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## PRIORITY SECTOR LENDING GUIDELINES

*(Towards Promotion of Cottage and Small Scale Industry)*

*~Integrated approach to promote access to finance through collaboration,  
coordination and consolidation of interventions of the  
government and financial institutions~*

ROYAL MONETARY AUTHORITY OF BHUTAN

December 2017



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...there are many opportunities for entrepreneurship and commercial farming in our country. In addition, our youth are educated, capable, and enthusiastic. 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... Our financial institutions have a strong sense of corporate social responsibility, and place the welfare of the people above profit making...

If our financial institutions are able to extend unstinted support to young entrepreneurs and farmers, and help in creating numerous opportunities for them, we will derive countless benefits. It will go a long way in strengthening the sovereignty and security of our country, and furthering our social policy of equity and our national objective of self-reliance.

”

His Majesty the Druk Gyalpo  
Excerpts from National Day Address in Trongsa  
17 December 2016

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## COVER NOTE

The Priority Sector Lending (PSL) Guidelines is the outcome of the vision of His Majesty the Druk Gyalpo 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. Since then, the Royal Monetary Authority of Bhutan has been working closely with several government ministries and agencies and the financial sector to translate and implement His Majesty's aspiration.

The PSL Guidelines 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 CSI sector is divided into agricultural CSI and non-agricultural CSI activities (**Box 1, page III**). 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. The Department of Cottage and Small Industry (DCSI) in the Ministry of Economic Affairs defines the CSI sector in terms of employment size and investment size, with investment size taking precedence in case of conflict. Accordingly, the PSL Guidelines define the CSI sector by investment size, with investment up to Nu. 1 million defined as "cottage" and investment size above Nu. 1 million and up to Nu. 10 million defined as "small" industry.

The Government has recognized the CSI sector as one of the five economic jewels of Bhutan. Numerous support schemes and incentives are already in place to promote the RNR sector and the CSI sector, through the Ministry of Agriculture and Forests and the DCSI, Ministry of Economic Affairs. In addition, the Government's Fiscal Incentives Act of Bhutan 2017 provides many fiscal incentives to the CSI sector. In particular, financial institutions lending to the CSI sector at preferential interest rates (i.e. rates that are below the commercial borrowing rates) are exempt from paying taxes on the income from such lending.

The PSL Guidelines 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.

The RMA Act of Bhutan 2010 empowers the RMA to prescribe the lending terms and conditions for the financial institutions towards the Government's priority sectors. The RMA Board approved the PSL Guidelines in June 2017 for implementation from **January 2018**, with a six-month preparation time. During these six months, the RMA held several consultative meetings with the financial sector and various Government agencies. The support from the Government agencies and the financial institutions has been overwhelming and the result of the engagement of key partners has been a broad-based ownership of the project which is crucial to successfully implement the Guidelines.

In particular, the RMA held several meetings with the following agencies to better understand streamline and coordinate the various interventions, regulatory clearances and processes:

- **Ministry of Agriculture and Forests**
- **Department of Cottage and Small Industry, Ministry of Economic Affairs**
- **National Environment Commission**
- **National Land Commission**
- **Bhutan Agriculture and Food Regulatory Authority**
- **Ministry of Finance**
- **Ministry of Labour and Human Resources**

The RMA also met several times with the **five commercial banks** and the **two insurance companies** jointly as well as bilaterally to take into account their concerns and feedback. In consultation with the financial institutions, the RMA has prescribed the lending targets for 2018 and the ceiling preferential lending rates for the financial sector's lending to the agricultural and non-agricultural CSIs. The financial institutions are free to compete within the prescribed preferential lending rates ceiling.

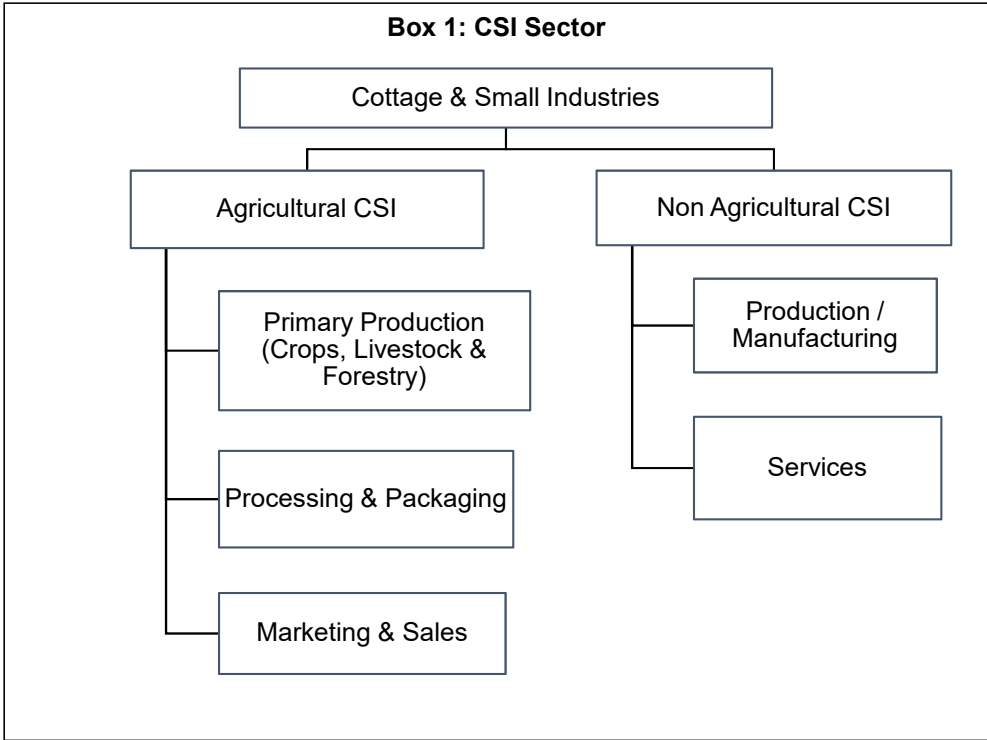
In addition, to address the issue of collateral-based lending to agriculture, the RMA requested the two insurance companies to design affordable insurance products keeping in mind broader national objectives. The PSL Guidelines prescribe mandatory insurance-based lending to agriculture (primary production) with insurance to substitute for collateral requirement.

The PSL Guidelines was also presented to the **Lhengye Zhungtshog** on 31<sup>st</sup> October 2017 and to the **National Council** on 4<sup>th</sup> December 2017.



Considering the importance of implementing the policy on the ground, representatives from the financial sector and the government agencies are also trained through a trainers’ program in priority sector lending at the **Financial Institutions Training Institute** (FITI), fully sponsored by the RMA. The first round of training was launched on 26 October 2017 by the Finance Minister with the closing ceremony graced by the Prime Minister of Bhutan. The remaining two rounds will be completed in December 2017.

Finally, a **Priority Sector Lending Council** has been formed to monitor and evaluate the implementation of the PSL Guidelines and to provide recommendation to continuously improve the Guidelines. The Council will be chaired by the RMA and comprise of representatives from all government and financial sector partners.



# **ROYAL MONETARY AUTHORITY OF BHUTAN**

## **Priority Sector Lending Guidelines**

### **1. LEGAL FRAMEWORK**

In exercise of the powers conferred by Section 8 (e) and Section 118 of the Royal Monetary Authority Act of Bhutan 2010 and Section 203 (g) of the Financial Services Act 2011, the Royal Monetary Authority of Bhutan (RMA) has formulated the Priority Sector Lending Guidelines. The Guidelines was approved by the RMA Board during its 126<sup>th</sup> meeting held on 27 June, 2017 and shall be effective from January 01, 2018.

### **2. RATIONALE AND OBJECTIVES**

The Priority Sector Lending (PSL) Guidelines is an integrated platform that will coordinate interventions from several Government agencies to stimulate the cottage and small industries (CSI) sector as an important driver of Bhutan's economic transformation through improved access to finance.

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 activities and that leverages on various Government support schemes, is being implemented in the form of the PSL Guidelines.

Successive Governments have made huge investments in basic infrastructure such as road connectivity, water supply, electricity and telecommunications. Combined with improved access to finance, the PSL Guidelines is expected to complement the Government's efforts for more inclusive growth and enable the beneficiaries to take advantage of existing infrastructure to boost their incomes and improve their livelihoods through engagement in the CSI sector. In addition, the Government also provides numerous support schemes to the CSI sector through a dedicated Department of Cottage and Small Industry under the Ministry of Economic Affairs, as well as through youth-focused entrepreneurship development programs funded by the Ministry of Labour and Human Resources, while the Ministry of Agriculture and Forests provides several subsidies and support schemes to the agriculture sector.



Integrating such interventions from the Government 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.

The PSL Guidelines organizes the CSI sector into two broad categories: **(i) Agricultural CSI** and **(ii) Non-Agricultural CSI**, while adopting a value-chain approach to financing, especially in Agricultural CSI by covering primary production (defined as agriculture proper, livestock and forestry activities) as well as other linked activities that add value to primary products through processing, packaging, marketing and sales.

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.

His Majesty's address to the country during the 109<sup>th</sup> National Day celebrations in Trongsa in 2016 articulated the opportunities for entrepreneurship and commercial farming and the role that the financial sector can play in improving access to finance for our youth and rural populace. The PSL Guidelines is the outcome of the inspiration from His Majesty's address, and a result of the joint collaboration between the Government and the financial sector.

The main objectives of the Guidelines are as follows:

- 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

While the main objective is to encourage commercially-oriented businesses in the CSI sector through the engagement of groups, cooperatives and incorporated companies, the Guidelines also recognize the importance of individuals and has given due considerations to the financing needs of the individuals.

### 3. PRIORITY SECTOR ACTIVITIES UNDER THE CSI SECTOR

- 1.1 *Cottage and Small Industry* has been defined in line with the definition of the Ministry of Economic Affairs, with investment size up to Nu.1 million categorized as “cottage” and investment size above Nu. 1 million but up to Nu. 10 million categorized as “small” industry. CSIs must be registered with the Department of Cottage and Small Industry and can be agricultural or non-agricultural CSI.
- 1.2 The Guidelines shall apply to products identified under two CSI categories: (i) Agricultural CSIs; and (ii) Non-Agricultural CSIs.
- 1.3 The broad types of activities and the detailed list of priority products covered under the above categories are appended as *Annex 1*. The RMA will review and update the list periodically in consultation with the Government through the PSL Council.

### 4. CONDITIONS RELATED TO FINANCING OF PSL ACTIVITIES

#### 4.1 Rate of Interest and Charges

- 4.1.1 The Government’s Fiscal Incentives 2017 provide for the waiver of income tax on interest earned by the financial institutions through preferential lending to CSIs. Accordingly, the RMA will prescribe a ceiling Preferential Interest Rate linked to the Minimum Lending Rate (MLR) for loans to priority sector activities. Financial institutions can compete on interest rates within the prescribed ceiling and be eligible for the fiscal incentives. The ceiling rates for the preferential lending rates are appended in *Annex 3* and are subject to periodic reviews.
- 4.1.2 Financial institutions will not charge any fees on priority sector loan amounts that are below Nu. 0.5 million.

#### 4.2 Insurance, Collateral and Other Requirements

- 4.2.1 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.
- 4.2.2 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.

- 4.2.3 Loans may be granted against pledge or hypothecation of assets of the borrower.
- 4.2.4 Insurance companies shall ensure that adequate insurance products are available for the priority sector activities.
- 4.2.5 The modality of PSL-insurance is appended as *Annex 4*.
- 4.2.6 Priority sector borrowers must produce Credit Information Report from the Credit Information Bureau of Bhutan.
- 4.2.7 Priority sector borrowers must ensure timely payment of insurance premiums/renewals, where applicable.

#### **4.3 Priority Sector Lending Targets**

- 4.3.1 Annual incremental priority sector lending targets will be computed in consultation with the financial institutions. The targets, which will be reviewed annually, are appended as *Annex 3*.
- 4.3.2 Financial institutions must review their priority sector lending performance on a quarterly basis and attempt to meet the prescribed targets by the end of the year.
- 4.3.3 Financial institutions having any shortfalls in meeting their incremental priority sector targets may allocate their funds for on-lending to a micro-finance institution registered with the RMA or to the Bhutan Development Bank Limited (for agricultural CSIs).

#### **4.4 Conditions Related to On-lending**

- 4.4.1 On-lending refers to secured loans sanctioned by financial institutions to eligible microfinance institutions (MFIs) registered/licensed by the RMA or to the BDBL for onward lending to their clients, which are negotiated bilaterally between the financial institutions and MFIs/BDBL for the purpose of creating priority sector assets as identified in this Guideline.
- 4.4.2 Financial institutions will be fully accountable for any on-lending to MFIs/BDBL and shall ensure that the following criteria are fulfilled by the MFIs/BDBL:

- 4.1.3 Loans disbursed by the MFIs/BDBL in the targeted priority sector must comply with the provisions of this Guideline.
- 4.1.4 The average maturity of priority sector assets thus created by the MFIs/BDBL must be broadly co-terminus with maturity of loans of the financial institutions.
- 4.1.5 On-lending to MFIs/BDBL must comply with the Prudential Regulation 2016 and other regulatory requirements of the RMA, and amendments thereof.

## **5. ELIGIBILITY FOR FINANCING**

- 5.1 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.
- 5.2 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.
- 5.3 Groups and/or cooperatives wishing to avail Agricultural CSI related financing must register with the MOAF.
- 5.4 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.

## **6. INSTITUTIONAL COORDINATION**

### **6.1 Financial Institution's Special Credit Channels for Priority Sector Activities**

- 6.1.1 The financial institutions will ensure that loans to the priority sector activities are serviced through Special Credit Channels that provide prospective PSL clients with all the requisite information and support as well as coordination with the Government's special technical window.

- 6.1.2 The financial institutions will be responsible for organizing the set-up and operations of their respective special credit channels.

## **6.2 Special Technical Window Services (TWS) of the Government**

- 6.2.1 All priority sector project proposals shall be routed through the Special Technical Window Services (TWS) of the Government. The TWS will coordinate the interventions and assistance of the Dzongkhag administration, local leaders, MOAF, DCSI (MOEA), MoLHR, National Environment Commission, the National Land Commission, the Bhutan Agriculture and Food Regulatory Authority (BAFRA) and any other relevant authorities to provide technical clearances to potential PSL clients.
- 6.2.2 The TWS may review and assess project proposals and assist, advise and guide clients in developing a commercially feasible project proposal, where it has the capacity to do so.
- 6.2.3 The TWS will also educate and assist priority clients in availing relevant Government support schemes (Refer to provision 6.3).
- 6.2.4 A detailed Standard Operating Procedure will be developed to outline the terms of reference for the operation of the TWS and coordination with the financial institutions .

## **6.3 Additional Support from the Government**

- 6.3.1 All priority sector clients will be eligible for Government support and subsidies that are provided to the CSI sector whether agricultural or non-agricultural. Some of the existing support schemes are elaborated below (Refer to **Annex 5** for more details).
- 6.3.2 The Ministry of Agriculture and Forests (MoAF) provides various support schemes such as distribution and transportation of inputs, supply of machinaries, tools and equipment, construction of support infrastructure and so on under different programs to the renewable natural resources sector. These scheme are provided either free of cost or on a cost-sharing basis.
- 6.3.3 The Ministry of Economic Affairs (MoEA) provides various schemes and grants through the Department of Cottage and Small Scale Industries related to purchase or core plants and machinery through the

Rural Industries Development Scheme, incubation facilities, letter of interest for State Reserve Forest land, as well as enterprise awards and so on.

- 1.3.4 The ***Ministry of labour and Human Resources (MoLHR)*** provides various entrepreneurship and business development courses targeting youths. The MOLHR ensure that potential entrepreneurs trained through such programs are aware of and have access to preferential lending as stipulated in the PSL Guidelines, while also providing follow-up trainings to PSL clients who have successfully secured financing through the PSL.
- 1.3.5 The ***National Land Commission (NLC)*** has embarked on various initiatives in line with the vision and inspiration from the Golden Throne towards freeing land for youth employment, productive farming, and other productive economic purposes. In particular, the ***Use Right System (URS)*** for land use whereby user right certificates will be given to beneficiaries to use State land for productive purposes will greatly complement the objectives of the PSL to promote commercially-oriented and enterprising use of land.
- 1.3.6 The ***National Environment Commission (NEC)*** is continuously monitoring and improving the turn-around time in providing the required environmental clearances while the authority to assess and clear a number of requirements have also been delegated to various other agencies.
- 1.3.7 The ***Ministry of Finance (MoF)*** provides a broad range of fiscal incentives under the Government's Fiscal Incentives Act 2017.

## **6.4 Priority Sector Lending Council**

- 6.4.1 A Priority Sector Lending Council will be established to periodically review and coordinate government interventions and the role of the financial sector to ensure the success and relevance of the policy objectives of priority sector lending.
- 6.4.2 The PSL Council will consist of representatives from the RMA, MOAF, MOEA, MOLHR, NEC, NLC, BAFRA and other relevant Government agencies and the Financial Institutions. The RMA shall



act as the Secretariat for the PSL Council while the Deputy Governor of the RMA will chair the Council. The PSL Council will meet at least on a quarterly basis.

## **7. OTHER OPERATIONAL PROCEDURES FOR PRIORITY SECTOR LOANS**

### **7.1 Record of information**

A separate register/electronic record should be maintained by the financial institutions, wherein the date of receipt, sanction/rejection/disbursement with reasons thereof, etc., should be recorded. The register/electronic record should be made available to all inspecting agencies as required by law.

### **7.2 Issue of Acknowledgement of Loan Application**

Financial institutions must provide acknowledgement for loan applications received under priority sector loans. Financial institutions must also prescribe a time limit within which the final decision related to the loan application is communicated in writing to the applicants.

### **7.3 Monitoring and Reporting**

- 7.3.1 Financial institutions must ensure that all loans extended for priority sector activities are for approved purposes and the end use must be continuously monitored.
- 7.3.2 Financial institutions must put in place proper check and balance for all priority sector lending operations through its credit appraisal system.
- 7.3.3 Data on priority sector advances need to be furnished by the financial institutions to the Financial Regulation and Supervision Department of the RMA on a quarterly basis. The quarterly reporting format is attached as **Annex 6**. The incremental priority sector targets must be met by the financial institutions at the end of the year.
- 7.3.4 A loan granted for Agricultural CSIs will be treated as Non-Performing Loans, if the installment is due but remains unpaid for 91 days or more after one year of sanctioning of the loan.

## 8. HUMAN RESOURCES AND CAPACITY BUILDING

- 8.1 The Financial Institutions Training Institute (FITI) in collaboration with the RMA will organize short term trainings and courses to nominated officials from the financial institutions and relevant government agencies on formulation and assessment of project proposals, customer care, coordination and other topical issues related to priority sector lending. These officials are expected to ensure the internal and inter-agency coordination required for the successful operation of the Government's special technical windows and the FI's special credit channels. Officers trained by FITI are also expected to train other staff in their respective agencies where needed.
- 8.2 The MOLHR will conduct trainings for PSL clients on the financial, management and other aspects of setting up and successfully operating businesses.

## 9. APPLICABILITY

This Guidelines shall apply to all financial institutions licensed to operate in Bhutan by the RMA as well as to priority sector borrowers and relevant Government agencies. The Guidelines shall complement the Economic Development Policy 2016 and Fiscal Incentives of the Government.

## 10. AMENDMENTS

The RMA shall review the Priority Sector Lending Guidelines periodically based on the changing socio-economic development needs of the country.



(Dasho Penjore)

**Governor**

Royal Monetary Authority of Bhutan

## ANNEX 1: Broad Activities and List of Priority Products

The *value-chain approach to financing* will provide finance to all activities in the value-chain either as independent activities or as an *integrated project* that involves more than one activity. The PSL loans will be for new projects as well as for business expansion.

AGRICULTURAL CSIs		
Primary Production	Processing & Packaging	Marketing & Sales
<p>Activities will cover agriculture proper, livestock and forestry; and related infrastructure &amp; allied activities as follows:</p> <ul style="list-style-type: none"> <li>i) Cultivation of agricultural crops, livestock farming and forestry.</li> <li>ii) Production of farming inputs including fertilizers, pesticides, seeds and seedlings.</li> <li>iii) Purchase of farming machinery and equipment.</li> <li>iv) Purchase of green house, irrigation, fencing and other farm development activities</li> <li>v) Purchase/production of animal feeds and billets</li> </ul>	<p>Activities will cover related infrastructure &amp; allied activities as follows:</p> <ul style="list-style-type: none"> <li>i) Construction of cold storage facilities (such as warehouses, cold chain facilities, go-downs and silos) for storing agricultural produce/ products.</li> <li>ii) Purchase of agricultural machinery/ equipment for food/agro processing and packaging</li> <li>iii) Production of animal feeds and billets</li> </ul>	<p>Activities will cover related infrastructure &amp; allied activities as follows:</p> <ul style="list-style-type: none"> <li>i) Construction of cold storage facilities (such as warehouses, cold chain facilities, go-downs and silos) for storing agricultural produce/ products.</li> <li>ii) Purchase of farm utility transport vehicles</li> <li>iii) Packaging, labeling, advertisement and distribution of products</li> </ul>

<p>List of Priority Products under Agricultural CSI: Priority activities will include all products listed here as well as value additions to these products under the broad activity categories identified above. This list is indicative and subject to periodic review.</p>	<p><b>1. Agricultural Crops</b></p> <ul style="list-style-type: none"> <li>1.1. Cereals: rice, buckwheat, maize, and quinoa</li> <li>1.2. Oil seed crops (sunflower, mustard, groundnut and soya beans)</li> <li>1.3. Horticulture <ul style="list-style-type: none"> <li>1.3.0.1. Vegetables: Chili, onion, tomatoes, beans, cauliflower, asparagus, peas, broccoli, carrots and potatoes;</li> <li>1.3.0.2. Fruits and Nuts: Apple, pear, persimmon, avocado, kiwi, litchi, banana, passion fruits, strawberry, blueberry, raspberry, dragon fruit, pineapple, walnut, pecan, mangoes and citrus</li> <li>1.3.0.3. Floriculture</li> <li>1.3.0.4. Medicinal and aromatic plants (MAPs): Cardamom, ginger, turmeric, herbs, garlic</li> <li>1.3.0.5. Mushrooms: Shiitake and oyster</li> </ul> </li> <li>1.4. Legumes and pulses: kidney beans, peas and lentils</li> <li>1.5. Plantation crops: tea, coffee and green tea</li> <li>1.6. Nurseries (in horticulture and floriculture)</li> </ul>	<p><b>2. Livestock Farming</b></p> <ul style="list-style-type: none"> <li>2.1. Dairy</li> <li>2.2. Poultry: broiler, layer and turkey farming</li> <li>2.3. Piggery</li> <li>2.4. Fishery (cold water and warm water)</li> <li>2.5. Sheep farming</li> <li>2.6. Goat farming</li> <li>2.7. Rabbit farming</li> <li>2.8. Apiculture</li> <li>2.9. Allied activities (Green fodder/feed production, meat and dairy processing)</li> </ul> <p><b>3. Forestry Activities</b></p> <ul style="list-style-type: none"> <li>1.1 Private and community forest (including nurseries)</li> <li>1.2 Cane and bamboo</li> <li>1.3 MAPS (including cordyceps)</li> <li>1.4 Incense</li> <li>1.5 Traditional paper</li> <li>1.6 Cosmetics and fragrances (including spa products and essential oils)</li> <li>1.7 Integrated wood-based industries (including sawmills)</li> <li>1.8 Wood-based industries</li> </ul>
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NON-AGRICULTURAL CSIs		
List of Priority Products under Non-Agricultural CSI: This list is indicative and subject to periodic review.	<b>1. Production / Manufacturing</b> <ol style="list-style-type: none"> <li>1.1. Mineral water</li> <li>1.2. Mineral based industries (ceramics and pottery)</li> <li>1.3. Zorig Chusum</li> <li>1.4. Engraving and polishing of stones</li> <li>1.5. Construction materials (excluding mining, quarrying and stone crushing)               <ol style="list-style-type: none"> <li>1.5.1 Bricks/Hollow blocks/tiles</li> <li>1.5.2 Hume pipes</li> </ol> </li> <li>1.6. Textiles, clothing and apparels including handicrafts</li> <li>1.7. Footwear</li> <li>1.8. Socks</li> <li>1.9. Audio-visual production and creative arts (animations)</li> <li>1.10. Pharmaceuticals and Neuro-ceuticals</li> <li>1.11. Educational materials</li> <li>1.12. Green industries</li> <li>1.13. Renewable energy (wind, solar and bio gas)</li> </ol>	<b>2. Services</b> <ol style="list-style-type: none"> <li>2.1 Schools</li> <li>2.2 Early Childhood Care and Developments (ECCDs)</li> <li>2.3 Health clinics and diagnostic centers</li> <li>2.4 Research and development centers</li> <li>2.5 Cold storage and warehouse</li> <li>2.6 Waste management services</li> <li>2.7 Recreation, health and wellness centers</li> <li>2.8 Indoor games and sporting centers</li> <li>2.9 ICT (IT and ITES)</li> <li>2.10 Traditional performing arts</li> <li>2.11 Cleaning services</li> <li>2.12 MFIs and CSI Banks</li> <li>2.13 Automobile workshops in priority areas as determined by the DCSI</li> <li>2.14 Cobbler and hair cutting services</li> <li>2.15 Labour saving construction services</li> <li>2.16 Tradesman-ship services such as plumbing and electrician services</li> <li>2.17 Mule transport services for tourism</li> </ol>

## ANNEX 2: PSL Lending Parameters

Type of Borrower	Eligible Activities	Investment Size / Loan Limit	Loan Tenure (Max) & Gestation (Min)	Collateral Requirement	Max Debt Financing Available	Preferential interest rate for 2018 – MAX
<b>(1) For Primary Production under Agricultural CSI:</b>						
Individuals	All PSL activities	Up to Nu. 0.5 million	5 years (T) 1 year (G)	No Mandatory Insurance	100%	8.0%
Groups & Cooperatives	All PSL activities	Up to Nu.10 million	5 years (T) 1 year (G)	No Mandatory Insurance	100%	8.0%
Incorporated Companies	All PSL activities	Up to Nu.10 million	5 years (T) 1 year (G)	No Mandatory Insurance	100%	8.0%
<b>(2) For Processing &amp; Packaging and Marketing &amp; Sales or Integrated (i.e. involving more than one activity) under Agricultural CSI</b>						
<b>(3) For Non-agricultural CSI</b>						
Individuals Groups & Cooperatives Incorporated Companies	All PSL activities	Up to Nu. 10 million	15 years (T) Gestation to be determined depending on type of activity / business	Cash flow / project financing Mandatory fire & theft insurance	70%	8.5%



## **ANNEX 3: PSL Targets<sup>1</sup> and Preferential Interest Rates**

### **2018 Targets:**

Incremental targets have been set for 2018 based on each financial institution's loan exposure to the priority sector activities as of end-June 2017 as follows:

1. Lending to Agricultural CSIs (for all banks except BDBL): 1 percent of total loan portfolio
2. Lending to Non-Agricultural CSIs (for all banks and insurance companies): Additional 1 percentage point on the exposure as of end-June 2017.

### **Preferential Interest Rates for 2018:**

1. Preferential interest rate ceiling for lending to Primary Production under Agricultural CSI: 8%
2. Preferential interest rate ceiling for lending to Non-agricultural CSI & value addition in Agricultural CSI: 8.5%

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<sup>1</sup> The BDBL is exempted from agricultural CSI lending target, since the BDBL already has the mandate to lend to agricultural sectors, and act as an additional on-lending channel for banks having difficulty in meeting their agricultural CSI lending targets. The insurance companies are also exempted from agricultural lending targets since their contributions will be in the form of affordable insurance products for agricultural CSI businesses.

## ANNEX 4: Modality for Insurance for PSL

The two insurance companies (RICBL and BIL) will establish co-insurance business with the share of 80:20 for all loans to the PSL activities and the RICBL will be the lead insurer. The insurance companies will execute a formal agreement as co-insurers articulating the terms and conditions of the co-insurance modality. All loans availed under the PSL shall be compulsorily insured by the financial institutions providing loan.

### 1. LIVESTOCK RISK PROTECTION INSURANCE

Animal	Purpose	Premium rate as % of Sum Insured
<b>Existing Cattle Insurance Policy with 50 percent discount</b>		
Cattle	Draft, Diary, Breeder and Fattener	10%
<b>New Insurance Products for Priority Sector Lending</b>		
Poultry	Broiler	10%
	Layer	
	Turkey	
Piggery	Breeder, Meat, Fattener	5%
Fishery	Meat	6.5%
Sheep/Goat	Breeder, Fattener	5%
Rabbit	Meat	7%
Apiculture	Honey Production	3%

- 2. Crops and horticultural Plants Insurance Scheme:** The annual premium for crop is 2.9% on the sum insured ( i.e for every Nu. 100,000 worth of crop, the premium payable will be Nu. 2900/- per annum). All crops under Priority Sector Lending are covered for insurance.
- 3. Insurance for non-Agricultural CSI:** The insurance of non-agricultural CSI will be insured under existing fire or industrial insurance policy and the premium will depend on the type of processing unit, the structure, the type of stocks and machines, the location, the risks assessment etc.

## **ANNEX 5: List of Government Support Schemes**

### **I. Department of Cottage and Small Industry, Ministry of Economic Affairs**

1. Import license recommendation based on hard currency earnings (CSIs catering only to domestic market can import upto value of USD 50000 per annum without having to meet the Foreign Exchange requirement)
2. Business visa recommendation
3. Letter of Interest for SRF land
4. Schemes/Grants: (i) Rural Industries Development Scheme (to provide grant for purchase of core plants and machinery) (ii) Bhutan Enterprise Awards and (iii) Incubation centre facilities
5. Training: Includes both hard and soft trainings
6. Fiscal incentives

### **II. Ministry of Agriculture and Forests**

#### **A. Agriculture Sector**

1. All types of inputs such as seeds, seedlings, fertilizers, equipment, etc for social and equity reason at any share of cost or free distribution
2. Transportation of agriculture inputs
3. Promotional programmes for demonstration or introduction of new technologies, High Yielding Variety seeds and seedlings, insecticides and fertilizers
4. Commission Rate to the “Sales and Service Representatives” through the Dzongkhag Administration
5. Sale of bio-chemicals and complete fertilizers
6. Supply of agriculture machines, tools and equipment
7. Institutional and financial assistance to private sectors
8. Support to the farmers during natural disaster (seeds)
9. Any incentives paid for promotion of production such as organic, commercialization, methods of production, development of processing, cottage industries and marketing
10. Demonstration and promotion for electric fencing with labor contributions from the community
11. Any other support either in cash or kind
12. Construction of farm roads
13. Construction and renovation of irrigation channel
14. Electric fencing

**B. Livestock Sector:** Cost sharing schemes for livestock production such as dairy, piggyery, poultry etc.

1. Fiscal incentives on procuring processing equipment and other related infrastructure
2. Any grant as start-up capital, fiscal or infrastructures
3. Incentives both in cash and kind to cooperatives, farmers group or individual for livestock productions, processing and marketing
4. Free distribution of inputs for any livestock development programme
5. Guarantee cash compensations for livestock losses to disease outbreaks
6. Support the cost of livestock insurance on accidental death
7. Livestock insurance and compensation during the culling programme for disease outbreak

**C. Forestry Sector**

- 1) Rural Timber and special subsidy for particular tree species if any
- 2) Support for electric fencing for wildlife conflict management
- 3) All forests inputs such as timber, except poles, sand and boulders which does not have price difference.
- 4) Incentives to wood and non-wood processing units
- 5) Free distribution of seeds and seedlings to all individuals and community groups
- 6) Input supply in parks as direct grants on activities that supply ecological products and services (e.g. CGI roofing materials)
- 7) Any transportation of forest inputs
- 8) Incentives to Community forestry groups or any other forestry groups
- 9) Subsidy on NWFPs if any.

**D. Agricultural Marketing and Cooperatives:**

1. Subsidized transport grants to farmer organization to acquire appropriate means of rural transport to outputs markets (through MSP)
2. Supporting farmers' organizations and associations, especially with a view to improving marketing, sharing of transport costs, micro-credit mechanisms, etc.
3. Support to set farmers shop, firms or enterprises
4. Tax holidays if any
5. Construction of Marketing sheds, and sale counters, roadside outlets, farm shops, BCoop Shops, cold storage and other collection sheds.

**E. School Agriculture Programme:** The selected schools under this programme are provided with free seeds, seedlings, farm tools, green house, compost sheds, piglets, pullets, fingerlings, cattle sheds, etc.

- III. National Environmental Commission:** The exhaustive List of Activities that have been delegated to different authorities to screen and issue Environmental Clearance and the List of Activities not required for such Environmental Clearance are highlighted in the Manual published and issued by the National Environmental Commission in 2016.
- IV. National Land Commission:** Access to government land for promoting CSI activities and employment generation will be governed by the Strategy for Land Use Right System and Land Lease Rules and Regulation of the National Land Commission.
- V. Ministry of Finance:** The “Rules on the Fiscal Incentives Act of Bhutan 2017” contain the exhaustive list of fiscal incentives provided to borrowers as well as the financial institutions.

## ANNEX 6: Quarterly Reporting Form for Priority Sector Lending

PSL Activities by Borrower	No. of Clients /Accounts (Segregated by New and Business Expansion)	Sanctioned Amount	Disbursed Amount	Outstanding Amount
<b><u>Agricultural CSIs</u></b>  <b>I. Primary Production</b> a) Individuals b) Group and Cooperatives c) Incorporated Companies <b>II. Processing and Packaging</b> a) Individuals b) Group and Cooperatives c) Incorporated Companies <b>III. Marketing and Sales</b> a) Individuals b) Group and Cooperatives c) Incorporated Companies <b>IV. Integrated Projects</b> <b>(combination of more than one of the above)</b> a) Individuals b) Group and Cooperatives c) Incorporated Companies				



PSL Activities by Borrower	No. of Clients /Accounts (Segregated by New and Business Expansion)	Sanctioned Amount	Disbursed Amount	Outstanding Amount
<u><b>Non-Agricultural CSIs</b></u> <b>I. Production and Manufacturing</b> a) Individuals b) Group and Cooperatives c) Incorporated Companies <b>II. Services</b> a) Individuals b) Group and Cooperatives c) Incorporated Companies				

