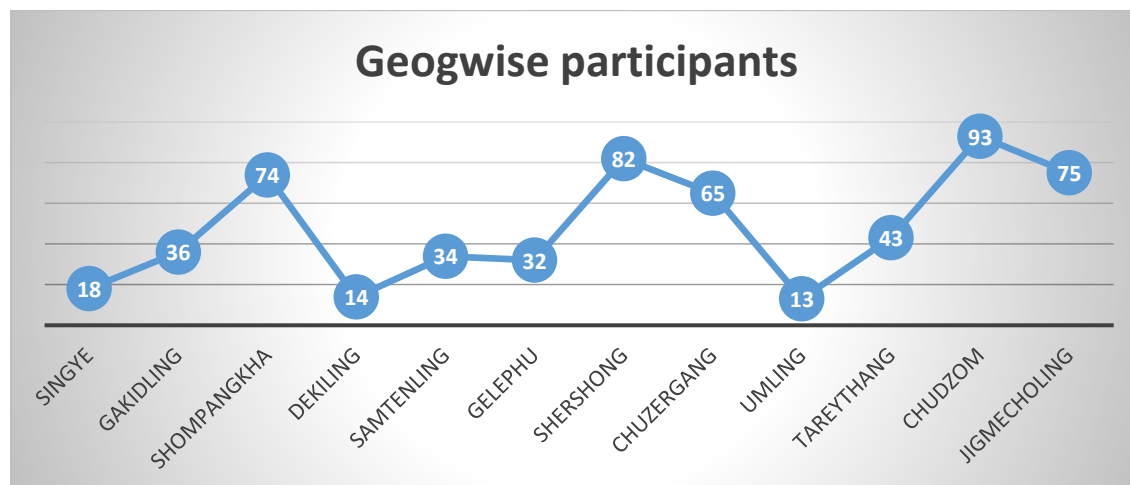


Figure 1 Geog wise participants who attended the awareness on PSL



*Figure 2 Participants during the awareness program*

### **Conclusion**

Considering the public attendance, active participation and response who attended the PSL awareness campaign in 12 geogs of the Dzongkhag, it can be concluded that the campaign was a success. After the awareness program, the flow of applicants is considerably increasing which also indicates the success of awareness program.