

Interim Report on the Review of Rural Credit Access in Bhutan



**Economic Affairs Committee
National Council of Bhutan
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- 4) Samkhar Gewog and Trashigang Dzongkhag Administration
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1. Background

The Economic Affairs Committee (EAC) of the National Council is pleased to provide an interim report on the review of rural credit access in Bhutan. The review is based on the mandate provided for in the Constitution of Bhutan and the National Council Act under the following articles:

Article 10.2 of the Constitution provides the basis for parliamentary review of executive functions when it says: *“Parliament shall ensure that the Government safeguards the interests of the nation and fulfills the aspirations of the people through public review of policies and issues, Bills and other legislations, and scrutiny of State functions.”*

The Constitution in Article 11.2 also confers specific additional powers on the National Council to *“act as the House of review on matters affecting the security and sovereignty of the country and the interests of the nation and the people that need to be brought to the notice of the Druk Gyalpo, the Prime Minister and the National Assembly”*.

The Section 7 of the National Council Act states that:

“The National Council shall ensure that the Government safeguards the interests of the nation and fulfills the aspirations of the people through public review of policies and issues, Bills and other legislation, and scrutiny of State functions.”

Further, Article 10 of the National Council Act highlights the review function of the National Council as follows:

“In exercising its review function, the National Council shall:

- a) Review and comment on the policies, plans and programs of the government;
- b) Review performance of the government;
- c) Review implementation of resolutions and laws; and
- d) Review issues of national importance.”

The Economic Affairs Committee was directed to conduct a review of the state of rural credit access in Bhutan and present the findings in the 33rd Session based on a decision of the National Council Retreat held at Paro in July 2023.

2. Excerpt from His Majesty the King's 109th National Day Address



Figure 1. His Majesty the King in Trongsa

“We spend Nu 8 billion annually to import food. To cite an example, we export potatoes and oranges, and then import potato chips and orange juice.

From this, it is evident that there are many opportunities for entrepreneurship and commercial farming in our country. In addition, our youth are educated, capable, and enthusiastic.

We must ask ourselves then, where we have gone wrong.

Our government remains steadfast in its service to the people. The scope of the successive five year plans have grown exponentially. The budget of the 11th Five-Year Plan, which is an unprecedented 213 billion, is spread across various sectors and across the country.

For my part, I will continue to increase land ownership, in the same manner that I have in the past.

As I see it, to begin any new enterprise, first and foremost, one requires capital.

There is a great opportunity here for the financial institutions and banks to make a positive impact by improving access to credit for our youth and rural people.

We can gauge the extent of the impact by considering that today, in Bhutan, the total loan stock that has been lent out is Nu. 85 billion, but out of this, only 4.5 billion, or about 2.5% has been utilized in the agriculture sector. This must change.” (1)

3. Introduction

Rural credit plays an important role in addressing the financial needs of rural populations and promoting sustainable economic development. Access to rural credit is essential for fostering agricultural development, promoting rural entrepreneurship, and improving overall economic wellbeing of rural communities. Rural credit in Bhutan was formally established in the early 1980s. However, the initiatives were short-lived due to a significant imbalance between supply and demand. Today, rural credit in Bhutan is supported by a diverse range of financial institutions, including commercial banks, and microfinance institutions. These institutions offer various financial products and services tailored to the needs of rural populations, such as agricultural loans, microcredit, and savings accounts. Despite various challenges, rural credit in Bhutan focuses on enhancing agriculture within the country.

Agriculture is one of the key sectors in Bhutanese economy. In 2022, this sector contributed 14.67% to the Gross Domestic Product (GDP) (2) and employed 43.5% of the workforce (3). The 2017 Population and Housing Census of Bhutan (PHCB 2017) revealed that 62.2% of the country's population resides in rural areas (4). Furthermore, according to the Bhutan Living Standards Survey 2022 (BLSS 2022), out of 164,331 households in Bhutan, 67% are classified as rural households (3). The 2022 Poverty Analysis Report (PAR) used a measure called the poverty line, set at Nu 6,204 per person per month for that year (5). According to this measure, around 12.4% of the population is considered poor. Poverty affects more people in rural areas (17.5%) compared to urban areas (4.2%). These figures underscore the prevalence of rural living in Bhutan and the significant dependence on agriculture and land-based livelihoods.

The 2022 Labor Force Survey (LFS) indicated that a higher percentage of the population was employed in rural areas (65.8%) compared to urban regions (34.2%). Geographically, rural areas were home to 64.6% of the total labor force, while just over one-third (35.4%) resided in urban areas. The survey also highlighted that the agriculture sector, with 43.5% of the workforce engaged in it, is the number one employer. The results of the 2022 Integrated Agriculture and Livestock Census of Bhutan also recorded about 67,093 agricultural holdings. These findings highlight the substantial rural workforce contributing to the nation's economy and emphasize the pivotal role of agriculture in driving economic activities (6).

However, the agriculture sector continues to grapple with low productivity. Despite having 7% (664000 acres) of arable land in the country, only 2.98% (278013 acres) is under cultivation (7). Several factors contribute to this, including labor shortage, irrigation water shortage, human wildlife conflicts, and limited market accessibility. In 2022, the growth in agriculture sector saw a decline of -1.15% for the first time (2). Another important aspect is the inadequate access to credit, particularly among the rural poor (8). With only 21.79% of the adult Bhutanese population having access to loans (9), many farmers lack the necessary financial resources to invest in inputs, equipment, and technology that could enhance agricultural productivity.

Despite its importance, credit allocation to the agriculture sector remains below 5% of the total credit portfolio. In the fiscal year 2022/23, there was a notable decline of 24.5% (Nu 1,550.8 million) in credit to the agriculture sector, reducing the outstanding loan amount to Nu 4,779.9 million from Nu 6,330.6 million in the previous fiscal year (10).

Recognizing these issues, the Economic Affairs Committee (EAC) of the National Council undertook a comprehensive review of rural credit access in the country. This initiative aimed to support economic growth, alleviate poverty, and promote inclusive development in rural communities.

4. Objectives

- 4.1 Conduct a comprehensive review of the current state of rural credit access in Bhutan, including identifying challenges and opportunities.
- 4.2 Engage with stakeholders from government agencies (including LG functionaries), financial institutions, and rural communities to gather insights and perspectives.
- 4.3 Analyze existing policies and procedures related to rural credit provision and evaluate their effectiveness.
- 4.4 Develop evidence-based recommendations for further submission to the government.

5. Situational analysis

5.1. Laws, policies, and regulations governing rural credit in Bhutan

The Royal Monetary Act of Bhutan 2010 and The Financial Services Act 2011 empowers the RMA to license financial service providers and regulate financial sector. Further, the following legislations generally govern the credit matters in the country (11):

- a) Moveable and Immovable Property Act 1999
- b) Prudential Regulations 2017
- c) Crowd Funding Rules and Regulations 2019
- d) Rules and Regulations for Deposit-taking Microfinance Institutions 2016
- e) Microloan Regulation 2014
- f) Rules and Regulations for Cottage and Small industries Bank in Bhutan 2018
- g) Credit Information Bureau Rules and Regulations 2017
- h) Agent Banking Rules and Regulations 2016
- i) Priority Sector Lending Guidelines 2021
- j) Guidelines on the implementation of National credit Guarantee Scheme 2020

5.2 Key rural lending institutions

There are 5 banks, 2 insurance companies, and 5 Microfinance institutions in the country that function as the source of credit. However, the following are the key rural lending institutions:

5.2.1 Bhutan Development Bank Limited (BDB)

The key institutional source of rural credit in Bhutan is the Bhutan Development Bank Limited (BDB). The Bhutan Development Bank Limited (BDB) formerly known as Bhutan Development Finance Corporation (BDFC) was established on 31st January 1988 through a Royal Charter. Its mandate as per the Royal Charter is to promote the industrial, agriculture and commercial development of the economy of Bhutan by:

- a) Providing financial, technical, and advisory assistance to the enterprises.

- b) Mobilizing external and internal funds for investment in enterprises.
- c) Engaging primarily in the promotion of industrial, agriculture and commercial enterprises in Bhutan

On 2nd March 2010, BDB was licensed as “Specialized Deposit-taking Bank” by the RMA, allowing it to mobilize saving and deposits from the public across the country. It is a State-Owned Enterprise where the Royal Government holds 99.08% of the shares. Today, BDB has a total asset of Nu.37.33 billion, a total loan portfolio of Nu. 21.8 billion, and deposits of Nu. 29.38 billion. With 35 branch and 27 Gewog field offices, it has the largest network of offices spread across the country.

5.2.2 Microfinance Bhutan Private Limited

Microfinance Bhutan Private Limited also provides three loans for rural people in Bhutan, agriculture loans (18.50% p.a.), microenterprise/small business loans (19.50% p.a.), home loans (18% p.a.), and education loans (18.50% p.a.). However, to date, the disbursement has only been made in three Dzongkhags: Thimphu, Samtse, and Tsirang (12).

5.2.3 RENEW Microfinance Private Limited

RENEW Microfinance Private Limited provides various loans for rural people in Bhutan (13):

- 1) Agriculture loan at the interest rate of 24% pa
- 2) Business loan at the interest rate of 24% pa
- 3) Emergency loan at the interest rate of 24% pa
- 4) Multipurpose loan at the interest rate of 24% pa
- 5) Power Tiller loan at the interest rate of 16% pa
- 6) Rural Development Loan at the interest rate of 15-22% pa

5.2.4 Tarayana Microfinance Private Limited

The following credit products are available from Tarayana Microfinance Private Limited (14):

- Classic - Small Business Expansion
- Classic - Agriculture
- Development - Dairy Farming
- Purchase Farm Machinery

These credit products range from Nu. 40,000 to Nu. 250,000, with a tenure of 6 to 36 months.

5.2.5 Bhutan Care Credit

All loans are collateral-free with a maximum loan amount of Nu. 500,000 and a maximum tenure of 5 years (15). Interest rates vary according to the loan products. The available loan products are as follows: a) Land Rehabilitation Beneficiaries Loan; b) Armed Forces Personnel and Spouses Loan; c) Youth Loan; and d) Kin-phen Financing Loan

5.2.6 Bhutan Association of Women Entrepreneurs (BAOWE)

Bhutan Association of Women Entrepreneurs aims to help disadvantaged women, mostly single mothers and unemployed mothers and unemployed youth in urban and rural areas. BAOWE introduced the concept of rural entrepreneurs among its women members. The association is now seeking to help its members connect with the global market and increase their revenue through branding and IP.

5.3 Sector allocation of Credit in Bhutan

The housing sector has the largest share of total loans (30.54%) with relatively low NPL (2.30%). Education Loans and Hotel and Tourism also have significant loan amounts with very low NPL percentages (1.09% and 0.66%, respectively). Transport Loans, Credit Cards, Trade and Commerce, and agriculture and livestock have high NPL percentages (10.81%, 36.88%, 8.23%, and 8.75% respectively). Personal Loans have the highest number of accounts (57,444), showing widespread use among borrowers. The agriculture and livestock sector loan accounted only 2.35 percent of the total loans.

Table 1. Overall sector allocation of credit in Bhutan as of March 2024 (Nu. In millions)

Sectors	Total loan A/c	Total loan outstanding	% share	NPL		
				No. of A/c	Outstanding (million)	NPL %
Agriculture and Livestock	23,764	5,010.40	2.35	2213	438.61	8.75
Credit Cards	140	4.33	0.00	6	1.60	36.88
Education Loan	13,025	11,751.73	5.51	218	127.76	1.09
Forestry and Logging	148	535.38	0.25	9	17.44	3.26
Hotel and Tourism Sector	2,194	27,633.80	12.95	103	183.44	0.66
Housing Sector	19,385	65,173.39	30.54	615	1,499.74	2.30
Loan Against Term Deposits	1,244	3,092.14	1.45	42	174.86	5.66
Loans for Shares and Securities	155	2,068.54	0.97	9	58.37	2.82
Loans to Contractors	1,075	9,574.15	4.49	169	770.03	8.04
Loans to Financial Service Providers	2	3.85	0.00		0.00	0.00
Medical Loans	6	1.96	0.00		0.00	0.00
Mining and Quarrying	161	3,371.44	1.58	24	111.48	3.31
Personal Loans	57,444	16,068.99	7.53	1354	355.45	2.21
Production & Manufacturing	2,095	23,671.56	11.09	319	725.95	3.07
Service Sector	2,217	18,092.73	8.48	321	522.97	2.89
Staff Incentive Loans	2,477	2,243.27	1.05	12	11.93	0.53
Trade and Commerce	6,136	17,544.50	8.22	488	1,443.94	8.23
Transport Loans	12,656	7,592.30	3.56	1343	820.51	10.81
Grand Total	144,324	213,434.47	100.00	7245	7,264.09	3.40

5.4 Sectoral allocation and volume of rural credit disbursed in the last 10 years

Table 2 summarizes the annual disbursement of rural credit across various sectors from 2014 to 2024. The disbursement in the agriculture and livestock sector saw a significant increase over the years, starting from Nu. 39.19 million in 2014 to a peak of Nu 1,539.52 million in 2021. There was a sharp decline to Nu 258.30 million by 2024. In the forestry and logging sector, disbursement fluctuated significantly, peaking at Nu 338.98 million in 2023, and was minimal in other years, with the lowest at Nu 2.47 million in 2024. The highest disbursement in the hotel and tourism sector was in 2015 at Nu 46.96 million and saw a decline to zero in 2024.

In the housing sector, loan disbursements increased from Nu 41.15 million in 2014 to a peak of Nu 677.78 million in 2019, then fluctuated in subsequent years, ending at Nu 113.53 million in 2024. The production and manufacturing sector had minimal disbursement, peaking at Nu 24.44 million in 2017, with no disbursements recorded in many other years. In the transport sector, disbursements peaked at Nu 59.49 million in 2017 and varied in other years, ending at Nu 2.00 million in 2024. The total loan disbursement across all sectors reached its highest in 2021 at Nu 2,270.20 million. Over the last 10 years, the total disbursement across all sectors summed up to Nu 12,749.10 million. This data indicates a general trend of increased loan disbursements across most sectors until around 2019, after which there was a noticeable decline in subsequent years. The agriculture and livestock sector consistently received the highest share of loan disbursements over the period.

Table 2. Sectoral allocation and volume of rural credit disbursed in the last 10 years.

Year	Agriculture and Livestock	Forestry and Logging	Hotel and Tourism Sector	Housing Sector	Production Manufacturing	& Transport Loans	Total
2014	39.19	44.40	27.50	41.15	-	-	152.23
2015	96.72	4.12	46.96	106.77	-	2.50	257.07
2016	291.54	9.00	10.09	153.09	-	12.49	476.20
2017	587.10	6.13	45.50	328.75	24.44	59.49	1,051.41
2018	1,130.17	9.05	83.99	446.79	0.02	44.28	1,714.30
2019	1,345.66	154.44	17.95	677.78	10.79	25.20	2,231.82
2020	1,323.47	77.05	18.73	576.23	-	22.33	2,017.81
2021	1,539.52	23.05	1.69	657.61	4.94	43.40	2,270.20
2022	806.10	47.76	10.16	487.74	0.68	51.87	1,404.31
2023	320.85	338.98	18.51	90.27	-	28.57	797.18
2024	258.30	2.47	-	113.53	0.25	2.00	376.56
Total							12,749.10

5.5 Spatial allocation of rural credit by Dzongkhags

Table 3 provides a breakdown of loan accounts, sanctioned amounts, loan outstanding amounts, and the percentage share of sanctioned amounts across different Dzongkhags. As of March 2024, there are 33029 loan accounts with a total sanctioned amount standing at Nu. 12749.10 million and total loan outstanding at Nu. 8684.26 million. Thimphu, Trashigang, and Chukha Dzongkhags have the highest loan activity while Gasa, Lhuentse, and Trashiyangtse have the lowest loan activity.

Table 3. Spatial allocation of rural credit categorized by Dzongkhags as of March 2024

Dzongkhag	No. of A/c	Sanctioned amount (million)	Loan outstanding (million)	% share of sanctioned amount
Bumthang	785	346.10	214.75	2.70
Chukha	2,726	1105.38	793.95	8.61
Dagana	2,089	701.57	434.90	5.47
Gasa	128	42.29	23.80	0.33
Haa	971	356.93	238.49	2.78
Lhuentse	626	179.16	100.01	1.40
Mongar	2,457	747.43	457.35	5.82
Paro	1,965	970.08	628.09	7.56
Pemagatshel	1,451	477.28	328.42	3.72
Punakha	2,006	735.40	507.25	5.73
Samdrup Jongkhar	1,558	487.71	289.63	3.80
Samtse	2,848	808.42	591.53	6.30
Sarpang	1,516	713.26	499.11	5.56
Tashi Yangtse	932	329.36	209.98	2.57
Thimphu	1,271	1,580.87	1,240.02	12.32
Trashigang	3,267	1,023.19	659.86	7.97
Trongsa	888	334.07	215.58	2.60
Tsirang	1,196	423.69	252.82	3.30
Wangdue Phodrang	2,915	1,004.15	678.40	7.83
Zhemgang	1,434	466.01	320.33	3.63
Grand Total	33,029	12,749.10	8,684.26	100

5.6 Types of rural lending

The main institution for rural lending in Bhutan is the Bhutan Development Bank Limited (BDB). This bank offers 37 different loan products with interest rates between 9% and 15%. Out of these, 12 loan products are specifically suited for rural people in Bhutan. Table 4 shows the details of these 12 loan products, including their maximum loan terms and interest rates. More detailed information about these 12 products is available in Annexure 1.

To improve access to banking services in rural areas, BDB officials visit farmers monthly to educate them, collect payments, and assess loan applications. This practice is called Farmer's Outreach Banking (FOB). Additionally, with support from the Asian Development Bank, BDB aims for women to make up 50% of their loan clients, helping to empower women. BDB provides loans that require collateral for agriculture and livestock activities. However, for those in rural areas who don't have collateral, the bank uses the Group Guarantee and Lending Scheme (GGLS), where group members guarantee each other's loans.

Table 4. Summary of credit products available for rural areas

SI No	Product	Max. Loan tenure	Interest		
			Upto 5 years	Above 5 years – 10 years	Above 10 years – 20 years
1	Seasonal Loan	1	11.55 %		
2	Agricultural/Livestock Loan	10	10.25 %	10.50 %	
3	Forestry and Logging	10	10.25%	10.50%	
4	Trade and Commerce Loan	5	12.25 %		
5	Transport Loan	5	12.50 %		
6	Commercial Housing Loan	30	10.50 %	11.00 %	11.25 %
7	Home Loan	30	10.00 %	10.25 %	10.50 %
8	Personal Loan	5	13.50 %		
9	Group Term Loan	5	9.00 %		
10	Education Loan	5	10.00 %		
11	Loan against Fixed Deposit	As per FD term	1 % higher than FD interest		
12	Community Development Loan	5	15%		

5.7 Credit accessibility in agriculture

In terms of credit accessibility in agriculture, 12.04% of the total farming households in Bhutan have accessed credit. Among the Dzongkhags, Haa stands out with the highest proportion of households availing credit, accounting for 31.93%. On the other hand, Trashiyangtse has the lowest proportion, with only 3.31% of households accessing credit. BDBL was found to be the main source of credit in agriculture (16).

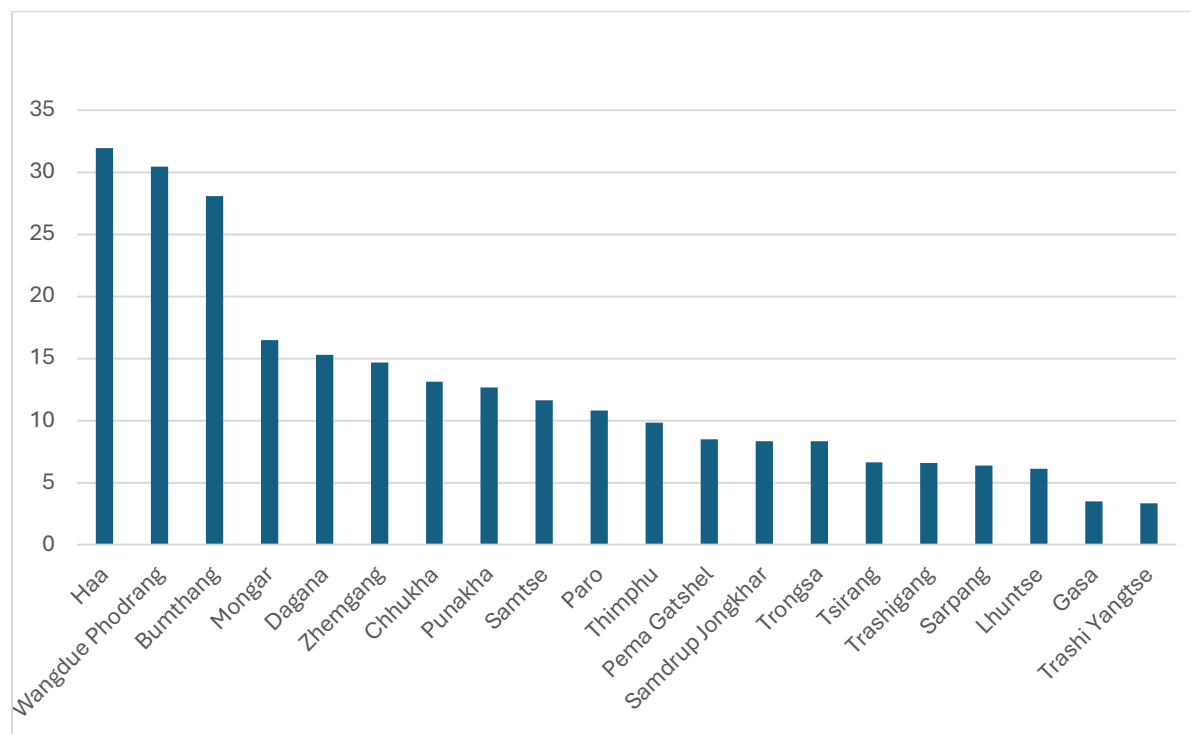


Figure 2. Percentage share of agriculture credit availed by Dzongkhags (RNR Census 2019)

5.8 Constraints faced in Rural Credit

5.8.1 Constraints faced by lending institutions

The committee conducted consultative meetings with key stakeholders to understand the constraints faced by lending institutions. These included the Royal Monetary Authority (RMA), Bhutan Development Bank Limited (BDB), six BDB field offices, and the Department of Livestock (DoL) in the Ministry of Agriculture and Livestock (MoAL). Through these consultations, the committee gathered valuable insights and perspectives on the challenges and limitations inherent in the current lending framework.

From the Royal Monetary Authority (RMA), the committee obtained regulatory viewpoints, monetary policies and risk management strategies that influence lending practices. Discussions with Bhutan Development Bank Limited (BDB) provided a practical perspective on the operational hurdles and risk assessments faced by financial institutions when offering loans,

particularly in rural contexts. Insights from BDB's field offices shed light on the on-ground realities, including the difficulties in evaluating credit worthiness.

Engagement with the Department of Livestock (DoL) offered an agricultural and livestock-focused perspective, highlighting the unique needs and challenges of rural borrowers involved in these sectors. These diverse perspectives enabled the committee to analyze the multifaceted constraints faced by lending institutions and the impacts on rural credit availability.

i) Difficult to assess credit worthiness of borrowers

One of the criteria for a bank to sanction a loan is to assess and verify the repayment capacity of a borrower. The repayment assessment is based on both actual and projected incomes, the latter being a forecast for the future. For assessing actual income, it is straightforward and reliable for the bank to perform the assessment. Examples include verifying pay slips of individuals, tax payments for businesses, and rental income from properties. These are easily authenticated by the bank. However, assessing projected income is more challenging. It is difficult for the bank to standardize projected income levels because they depend heavily on assumptions and justifications. Assessing the credit worthiness of farmers is challenging due to the lack of standardized financial records and reliable income verification. This makes it difficult for banks to accurately evaluate the risk associated with lending to farmers.

ii) Exposure to credit risk in agriculture and inadequate agriculture insurance

Exposure to credit risk in agriculture is a significant concern for financial institutions. Several factors contribute to this elevated risk, making agricultural lending distinctively challenging. Agriculture is highly dependent on weather conditions. Unpredictable events such as droughts, floods, hailstorms, and other natural disasters can destroy crops and reduce livestock productivity, leading to significant income losses for farmers. This volatility makes it difficult for farmers to meet their loan repayment obligations, increasing credit risk.

The prices of agricultural products are highly volatile due to factors like market demand, and seasonal variations. Outbreaks of pests and diseases can severely affect crop yields and livestock health, resulting in substantial financial losses. These biological risks add another layer of uncertainty to agricultural production and income. Inadequate infrastructure, such as poor roads and storage facilities, hinder farmers' access to markets, affecting their ability to sell produce at favorable prices. While agricultural insurance can mitigate some risks, high premiums and limited availability of insurance products often leave farmers unprotected. Without adequate insurance coverage, farmers bear the full brunt of financial losses, increasing the likelihood of loan defaults. As of March 2024, the overall NPL share in the agriculture and livestock loan stands at 8.75%.

iii) Applying same rules and regulation with other commercial banks

BDB is considered a development bank with a mandate to provide financial services to rural people. It is the only bank that accepts rural land as collateral, focusing mainly on the agricultural sector. The returns from agriculture are lower compared to the commercial sector, and the risk of

default is higher. This leads to an increase in non-performing loans. Despite this, BDB is subjected to the same regulatory policies as commercial banks, with no special concessions. As a result, the bank was placed under the Prompt Corrective Action (PCA) framework, leading to a loan moratorium for over a year.

iv) Lack of support and coordination among stakeholders

Rural loans are primarily provided for agricultural purposes, with farmers' project proposals being technically verified by the Ministry of Agriculture and Livestock. Other loans such as home loans are recommended by local government leaders such as Gups and Mangmis. However, the bank frequently receives inadequately authenticated proposals, leading to significant issues. The lack of coordination between banks and other stakeholders severely hampers the loan approval, usage, and repayment processes. This inefficiency not only undermines the effectiveness of rural loans but also poses a risk to financial stability in these communities.

v) Personal loan regulation

Every loan should have a clear purpose, except for personal loans, which are granted based on criteria such as collateral coverage and adequate repayment sources without needing a specific purpose. However, regulatory restrictions have imposed a ceiling on personal loans, limiting it to Nu. 500,000 with a maximum term of 5 years (17). This restriction applies even if the client has sufficient collateral and a solid repayment capability. This regulatory cap has significant implications like limited access to funds affecting personal financial plans and collateral underutilization.

5.8.2 Constraints faced by borrowers

To understand the diverse constraints faced by borrowers, the committee undertook a series of meetings with local government leaders and the public in selected Gewogs of Haa, Samdrup Jongkhar, Trashigang, Trashiyangtse, Pema Gatshel, and Zhemgang. In addition, the committee also conducted Focus Group Discussions (FGD) with the Dzongkhag administrations of Trashigang and Pema Gatshel.

The local government leaders provided a detailed information on the socio-economic conditions, common financial barriers, and the overall landscape of rural credit. They highlighted issues such as the lack of collateral, limited financial literacy, and the procedural hurdles that hinder farmers from securing loans.

Meetings with the public, including farmers, small business owners, and aspiring entrepreneurs, brought to light personal stories and practical challenges, such as the difficulty in meeting collateral requirements, the high interest rates, and the inflexible loan terms. The public also expressed concerns about the lack of loan products that cater to innovative projects.

i) Inadequate financial literacy

The majority of people residing in rural areas are not adequately aware of the rural credit products available to them. This inadequacy stems from limited access to financial institutions, insufficient outreach efforts, and a general lack of financial literacy among rural populations. The inadequate financial literacy in rural areas significantly hinders access to credit. Without knowledge of available credit products, rural residents cannot make informed decisions about which loans best suit their needs. Financially illiterate individuals struggle to understand and fulfill the documentation and procedural requirements for obtaining loans. A lack of understanding about credit terms and repayment obligations also creates fear and distrust of borrowing, leading many to avoid seeking loans altogether.

ii) Collateral requirement

Stringent collateral requirements imposed by banks make it difficult for many small and marginal farmers to qualify for loans, limiting their access to credit.

iii) High loan interest rates

There is a perception among rural residents that loan interest rates are significantly high impacting their access to credit. The loans are perceived to be expensive for already financially constrained rural people, limiting their ability to borrow. As a result, it impedes investments in agriculture and small business in rural areas.

iv) Cumbersome documentation process

The cumbersome documentation process for obtaining loans in creates a significant barrier to accessing credit in rural areas. Requiring individuals to physically visit the bank to sign documents, especially in rural areas where banks are located far away, consumes valuable time and effort. The need to travel to the bank and fulfill documentation requirements also incur additional costs for rural borrowers, including transportation expenses and potential loss of wages. For low-income farmers, these extra costs discourage them from seeking loans even when they have genuine financial needs. The documentation process itself is complex and confusing for rural farmers who have limited literacy with loan granting procedures. This lengthy documentation process also leads to delays in loan disbursement, depriving borrowers of timely access to funds for urgent needs such as seasonal cropping.

v) Inadequate Credit Supply

Currently, most of the loans provided to rural people are capped at the ceiling of Nu.500000 which is inadequate for meeting the needs of the rural people, particularly in the context of rising prices of goods and services. This limitation doesn't provide enough capital to support any meaningful investments in the rural areas, affecting the long-term economic prospects.

vi) Collateral valuation

The implementation of the Property Tax Act of Bhutan 2022 has resulted in increased property and land taxes for rural residents. Land is a significant asset for rural residents, often serving as collateral for loans. Rural farmers expect financial institutions to adjust their loan amounts by considering the increase in land values.

vii) Lack of credit for innovative ideas and entrepreneurial initiatives

The current practice requires collateral and mortgages as prerequisites for loan approval, which disproportionately affects people who lack substantial assets. This requirement stifles creativity and discourages potentially transformative projects. By not considering the innovative ideas and entrepreneurial initiatives, the current practices overlook opportunities for growth and diversification in rural areas.

6. Conclusion

The review of rural credit access in Bhutan reveals notable challenges and opportunities in the underfunded agricultural sector, which is vital to the economy. Adequate rural credit is essential for boosting agricultural productivity, entrepreneurship, and economic well-being. However, only 2.5% of total loans go to agriculture, limiting growth and development in rural areas where many depend on farming for their livelihood.

Major obstacles in rural credit access include stringent collateral requirements, high-interest rates, low financial literacy, and cumbersome loan processes. These barriers hinder small farmers from securing funds for agricultural investments. Additionally, high credit risk and inadequate insurance make banks reluctant to lend to this sector. Uniform regulatory frameworks that don't account for the unique challenges of development banks further complicate the issue.

Addressing these issues requires policy changes to improve credit access, targeted financial literacy programs, and better stakeholder coordination. Adjusting regulations for agricultural lending and offering more affordable credit products are essential steps. Implementing these measures will enhance rural credit access, boost agricultural productivity, and support sustainable economic development in Bhutan's rural areas.

7. Committee Observations**8. Recommendations**

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6	Checklist	<ol style="list-style-type: none"> 1. Duly filled in application form 2. CID copy 3. 2 recent passport size photo 4. Copy of latest land certificate (lagthram) 5. NOC 6. Detail project costing of activities to be carried out 7. Copy of invoice or quotation for machinery to be purchased from authorized dealer 8. Prove of income
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3. Forestry and Logging

Sl#	Loan Product	Details	
1	Description on the product	This loan is provided for the purpose of silviculture and logging, gathering of non-wood forest products, forestry machineries and forestry infrastructure and support.	
2	Quantum	75% of the total project cost or (70%) below 50 million or (60%) above 50 million of the collateral value whichever is lower.	
3	Interest Rate	10.25%	10.50%
4	Tenure	Up to 5 Years	5-10 years
5	Eligibility	<ol style="list-style-type: none"> 1. Must be engaged in agriculture/livestock activities 2. Must be 18 years and above 	
6	Checklist	<ol style="list-style-type: none"> 1. Duly filled in application form 2. CID copy 3. 2 recent passport size photo 4. Copy of latest land certificate (lagthram) 5. NOC 6. Detail project costing of activities to be carried out 7. Copy of invoice or quotation for machinery to be purchased from authorized dealer 8. Prove of income 	

4. General Trade Loan

Sl.no	Loan Product	Details
1	Description on the product	This sector comprises of the loans provided to wholesalers and retailers for the purpose to sell any type of goods and the rendering of services incidental to the sale of these goods. The sector also includes loans provided for setting up and operation of such businesses.

2	Quantum	70%
3	Interest Rate	12.25%
4	Tenure	Maximum 5 years
5	Eligibility	Any Bhutanese individual having adequate collateral with reliable source of income.
6	Checklist	<ol style="list-style-type: none"> 1. Possess a valid Bhutanese citizenship card 2. Must be at least 18 years in age 3. Must not be declared bankrupt under bankruptcy Act of Bhutan 4. Must be with good past repayment record 5. To recent passport size photograph 6. copy of citizenship identity (CID of applicant) 7. NOC copy 8. Must hold valid trade license

5. Transport Loan

	Loan Product	Details
1	Description on the product	This sector comprises of the loans provided for the purpose of purchase of vehicles for commercial and personal use bearing the registration certificate.
2	Quantum	<ol style="list-style-type: none"> 1. 30%-Personal vehicle 2. 50%-Trucks and heavy machineries 3. 70%-Electric vehicle and passenger buses
3	Interest Rate	12.50%
4	Tenure	Maximum 5 years
5	Eligibility	Any Bhutanese individual having reliable source of income
6	Checklist	<ol style="list-style-type: none"> 1. Possess a valid Bhutanese citizenship card 2. Must be at least 18 years in age 3. Must be with good past repayment record 4. To recent passport size photograph 5. copy of citizenship identity (CID of applicant) 6. NOC copy 7. Proof of source of income 8. Copy of invoice/quotation for vehicle to be purchased from Authorized dealer

6. Housing Loan- Commercial Housing Loan

Sl.no	Loan Product	Details		
1	Description on the product	This sector comprises of the loans provided for the following purpose: i. Construction of new house/Purchase of house or flat. Ii. For the repair/renovation/reconstruction of the existing house.		
2	Quantum	1. Construction/purchase of house: 80% of Building estimates and 70% of the building estimate which exceeds 50 Million 2. Renovation: 50% of the renovation cost		
3	Tenure	5	10	30
4	Interest Rate	10.50 %	11.00 %	11.25 %
5	Eligibility	1.The Bhutanese having a land in their own name on which the construction to be carried out and 2. Must be creditworthy.		
6	Checklist	1. Possess a valid Bhutanese citizenship card		
		2. Must be at least 18 years in age		
		3. Must not be declared bankrupt under bankruptcy Act of Bhutan		
		4. Must be with good past repayment record		
		5. To recent passport size photograph		
		6. copy of citizenship identity(CID of applicant)		
		7. NOC copy		
		8. Proof of source of income		

7. Housing Loan- Home Loan

Sl.no	Loan Product	Details		
1	Description on the product	This sector comprises of the loans provided for the following purpose: i. Construction of new house/Purchase of house or flat. Ii. For the repair/renovation/reconstruction of the existing house.		
2	Quantum	1. Home Loan: 90% of Building estimate or 10 million whichever is less. 2. Renovation: 50% of the renovation cost		
3	Tenure	5	10	30
4	Interest Rate	10.00 %	10.25 %	10.50 %
5	Eligibility	1.The Bhutanese having a land in their own name on which the construction to be carried out and 2. Must be creditworthy.		
6	Checklist	1. Possess a valid Bhutanese citizenship card		
		2. Must be at least 18 years in age		
		3. Must be with good past repayment record		

	4. To recent passport size photograph
	5. copy of citizenship identity(CID of applicant)
	6. NOC copy
	7. Proof of source of income

8. Personal Loan

Sl#	Loan Product	Details
1	Description on the product	This sector comprises of the loans provided for the purpose of Personal Consumption
2	Eligibility	Any Bhutanese individual having reliable source of income
3	Quantum	70% of Collateral
4	Interest Rate	13.50%
5	Tenure	Maximum 5 years
6	Checklist	1. Possess a valid Bhutanese citizenship card
		2. Must be atleast 18 years in age
		3. Copy of Land Ownership Certificate
		4. Must be with good past repayment record
		5. To recent passport size photograph
		6. NOC copy
		7. Proof of source of income

9. Group Term Loan

Sl.no	Loan Product	Details
1	Description on the product	This sector comprises of the loans provided for the purpose of Personal Consumption
2	Quantum	maximum of Nu. 300,000.00
3	Interest Rate	10.00%
4	Tenure	Maximum 5 years
5	Eligibility	Any Bhutanese individual having reliable source of income
6	Checklist	1. Possess a valid Bhutanese citizenship card
		2. Must be atleast 18 years in age
		3. Copy of Land Ownership Certificate
		4. Must be with good past repayment record

	5. Two recent passport size photograph
	6. NOC copy
	7. Proof of source of income

10. Education Loan

Sl.no	Loan Product	Details
1	Description on the product	This sector comprises of the loans provided for the purpose of Education(studies)
2	Quantum	70% of Collateral or total fee amount whichever is less
3	Interest Rate	10.00%
4	Tenure	Maximum 5 years
5	Eligibility	Any Bhutanese individual having reliable source of income
6	Checklist	1. Possess a valid Bhutanese citizenship card
		2. Must be at least 18 years in age
		4. Must be with good past repayment record
		5. Two recent passport size photograph
		6. copy of citizenship identity(CID of applicant)
		7. NOC copy
		8. Proof of source of income
		9. Copy of asset to be mortgaged

11. Loan against Fixed Deposit

	Loan Product	Details
1	Description on the product	This sector comprises of the loans provided for the purpose of Personal use who have maintained fixed deposit with our bank
2	Quantum	90% of Fixed Deposit
3	Interest Rate	1 % higher than the Fixed deposit interest rate
4	Tenure	equivalent to Fixed deposit term
5	Eligibility	Any Bhutanese individual having reliable source of income
6	Checklist	1. Possess a valid Bhutanese citizenship card
		2. Must be at least 18 years in age
		4. Must be with good past repayment record
		5. Two recent passport size photograph
		6. copy of citizenship indentity(CID of applicant)
		7. NOC copy
		8. Proof of source of income

	9.Original copy of Fixed Deposit
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12. Community Development Loan

	Loan Product	Details
1	Description on the product	CDL is a micro loan product designed to facilitate financial inclusion of the rural farmers and other populace, particularly those who are currently limited to credit services due to non-availability of collaterals
2	Quantum	Maximum 70% of the Collateral Value
3	Interest Rate	12 %
4	Tenure	1 year on renewal basis
5	Eligibility	1.Any Bhutanese individual having reliable source of income 2.One CDL loan for one household at the time of availing the this loan provided no existing loan for same activity from bdbl or other financial service providers.
6	Checklist	1. Possess a valid Bhutanese citizenship card
		2. Must be at least 18 years in age
		4. Must be with good past repayment record
		5. Two recent passport size photograph
		6. copy of citizenship identity(CID of applicant)
		7. NOC copy
		8. Proof of source of income

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