

4. Moneylenders in Bhutan – *Role in Financing Microenterprises*

4.1 Overview of the Informal Financial System

In addition to availing finance from the financial institutions, entrepreneurs frequently access some from private moneylenders and indigenous bankers. Though a system of financing is in vogue today, it is pestered by a host of problems (Rhyne & Otero 1994)¹⁶⁰. Financing problems not only differ according to the characteristics of the small establishments, but also vary depending on the stage of development, type of capital required, existing policy framework, complexities in lending processes and others. Where there is lack of familiarity of financial institutes with microenterprises, it is difficult and expensive for a formal lender to identify the risks of the projects, especially when documentation is deficient (Fischer 1995)¹⁶¹.

In all developing countries, the share of the informal sector in credit/finance is higher than 50% on average (Pareek, 1978)¹⁶². Even in a favourable situation like Bhutan where the FIs have tried their best and the government has been supportive in the credit delivery system, it is seen that the share of informal financial market is as high as 30% excluding own savings. Interestingly those MEs, which have received loans from FIs, also have accessed MLs and friends/relatives. Here again, it is to be reiterated that the credit/loans from friends and relatives are not free, a nominal average interest charge of 37% (as compared to the average interest rate of informal sector at 88%) per annum is levied (see table 4.1.B in the appendix). As already stated earlier, the money-lending business is predominant in Bhutan as well. Their role is very important for the growth of microenterprises in Bhutan. The informal private money market is fragmented and has very weak base due to its illegality and is inadequate, in addition to high interest rates charged. The capital available from private moneylenders, for such purposes, is limited as well. Money-lending business in the southern part of the country is more organised as compared to other parts of the country. The Indian moneylenders visit the rural people on the bordering towns of Bhutan regularly and learn about the needs of villages and their problems. Their visits to the houses of those farmers who are in problem are well calculated. MLs discuss problems of the households and offer their advice with a business motive for themselves. In other parts of the country, lending is more demand-based; the needy go to the MLs. It is observed that despite the lack of financial intermediation, the MLs play a very important role in rural life: distinct private money-lending and borrowing culture has set in. As the business is illegal and the cultural barrier is strong, it will be quite impossible to break this practice. Here, are few statements of MLs in relation to their business. "Money-lending is a good business, you make 100% profit. If you have money, there is a big market. It

is better to lend in smaller amounts as you can serve more borrowers and the risk is less". The current operating system of moneylenders in Bhutan is discussed in the following sections.

4.2 Objective and Scope

In financial intermediation, the informal sector, especially the moneylenders (MLs) has played an important role. Many studies, Aleem (1993)¹⁶³, Hossain (1988)¹⁶⁴, Siamwalla et al (1993)¹⁶⁵, Hook (1995)¹⁶⁶ and others have brought up repeatedly the issues of MLs in the microfinance and their weaknesses/interest rates charged, but none have published any detail studies on it. This chapter explicitly details the study made on the moneylenders and tries to highlight the long belief on moneylenders and their operations. It analyses the operating system, client relation, interest rates, capital availability. The objectives of this chapter are to:

- a) see how moneylenders operate in the market;
- b) analyse why money-lending is more sought after by borrowers than banking despite the very high interest rates charged by moneylenders; and
- c) assess the problems of moneylenders, how they rank customers/documents, lend, recover, etc.

4.3 Money-Lending Business in Bhutan

The study on moneylenders' business in Bhutan has been conducted on the basis of the convenience sample survey, as explained under methodology. However, the details on description of sampling procedure and samples are laid down in the following section.

Money-lending business is older than money on earth. It possibly began with the concept of lending grains to poorer farmers for higher returns: A richer farmer would loan seed-crops to a poorer section of the farmers on the agreement that after the first harvest, he would return with at least triple the quantity borrowed. When money came in the market, it mostly replaced by grain. However, in many developing countries, this practice with grains still prevails. Bhutan is no exception; the practice with seed-crops is still prevalent in southern parts of the country. With advancement in research, high-grade seeds are available in the market; therefore, more of the farmers go for borrowing money from the moneylenders to purchase these seeds. Similarly, the MEs who need working capital at each stage in the cycle of business operation and have less access to credit facilities, borrow from moneylenders.

Today money-lending business is perceived as very successful business. Even government employees with rural postings are involved in this business. An employee claimed that he earned twice his salary

on average per month by lending money with the small capital he had saved over the years. Today, he has a capital of Nu 200,000 for lending purposes and earns with it a maximum of hundred percent each year. He started the business after a person approached him for short term loan of Nu 10,000 with an offer to pay back within a month with Nu 10 per hundred. He said it was a successful start and people started to come to him. Later he realised that the market charged even Nu 15 per hundred per month, but he remained with Nu 10 per hundred to be fair to the borrowers. The person did not want to be interviewed with a formal questionnaire and the information received was during an informal gathering. For this information, the surveyor had to promise him that he would not be identified.

The situation of money-lending business has started not through supply driven approach; it has mostly begun on the demand/need basis. Bhutan still has very limited financial service provision catering to all parts of the country. Savings in most of the rural areas are in material terms (unproductive such as gold, silver, etc. and rather perishable items such as animals). An example: some of the rural areas produce abundant of food grains especially maize and a large part of it is turned into local brew, which brings social distress and health hazards. The main reason is the low access to market due to the lack infrastructure especially road network (which is presently about 3600 km that is very limited for a country as a whole). In this situation, the informal money market still flourishes and plays an important role in the Bhutanese economy.

4.3.1 Description of Sample

The sampling was done on convenience from those areas where the data for MEs were collected. The names and address of the moneylenders were derived from mostly friends and MEs. The questionnaire for MLs was also pre-tested with two moneylenders; one a monk and one a lady, who were excluded during the survey of 31 MLs. Not all whose names were disclosed (45 MLs) by MEs wanted to be identified as moneylenders, but 31 of them across the country did finally agree to provide information/data. Money-lending, in Bhutan, is unethical and illegal in the eyes of law. Therefore, MLs do not disclose themselves nor do they accept that they do the business. They had to be taken into confidence by promising to keep their names and addresses a secret.

Chapter 4 is based on the 31 convenience samples as detailed in table 4.1.A in the appendix. All seven regions, at least with representation of one ML, are covered by the samples. Northwest has the highest coverage of 18 MLs, followed by southwest 5, north-central 2, south-central 2, southeast 1, northeast 2, and north-extreme 1. Under the available size of the capital, 11 are below Nu 100,000, 8 are between Nu 100,001 and Nu 300,000, 4 are between Nu 300,001 and Nu 500,000, 4 are between Nu 500,001 and Nu 700,000, and 4 are above Nu 700,001 (between Nu. 1million and Nu 4 million). The

average capital available for lending stands at Nu 500,484 per ML. Capitals of those MLs in industrial and urban regions are much higher than those in rural settings are. The MLs business age is varied indicating that money-lending began in Bhutan a long time ago. A few of them have started business recently, while others have taken it over from their parents. It is interesting to note that matured people above the age of 30 years take up the ML business. On an average, each moneylender serves about 14 clients each year. All confirmed that the business is lucrative and the calculation shows that they earn on average about 86% of the total income from the money-lending business itself. It is also interesting to note that MLs have other sources of income.

4.3.2 Reasons and Circumstances for Money-Lending in Bhutan

During the survey of MLs, the reasons for starting the money-lending business was asked independently of the statements set in the questionnaire. Some of the reasons assigned were: little or no banking facilities, borrowers sighed away from bankers because of high security/collateral requirements by the financial system and the approach/procedures with them were/are difficult, the money lending business started by chance as borrowers approached for money, and learnt the trade from others as being a profitable.

The discussions of the preceding paragraph can be confirmed with table 4.3.A below that has been established based on the survey of 31 MLs. Respondents were asked to tick yes or no to the five choices (which were suggestive and not exhaustive) and the result has been put in the table below with four columns; serial no., possible reasons why or how the business may have started, responses and percentage of responses to each statement. The table is established to find out the reasons or circumstances for money lending in Bhutan.

Table 4.3.A: Some reasons for and circumstances in which moneylenders started their business

Sl. No.	Responses from 31 moneylenders interviewed	Yes	Percent
1	It started all by chance when people started to approach me for money	3	10
2	Learnt through others that money lending was a profitable business and copied it	5	16
3	The richer person in the community is often approached for money and it becomes the business	10	32
4	Ancestral business (no banks then)	5	16
5	People who needed money were reluctant to approach the banks and turned to me	8	26
		31	100

Source: Personal Survey

Of the 31 MLs, 32% of the MLs said that community is interdependent and others often approach the richer family in the community for monetary assistance and thus the former become moneylenders. This response can be supported by reasoning that there were no banks when the money-lending business started. 26% of the respondents said that people sighed away from the banks and came to

them because bankers needed high security for lending and their approach/procedures were difficult which the money-lending business took advantage of. 16% each of the MLs said that either they learnt the business through other MLs or they carried on their ancestral business. The rest of 10% of the MLs started their business all by chance when the people approached them for money. During the survey of MLs (once they accepted to be interviewed), they freely voiced their feelings. A few of their statements have been recorded as they tried to express themselves; "Law should not forbid money-lending but make it a legal business". "Law should reduce the lending procedure of the banks". "If bankers can not help borrowers, why should law forbid money-lending, we are helping the needy". "Law is blind; it sees only people at the higher society and they do not let the poor earn". These statements indicate that MLs know that the money-lending business is illegal in the eyes of the law yet it is already deeply set in the society. The money-lending business is closely knit with the community/society in Bhutan. Borrowers have to be trusted. Each ML creates a tiger territory of his/her own. He/she also becomes an influential person in the community/society. The community/society cannot stand against him/her because it feels dependent on MLs. Whatever, it is clear that there is a weak financial outreach service in the country. Today, money-lending business is set deep in the informal marketing system and it will be hard to get rid of it.

In relation to one of the reasoning of the MLs why the business of lending money started in Bhutan, one of the surveyors recorded a case study here under. The surveyor himself was buying a piece of land in Thimphu, capital of Bhutan. He was short of Nu 30,000. He evaluated the options of going to the bank. He knew that it would take him more than a week before he could get that amount out of the bank because of the formalities that he was asked to fulfil at the bank. The land deed had to be completed within a week because the seller wanted money desperately and he had another person ready with the money to buy the same piece of land. The surveyor had one option left and that was to approach a moneylender. He talked to a friend who had a friend moneylender, but did not want to be identified as surveyor. In the evening, the friend arrived home with the money and the condition was that the surveyor repaid an amount of Nu 35,000 (with interest of Nu 5,000) by end of one month. The surveyor accepted the deal to pay the sum and asked her what papers he would need to prepare and sign. To his surprise, the friend calculated a date exactly one month later and said, "I will be here on 14th March to collect the money for the ML. Have the money ready as I have promised the lender".

The following section shall throw light on how much capital-money the moneylenders hold and how they serve microenterprises.

4.4 Moneylenders' Capital and their Microfinance Service to Microenterprises

4.4.1 Moneylenders' Capital - *A Bird's Eye View*

The moneylenders' capital is said to be often inadequate and the informal market is highly distorted (Rhyne and Otero, 1991)¹⁶⁷. To get an overview of the MLs' capital, table 4.4.A below is prepared from the details in table 4.1.A in the appendix. The table lays region-wise the capital of MLs in five columns: regions, number of MLs, average capital per ML per region, total capital per region, and average interest rates also per region. The table has been established to find out how much capital each ML holds on average. This helps further understanding of the role of MLs in the microfinance/credit of MEs.

Regions	Number of Moneylenders	Average Capital available per Moneylender	Total Capital	Average Interest in %
Northwest	18	642,500	11,565,000	84
Southwest	5	430,000	2,150,000	114
North-central	2	350,000	700,000	102
South-central	2	100,000	200,000	69
Southeast	1	600,000	600,000	72
Northeast	2	100,000	200,000	85
North-extreme	1	100,000	100,000	72
Average		500,483.87		

Source: Personal Survey

31 MLs who were surveyed had a total capital of Nu 15,515,000 for lending to the ME borrowers. The interest rates differed from place to place. The table above indicates that the MLs in the northwest, southeast, southwest and north-central region have more capital than other regions. Incidentally, these regions are also better served by banking facilities than other regions because they fall under industrial regions. We cannot derive anything concrete with low representation of samples in many of the regions, which are less than 2, but one thing is clear: that MLs are not necessarily rural based, they are booming also where there are financial facilities and in industrial areas. If the samples were large enough over 18 each per regions, it could have been that the average interest rate would have come to be similar in all the regions. On the other hand, we can also conclude that the capital available with MLs is rather low averaging at about Nu 500,000 each. There are a number of issues tied to low capital for lending; quick return of lending (meaning shorter term loans), and low amounts for lending available with every increase in clients served.

4.4.2 Microenterprises served by the Moneylenders

Based on the data collected from the questionnaire on clients served, total number of requests received by MLs, and defaulters of MLs, the following table 4.4.B has been established, also securing two

additional columns on percentage of borrowers rejected and the defaulters' rates. This table is constructed to find out how many microenterprises are served on average, number of defaulters, and rejections made by each MLs per year.

Table 4.4.B: Microentrepreneurs served by moneylenders over a period of five years

Year	Number of clients	Total number of request	Number of defaulters	% of borrowers rejected	% of default to total borrowers
1998	533	644	24	17	5
1997	504	660	23	24	5
1996	358	459	19	22	5
1995	417	508	22	18	5
1994	385	498	7	23	2
Total/ Average	2197	2769	95	21	4

Source: Personal Survey

The table above indicates that the total borrowers served by the MLs stood at 2,197 in the last five years, averaging at 439 borrowers each year or 14 borrowers per ML each year. The number of borrowers rejected averages at 21% per year. The default rate is less than 5% each year. With the low average capital of MLs as compared to the regular but small amount needs of the ME borrowers, they cannot serve all the needs of MEs.

Based on the very fact of low capital available with ML and high demands of the borrowers, MLs have to reject some. These rejected borrowers are basically with higher capital requests, or unknown to MLs, or borrowers with low social trust.

It is also interesting to note here the finding made during the survey that, to avert the risk of losing capital, the MLs preferred to lend lower amounts spread over larger numbers of borrowers within a locality. In some cases, it was also evident that in an urban area, a ML with large amount of capital had fewer borrowers, who are the most reliable regular customers who would pay back the loan on time.

4.4.3 Amount lent by MLs to MEs – A View over a 5-Year Period

During the survey, data was also collected on the number of clients served and amount lent by each ML over a period of five years. The information was then put in a table 4.4.C below with four columns: year, amount, number of borrowers, and average amount per borrower and average amount per ML each year. The table has been built to see the lending capacity of the MLs and borrowings made by individual ME to further highlight the preceding discussions.

Table 4.4.C: Amount lent by MLs over a period of 5 years

Year	Amount in Nu.	No. of borrowers	Average amount per borrower
1998	14,550,500	533	27,299
1997	13,086,000	504	25,964
1996	12,593,500	358	35,177
1995	12,785,500	417	30,661
1994	12,643,000	385	32,839
Total/ Average	65,658,500	2197	29,886

Source: Personal Survey

The description sample table 4.1.A in the appendix indicates that the total capital available with 31 MLs is Nu 15.5 million, while the table 4.4.C above, indicates a total amount of Nu 65.7 million. This is because MLs have rolled their capital over a 5 years' period, but at 15% less than their available capital. This means that the net income over a period of five years is 4 times or 340% (based on income percentage, see table 4.4.G later in the section) of the capital employed. If the average of interest rates of 88% was considered as the income from money-lending, it would stand at an average of 70.4% per year for capital employed in 5 years. The table above indicates that the total number of borrowers served in the last 5 years is 2,197 on an average amount of Nu 29,886 per borrower each year. For this small working capital amount often the business has to close. Comparatively, for this small amount, they also pay a heavy cost to the MLs in terms of interest rate. MEs access the MLs with much ease and less formalities, which would be very cumbersome as well as expensive for both FIs and borrowers if it had to be borrowed from formal channels. In the preceding chapters two and three, it was learnt that the MEs are always short of working capital needs and that their business planning cycle is short-term, also that their business in most cases is seasonal in nature. In many cases, it was observed that most of the borrowers were repeating lending with MLs up to three times a year. This means that the average borrowing need of MEs is low but more frequent. For such small amounts, it is impossible for the MEs to approach the financial institutions with a lot of formal procedures, taking into consideration the immediate need and time constraints of the MEs. It means that it is easier, faster and reliable for MEs to continue to go to MLs for their ad hoc needs.

Based on a survey questionnaire, it was learnt that the size of lending by MLs follows a wide range: from Nu 50 to Nu 500,000. (See table 4.4.I in the appendix). On an average, a microentrepreneur received Nu 29,886 (see table 4.4.C above) over a period of one year. This amount is high because it includes also borrowers with larger needs and investment. As already discussed, that borrower accessed at least three times in a year in most cases. The average borrowing each time for lower investment MEs has been found to be about Nu 10,000 (into three times that comes to the similar average amount of borrowing per year). During the survey of one of the last MLs, it was learnt that the lender recognised the borrower Mrs. Y whether she borrowed once or three times a year as one

borrower. Presuming that others could have understood the same despite repeated explanations, the number the ML had provided was taken. If the presumption were true, the borrowers could be much more than that indicated in the table above and the finding that smaller investment MEs borrower about Nu 10,000 each time he/she accesses the ML is reasonably true.

The lending period is mostly for a short term between one and three months, three and six months, six and twelve months. In a few cases, the lending went up to a period of three years. The duration of lending is exclusively discussed in a later section. In most cases, especially in the rural areas, the lending remained for a period of less than three months and was also for smaller amounts of less than Nu 10,000. Interest rates charged varied between 24% and 150% per annum (later more detailed discussions are done under interest rates charged to MEs). The calculations were based on value per hundred Nu, e.g. between Nu 5 and Nu 12 per Nu 100 lent per month. However, it is interesting to note here that during the survey, it was learnt that borrowers do negotiate for lower interest rates. In cases where the borrower is known and/or is regular, the interest rates are considered lower by a few percentages. Also if the borrower was reliable and the amount was for a large amount of say Nu 100,000, MLs were willing to reduce the interest rates by small percentage. The term small percentage refers to interest rates less than 2.5% per month. However, this is again not the case with friends/relatives because they charge already lower interest rates than the rest of other MLs.

It is appropriate here to discuss if the capital size of MLs or the number of borrowers played any role on the rate of interest charged by MLs. For these purpose, table 4.4.D has been prepared derived from table 4.1.A in the appendix.

Table 4.4.D: Capital size of MLs and no. of borrowers served in last 5 years

Level of capital (in Nu)	No. of ML	Total capital (in Nu)	Average capital per ML (in Nu)	No. of borrowers served	Average interest rate
< - 100,000	11	845,000	76,818	314	87
100,001 - 300,000	8	1,770,000	221,250	208	77
300,001 - 500,000	4	1,700,000	425,000	38	135
500,001 - 700,000	4	2,400,000	600,000	1,162	69
700,001 - >	4	8,800,000	2,200,000	475	87

On an average, each ML served 14 borrowers each year as calculated from the tables above. Table 4.4.D indicates that there are more number of MLs at lower level of capital size available for lending and fewer number of MLs at higher level of capital size available for lending. From the survey and as per the data laid out in table 4.1.A in the appendix, it was found that the lower level of capital size for investment was held by MLs mostly in rural areas and also served generally more borrowers than those in urban areas. The table does not give any conclusive idea on how many are ideally served with a certain amount of capital available for lending.

Table 4.4.D above do not provide any evidence that the interest rate charged differed either with the amount lent nor capital available with MLs for lending. It is the prerogative of the MLs to charge any interest rate. (Refer table 4.1.B in appendix). The table above is not conclusive to state the relation between interest rates and the number of borrowers. To examine if they had any relation, it was regressed with number of borrowers as dependent variable and interest rate as independent variable and the analysis results were found insignificant ($R\text{-square} = 0.007$ and $F = 0.020$); meaning that interest rates charged are not dependent on the number of borrowers. Therefore, the result is neither reported in a tabular form nor detailed.

4.4.4 Purpose and Duration of lending to Microenterprises by Moneylenders

There are four types of lending generally indicated by the MLs: Trading business (e.g. garment import), Property deals (e.g. construction or purchase of a house), Horticulture (e.g. potato, apple production and supply), and Timber logging or Stone quarrying and supply. (Refer to table 4.1.B in the appendix). The interest rates are the same for the first two types of lending at an average of 101% each per annum. The last one, logging and quarrying, has the highest average interest rate at 111% per annum. Horticultural lending is mostly prevalent in rural areas. Therefore, the interest rates are lower at 95% per annum. MLs also lend to relatives/friends at different interest rates averaging to 37% per annum. This loan is for any business or other purposes. Income generated from relatives and friends is not only less, but there remains a high chance always not to get the whole of the interest accrued. MLs always try to avoid lending to this type of borrowers, as indicated by MLs.

The average duration of lending for various purposes varies between 6 to 12 months. Table 4.1.B in the appendix indicates that the lending period in general varies between 3 to 36 months. The most repeated duration is 6 and 12 months. There are only a few cases where MLs have provided loans for 24 and 36 months with interest rates lower than 144% per annum. The longest average period of lending is for property deals at 15 months and the shortest lending period is for logging/quarrying at 6 months. During the survey, the MLs made it clear that they, as far as possible, refrain from lending for a longer period than 12 months. The reasons assigned were that they would lose face with their customers, as the money would lie stuck with long-term borrowers. There is a risk involved, and, above all, the income from long-term lending is lower than repeated short-term lending.

4.4.5 Instalments Allowed in Repayment by Moneylenders to Microenterprise Borrowers

It was important to follow a similar line of discussions as that of formal financial institutions to see the behaviour of informal financial sector as compared to the formal financial sector. Based on the survey questionnaire, MLs were requested to score with as many ticks as applicable in the columns similar to these laid below in table 4.4.E, which is based on the data collected. This tabulation was done to see how many instalments the MLs grant for different amounts of Nu lending.

No of Instalments	Loan Amount (Nu) / Responses from moneylenders			
	Less than 10,000	10,000 to 50,000	50,000 to 100,000	100,000 & above
At a time (1)	22	14	7	N.A
Less than 5 (>1)	13	11	5	6
5 – 10	2	5	4	1
10 – 25	N.A.	1	1	1

Source: Personal Survey (N.A = No response)

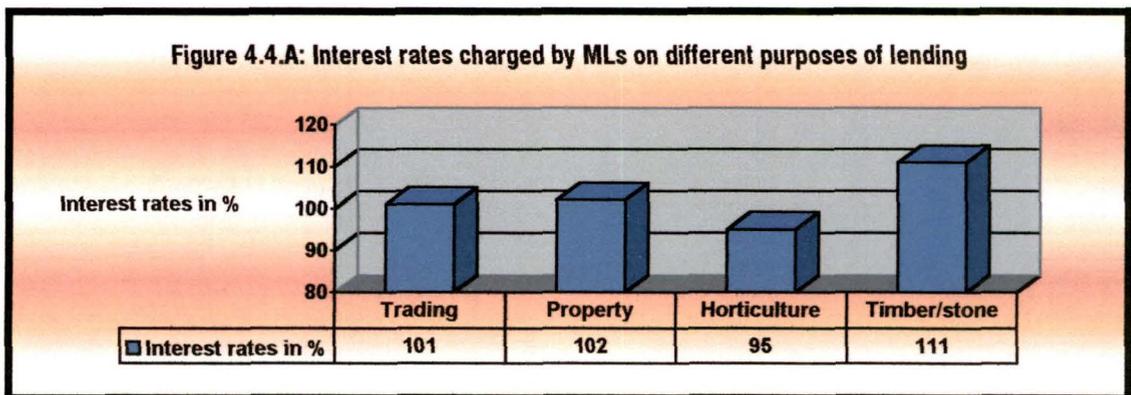
The table above indicates that 71% of the MLs who lent amounts less than Nu 10,000 allowed only one instalment for repayment and 29% allowed in more than one but less than five instalments. Likewise, 45% of the MLs who lent between Nu 10,000 and Nu 50,000 allowed only one instalment for repayment; 36 % allowed repayment in more than one but less than five instalments, 16% allowed between 5 and 10 instalments; and 3% allowed between 10 and 25 instalments. Similarly, 23% of the MLs who lent between Nu 50,000 and Nu100,000 allowed only one instalment for repayment; 16% allowed more than one but less than five instalments, 13% allowed between 5 and 10 instalments, and 3% allowed between 10 and 25 instalments. 65% of the MLs held capital above Nu 100,000 (see preceding tables) but only 23% of the MLs lent amounts above Nu 100,000 and 19% allowed repayment in less than five instalments, 3% each of the MLs allowed repayment between 5 and 10 instalments and 10 and 25 instalments respectively. This discussion suggests that the spread of repayment is very low with MLs. This is a negative point in consideration of microfinance intermediation.

4.4.6 Interest Rate Charged for Microentrepreneurs

There were varying interest rates charged by the MLs. It was evident from the survey that the MLs' market is highly dependent to the place, conditions, and demand for money. However, the overall average interest rate charged by MLs to MEs stood at 88% per annum, which is about 600 times more than the highest interest rate charged by any financial institution.

The average interest rates excluding relatives/friends stood at 102.3% (see table 4.1.B in the appendix). This table indicates that the interest rates range from 24% to 150%, which is a wide range. The average interest rates charged by friends/relatives stood at 37.2%. The average interest rates were different for different purposes of lending: for trading business 101%, constructions 102%, horticulture production & supply 95%, for timber/stone quarrying and supply, 111%. The interest rates by regions as per table 4.4.A (in the in the preceding section) indicates the lowest average interest rate of a region at 69% and the highest at 144%. Regionally, it is the southwest that has highest interest rate at 114% followed by north-central at 102%, northeast at 85%, northwest at 84%, southeast and north-extreme at 72% each and south central at 69%. Further, the interest rates charged by MLs were also seen from the size of capital available with MLs under table 4.4.D. It indicates that the lowest interest rate is at 69% and the highest at 135%. MLs who hold a capital size of Nu 100,000 and less charged interest rates at 87%, those with capital size between 100,001 and 300,000 charged 77%, 300,001 and 500,000 charged 135%, 500,001 and 700,000 charged 69% and above 700,001 charged 87%. As already brought to light, there is no trend of interest rates charged on the size of the capital available for lending with MLs.

The following column graph figure 4.4.A, which is based on the table 4.1.B in the appendix, indicates clearly the interest rates charged according to the purpose of lending. This graph is built to illustrate further the ongoing discussions.



The fastest earning business is timber/stone quarrying and supply followed by trading, where MLs charge higher interest rates for relatively shorter periods. Property, on the other hand, is also for shorter term loan (less than 15 months); therefore, also has higher interest rates.

MLs were requested to supply information according to the duration/loan amount, the interest rates through the survey questions. The following table 4.4.F is established with averages of all interest rates from the data so collected. The aim of this table is to see if MLs charged any different interest rates for

the length of duration and corresponding to the size of amount. This table will complement the preceding table.

Duration in Months	Loan Amount (Nu) / Average interest rate per month			
	Less than 10,000	10, 000 to 50,000	50,000 to 100,000	100,000 & above
1 to 12 / (No. of MLs)	12%/(30)	11.18%/(17)	10.31%/(8)	10.33%/(3)
12 to 24 / (No. of MLs)	11.75%/(2)	8.42%/(6)	10.17%/(13)	8.33%/(3)
24 to 36 / (No. of MLs)	10%/(1)	12%/(1)	7.71%/(3)	10%/(1)
36 to 48 / (No. of MLs)	N.A	N.A	8%/(1)	N.A

Source: Personal Survey (N.A = loans not provided by moneylenders)

The average interest rate for a duration between 1 and 12 months for an amount less than Nu 10,000 is 12% per month, for amount above Nu 10,000 is 11.18%, for amount above Nu 50,000 it is at 10.31%, and for amount above Nu 100,000, the interest rate is 10.33%. For the period between 12 and 24 months, the interest rates for different amounts are: 11.75% for less than 10,000, for amount above Nu 10,000, the average interest rate stands at 8.42%, for these above Nu 50,000, it stands at 10.17%, and for amount above Nu 100,000, it is at 8.33%. For the duration range of 24 to 36 months, average interest rate of 10% is applicable to a loan amount less than Nu 10,000, 12% for amount above Nu 10,000, 7.71% for amount between 50,000 and 100,000 and 10% for amount above Nu 100,000. There is only one borrower in the lending period of 36 to 48 months for amount between Nu 50,000 and Nu 100,000 at an interest rate of 8%. Average interest rates calculated in many cases (see table above) are with less than five MLs. There could be an inherent problem due to small size of the sample (31 number of MLs). However, the interest rate is higher at lesser duration for lowest level of loan amount. In the first two rows, there is also a tendency that interest rate decreases with increasing of the loan amount, within a particular duration.

It is highly contradictory to the general rules of ML system known so far in terms of interest rates charged, which seems not to increase with increasing amount and duration. To see this behaviour of MLs' interest system in Bhutan, the data were statistically computed framing hypothesis:

H₀: the rate of interest does not depend on the amount of money lent and duration for which the money is lent.

H₁: The rate of interest decreases with the increasing size of loan money and duration of borrowing.

The regression equation: $I_R = \alpha + \beta_1 M + \beta_2 D + \hat{\epsilon}$; where I_R = interest rate, M = amount of money lent, D = the duration (months). Regression analysis was done for all samples of 31 moneylenders and the results are given below:

Regression Analysis Results

β_1	t	β_2	(t)	R-square	F
-0.739	-1.811	-0.688	-1.705 ^(c)	0.592	3.63 ^(b)

^(b) Significant at 5% level and ^(c) Significant at 10% level

The result indicates some sign of the rate of interest decreasing with the amount of money lent and the duration for which it was lent. The variation in interest rate is explained to the extent of 59% by the amount of the money lent and the duration. However, the value of F being significant, we reject the null hypothesis.

During the survey, it was also evident from the discussion with MLs that the interest charged was highly dependent on relations. A very close relative/friend, if it could not be avoided, would be charged an interest rate anything between 24% to 72% per annum, depending on the power of borrower's bargain. It was realised, as a general trend, that the interest rates in the rural areas were lower than in urban areas. If a ML agreed to give a loan for a longer term than one year, it was also evident from two cases that the interest rates were lower than 144% per annum. There was an interesting trend both in rural and urban areas that the interest rates were invariably at 12% per month, if the loan was for a period of one to three months. If the loans were for six months and above, it generally had lower interest rate charges. It was also clear from the survey that longer term lending was only provided to borrowers with high creditability. Therefore, there was no direct relation with the amount of capital available for lending to interest rates charged by the MLs.

In the survey questionnaire, there was a question on how much did moneylenders earn from the ML business compared to their total income. They were asked to tick one of the five ranges of percentage income. From this information, the following table has been established with three columns, number of moneylenders, average percentage of the profit on capital employed, and average income on MLs' business to total income.

Table 4.4.G: Average income on capital employed

No. of Moneylenders (Total 31)	Average % of income on capital employed	Average % of income on money lending to total income
9	84.72	11.25
3	88.23	35.50
6	83.33	51.00
7	82.86	50.50
6	88.00	80.50
Averages	85.43	45.75

Source: Personal Survey

From table 4.4.G above, it is clear that MLs make at least 85% of income on the capital employed (which nearly corresponds to average interest rate charged by MLs). The base capital for lending has not increased dramatically despite large earnings from the lending basically due to the fact that the circle on lending is limited by various factors like maintaining a low profile due to legal implications, risk

involved, and that it is only a secondary business in most cases. Many MLs are government and private sector employees, individuals, housewives of employees (both civil and armed force), businesspersons, and monks. MLs mostly have ploughed back their income from money lending for family expenses. All moneylenders accepted that their market has increased over the last five years although their capital for lending has only marginally increased. The surveyor asked, “how did they serve the increased clients with only marginal increase in their capital?”. The answer most gave was that they decreased the loan amount and provided loans for even shorter duration than in normal cases. The table above makes it clearer that all MLs who came under the sample have other sources of income; business units or employment or both. 9 MLs have very large business and their income from money-lending as compared to other businesses stands at 11.25%. The capital employment for money-lending is also relatively higher than others in this case. In a few cases, MLs business is the main source of income: for some, their profession looks more a secondary in nature. This can be seen from the last 6 MLs, whose income from lending is almost the same at 85% (close to the average of interest rates at 88%). It can be realistically estimated, based on the evidence in the table, that the net earning of MLs from money lending is as high as 46% of the total income or 85% on the capital money for lending.

4.5 An Analysis of Requirements of Microentrepreneurs who Qualify for Loans from Moneylenders

The following two tables 4.5.A & B were made based on the survey data to see who qualifies for a loan and who does not under the MLs’ lending system. The second table has been established to crosscheck the first one, and both have been included to give a broader view of borrowers’ qualification. Both the tables have seven closed questions each expected to receive either a yes or a no answer.

Table 4.5.A: Loan qualifier from MLs and some criteria to be fulfilled		Responses of 31 MLs	
		YES	NO
1	Known persons with the necessary documents	30	1
2	Unknown persons with all the necessary documents and surety	26	5
3	Known persons who have established business	27	4
4	Property owners (e.g. house, land) introduced by a known person	29	2
5	Persons wanting a short term loan to repay from the seasonal business	25	6
6	Persons who want to buy property (e.g. land, building or truck)	12	19
7	Persons with good social reputation but poor	13	18

Source: Personal Survey

The above table suggests that known persons with the necessary documents are the best qualifiers (with 97%-yes) for loans under MLs’ system of lending. It is closely followed by property owners (with 94%-yes), known persons with established business (with 87%-yes), unknown persons with all

necessary documents and surety from a known person (with 84%-yes), and persons wanting a short-term loan for a seasonal business (with 81%-yes). As discussed earlier, the lending patterns are mostly restricted to the community where the MLs reside. The table below indicates that non-qualifiers are not equally rated by all moneylenders. In most cases, (see the second column NO), the non-qualifiers stand a good chance for approaching other moneylenders for borrowing. The calculation from the table below indicates that 32% of the moneylenders venture into risky business and lend to different types of the borrowers, like persons without property to mortgage, or surety, risky business, purposeless borrowings, and including persons who cannot be assessed. The table above, on the other hand, also gives evidence that moneylenders could be chosen for the type and purpose of borrowing.

Table 4.5.B: Non-qualifiers of loan from MLs		Response of 31 MLs	
		YES	NO
1	Unknown persons with all necessary documents	22	9
2	Persons who have no property to mortgage	24	7
3	Persons who have no surety	22	9
4	People who have bad social standing	21	10
5	Un-purposeful borrowing, e.g. for social functions	17	14
6	Persons who want to invest in risky but very profitable business	18	13
7	Persons who can not be assessed that they would pay in time	23	8

Source: Personal Survey

Following the present discussion, the next section discusses the criteria for lending by ranking of customers/documents by moneylenders. Table 4.5.C below was established to rank the different types of customers of the MLs and to find out customers who qualify for borrowing under money-lending system. There were ten suggestive choices given in the questionnaire and the MLs were requested to rank 1 to 10; 1 meaning least important to 10 most important. The data were tabulated in the following table and a mean rank column was created as the last column. The borrowers with rank above 4.45 are the most preferred customers of the MLs.

Table 4.5.C: Ranking the Customers by Moneylenders

Type of customers	Moneylenders' Ranking their Customers																															Mean Rank	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31		
People you know closely	8	10	4	10	9	8	10	6	7	8	10	10	9	10	10	8	10	10	8	10	10	9	10	10	10	9	8	10	10	8	10	9.00	
People who have surety from a known person	4	4	10	4	6	7	8	10	4	6	5	9	6	6	3	5	6	5	7	5	6	6	5	5	5	5	7	8	7	9	6	6.10	
People who are poor but can pay one day	1	1	1	1	3	1	1	1	1	1	1	1	1	1	2	2	1	2	2	1	1	1	1	1	2	1	1	1	1	2	1	1.26	
People who have business	6	8	5	6	10	4	5	7	8	9	7	7	8	8	7	9	5	7	5	8	9	7	7	8	8	8	10	7	8	6	8	7.26	
People of the locality/community where you reside	9	6	6	9	5	5	7	5	5	10	8	5	7	5	8	6	7	9	6	6	5	5	9	6	7	6	5	5	5	5	4	6.32	
People who are trustworthy	7	9	9	8	8	10	9	9	10	7	9	8	10	9	9	10	9	8	9	9	8	10	8	9	9	10	9	9	9	10	9	8.90	
People who have taken loan earlier	10	5	7	7	4	9	6	8	9	5	4	6	5	7	6	7	8	6	10	7	7	8	6	7	6	7	6	6	6	7	7	6.74	
People who are needy	3	2	2	2	1	3	3	3	2	2	2	2	2	2	4	3	2	1	1	2	2	2	2	2	1	2	2	2	4	1	2	2.13	
People who have seasonal business	5	7	8	5	7	6	4	4	6	4	6	3	4	4	5	4	4	4	4	4	4	3	4	4	4	4	3	3	2	4	5	4.45	
People who want to start a business or construct a house	2	3	3	3	2	2	2	2	3	3	3	4	3	3	1	1	3	3	3	3	3	3	4	3	3	3	3	4	4	3	3	3	2.84

Source: Personal Survey Rank 1 to 10 = 10 means the most important document and 1 the least important

The above table 4.5.C indicates that people who are known closely by MLs rank the first, followed in order, by people who are trust worthy, those who have business, those who have taken loan earlier, those who are from the same community, those who have surety from a known person, and people who have seasonal business. These seven types of the customers are the most preferred borrower/customers of the MLs. The first (closely known borrowers) and the sixth (trustworthy borrowers) categories rank almost equally with a mean rank of 9 and 8.9. The categories in forth, seventh, fifth, and second ranked at 7.3, 6.7, 6.3, and 6.1 respectively, while all others are below the rank of 6. The other three types of the borrowers, people who want to start a business or construct a house, those who are needy, and those who are poor but can pay one day are less preferred customers. It is interesting to note from the table that ranking differ from ML to ML. Some of the MLs are cautious, while a few are risk-taking, and others are circumstances-guided or mixtures of both.

From table 4.5.B, it is found that documents form an important element to qualify for loan. To find out which are the most important documents that are to be completed by borrowers while borrowing from

the MLs, the following table 4.5.D was constructed. There were seven types of documents in use, which were rated numerically with numbers from 1 to 7, 1 being least important to 7 being most important. At the end of the table, a column with mean rank was secured.

Types of documents	Moneylenders' Ranking Documents																															Mean Rank
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	
Legally binding agreement mortgaging the borrower's properties	3	1	4	2	4	4	2	4	4	4	2	4	4	4	4	3	1	3	4	4	3	3	3	4	4	4	3	3	4	4	5	3.39
Ownership documents of the borrower is physically taken over	4	2	4	2	3	3	1	2	2	1	3	1	2	3	1	3	1	1	1	2	2	1	1	1	1	1	1	2	3	1	1.87	
Need for a surety if the person is unknown	6	5	5	7	5	5	5	6	5	6	5	5	5	5	5	7	5	5	6	5	7	5	5	6	5	5	6	5	5	4	5.35	
Borrower's application specifying the need for money	1	4	3	3	3	1	1	2	3	3	4	2	2	3	2	2	4	2	3	2	4	4	4	3	2	3	4	2	3	2	2.71	
Legally binding documents needs the involvement of local authority	2	3	1	1	1	2	4	3	1	1	3	1	1	1	4	2	4	2	3	1	1	2	2	3	2	2	4	1	1	2	2.06	
Negotiation papers after the deal	7	7	7	6	7	7	7	6	5	6	7	7	7	7	7	6	6	7	7	6	6	7	7	6	6	7	7	7	6	7	7	6.68
Statements of Assets and Liabilities	5	6	6	5	6	6	7	7	7	5	6	6	6	6	6	5	7	6	5	7	5	6	6	5	6	6	5	7	6	6	5.94	
Source: Personal Survey	Rank 1 to 7 = 7 means the most important document and 1 the least important																															

As indicated by the above table, the negotiation papers after the deal with a mean rank of 6.7 are the most important documents, followed by statement of assets and liabilities at 5.9, and the need for surety at 5.4. It is also observed from the table that a few of the MLs also prepare legally binding agreements mortgaging borrowers' properties. The contents of the negotiation paper are: an agreement with terms and condition of payment, interest rates, default interest rate, steps for suing if required, and taking over of mortgaged property when it becomes necessary. The table also indicates that based on the type of the borrower, a legally binding document is prepared involving the local authority. In a few cases, the property documents are physically taken over by MLs. There is no standard system followed by MLs in defining the type and need of the documents. As stated earlier, all other documents follow the negotiation papers. Based on the type of borrower the inclusions of the documents are decided by the ML. For e.g. if the borrower is a regular one, he/she does not need to file any application, or a surety, or a legally binding document nor a statement of assets and liabilities. The informal financial market functions with human touch/relation and efficiency in delivery. Due to its un-recognised status by the law, it is highly localised and serves mostly the known borrowers from its own community.

4.6 Problems of Moneylenders and their Business Relation with Customers

As in any other business, the MLs are not without their share of problems in their lending business; defaulters, slow repayments, follow-up requirements, pressure to be put on clients, illegal business recognition and loss of time and energy often confronted them. These problems of MLs are discussed

in detail in the subsequent sections. The discussion on how MLs maintain their business relation with the ME borrowers is also highlighted.

4.6.1 Perception of ML regarding Borrowers

This section deals with the perception of ML regarding their borrowers and the relation built thus. Table 4.6.A has been built from the data collected by survey questionnaire to find out the understanding, relation and perception of MLs regarding their borrowers. Ten statements were made and MLs were requested to state if they strongly agreed (SA), or agreed, or were indifferent (Indif.), or disagreed (DA), or strongly disagreed (SDA).

Statements applicability	SA	Agree	Indif.	DA	SDA
1 Borrowers are sincere in payment of instalments	8	13	7	3	0
2 Borrowers are insincere and try to avoid payment of most of the instalments	0	6	7	17	1
3 Borrowers are very insincere and there are many cases of defaults	0	3	2	19	7
4 Borrowers come to me only when they fail to get credit from somewhere else	8	13	7	3	0
5 Borrowers come to me frequently as it is their habit / custom	7	5	1	18	0
6 Borrowers come to me as they are ignorant about financial institutes	0	4	2	16	9
7 Borrowers are clear enough to understand all calculations related to the loan	5	22	3	0	1
8 Borrowers are ignorant and can be cheated	0	2	2	14	13
9 Borrowers have complete faith on me	5	7	12	6	1
10 Borrowers always accept my calculations as true	0	2	4	21	4

Source: Personal Survey

The table above indicates that about 68% of MLs agreed (both SA + Agree) that the borrowers are sincere in payment of instalment and 23% remained indifferent. On the other hand, 58% of MLs disagreed (both DA+SDA) that borrowers are insincere and try to avoid payment of most of the instalments, while 23% remained indifferent. Similarly, 84% of ML disagreed that borrowers are very insincere and there are many cases of default, while about 7% remained indifferent and the rest agreed.

The finding from the ongoing discussion is that MLs have a high level trust in their borrowers. It can be said that MLs is a highly relation oriented business (see also table 4.4.I in the appendix). The perception of the MLs is directly related to the relation and process of lending to the borrowers. A universal fact is: thought leads to words, and words to action, and action to character. The table above indicates that 68% agree (both SA + agree) that customers come to MLs only when borrowers fail to get credit somewhere else and 23 % did not know. 48% of MLs perceived that customers come to them frequently as it was their habit/custom, while 58% disagreed (both DA+SDA). Interestingly, 81% of the MLs accepted that customers come to them as the borrowers are ignorant about the financial institutes and 13% disagreed. 87% of MLs noticed that customers are clear enough to understand all

calculations related to the loan and 10% did not know. 87% of the MLs disagreed (both DA+SDA) that customers are ignorant and can be cheated, while 7% did not know. Similarly, 22% disagreed that customer had complete faith in them and interestingly 39% each either agreed or did not know. Finally, it was evident from the tabulation (with 81% disagreement by MLs) that customers did not accept the calculation made by MLs in full faith as true.

4.6.2 Problems of Moneylenders in Lending to Microenterprises

From table 4.4.B under section 4.4.1, it is evident that the default rate averages at 4% per year, which means every 3 individuals out of 70 borrowers served per year by each ML make a default. This is not quite a new problem to them and therefore, MLs take it as a part of the deal. They make a new schedule of repayment and the ML makes a point to visit the defaulter on a routine basis. The ML's repeated presence becomes quite a disgrace for the borrower as it brings inquisitiveness in the neighbours. MLs also use the third party, who goes to the borrower on behalf of the ML and threatens him/her with dire consequences if the money was not repaid in time. Due to these types of social pressures, often the borrower works hard to repay the moneylender. In a few cases, the moneylender sues the borrower and does receive his principal amount through the court. Although the business is declared illegal in the eye of the law, the ML makes a legal agreement invariably, as part of the negotiation document, which indicates only the principal amount as lent. The defaulters often take quite some time of MLs in re-negotiation and visiting them on a routine basis. The worst happens when the case is moved to the court, a number of visits become necessary and that the judiciary courts are located generally far away from rural areas.

Yet, another problem confronting MLs is the slow repayment by the borrowers. Often, it is due to a good reason that the payment becomes slow and ML do not necessarily charge them higher interest rate although it may be agreed in the negotiation paper. If the slow repayment is with a good reason, often MLs take it as a moral responsibility not to tax the borrowers. The slow repayment causes MLs to suffer a set back in lending process because of their limited available capital for lending. As discussed earlier, the capitals of MLs are generally low. Above all, MLs lose money due to slow repayment, which could have been earned otherwise through reinvestment if it were repaid in time by the borrower.

Follow-ups with the borrowers are a regular routine of MLs. They travel around in the community either to create a feeling of their presence or to find the new area for potential investments. They necessarily do not visit borrowers directly when it is not desired. They make a point to visit each borrower regularly, at least once a week. During the visit, they ask borrowers how they are fairing and share some of their experiences. Follow-up in the true sense is not done; it is more of making their presence

felt. Follow-up visits are made to the defaulters two to three times a week. The ML continues to visit the defaulting borrower until the repayment is complete. The regular follow-ups, although a part of their business norms, cause the ML to lose a great deal of time with defaulters at the cost of their other regular jobs.

4.6.3 Steps for Recovery

The discussion on problems in the preceding section provides some clue on how money lenders create social pressure just by their presence in the vicinity of the borrowers. The following table has been established to see what steps are taken by MLs to recover their money from the defaulters. There were six possible steps that MLs would take and they were requested to rank from 1 to 6; one being the least important to 6 being the most important. At the right end of the table, a column on mean rank is established (see table 4.6.B below).

Steps taken for recovery	Ranking of steps taken by 31 moneylenders to recover from defaulters																															Mean Rank
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	
Create pressure through third party	3	6	4	4	5	5	3	4	4	5	5	4	4	4	6	4	4	5	4	4	3	2	4	5	3	4	5	4	6	4	4	4.23
Threaten to go to the Court	5	4	5	6	6	4	6	5	5	4	3	5	5	6	5	6	6	4	5	5	5	4	6	3	6	6	4	5	4	5	5	4.94
Create community pressure	6	5	6	5	4	6	5	6	6	6	6	6	6	5	4	5	3	6	6	6	6	6	5	6	5	5	6	6	5	6	6	5.48
Threaten to seize mortgaged property	4	3	3	2	3	3	4	3	3	3	4	2	2	3	3	3	5	3	2	3	4	5	3	4	4	3	2	3	3	3	2	3.13
Go to the Court	1	2	1	1	1	2	1	2	1	1	1	1	1	1	2	1	1	1	1	1	1	1	1	1	1	2	1	1	1	1	1	1.16
Give more time	2	1	2	3	2	1	2	1	2	2	2	3	3	2	1	2	2	2	3	2	2	3	2	2	1	2	3	2	2	2	3	2.06

Source: Personal Survey

From the ranking, it is clear that MLs carefully and logically take steps to recover their loan money. In the first step, they create community pressure through other influential people of the community, which ranks at 5.5. The Court of Justice being always a fear in the minds of the people, the second step the ML takes is to threaten to go to court (with mean rank of 4.9) and subsequently create pressure through third party (mean rank at 4.2) who lobbies between the ML and the borrower. In the process when the pressure starts from third party, it mostly ends with good results. If the third party pressure does not create any effect, the ML then threatens to seize the property (mean rank 3.1) of the borrower as per the negotiation papers. At this stage, generally the borrower asks for more time. A new repayment schedule is worked out and a fresh agreement drawn, which, if not honoured, makes/allows the ML finally to move the case to the court for claim of the principal amount and also submits a request in the case for a financial interest rate. The court then, based on the case, recovers the amount from the borrower on behalf of the ML.

Similar studies done by Hossain (1998)¹⁶⁸ in Bangladesh revealed that women borrowers repay the loans in time because they want their social prestige to remain high, while males are not as prompt. However, the Grameen borrowers are mostly women as the programme targets them as the most important section of the society who could only bring socio-economical changes in the society and are the best managers in adversity. The peer pressure plays an important role in the repayment of loans. It is also seen in Bhutan that women borrowers are more prompt to pay, the case of Group Lending Scheme of BDFC where female repayment rate is higher than males' at 71.2% and 68.8% respectively. (See table 1.5.B in the appendix).

4.7 Conclusion

It is evident from the study that the microenterprises find it much easier to access loans from moneylenders rather than the financial institutions. One of the most important factors for this is the personal relation between MEs and MLs. The ME, who is known to ML, does not need to put up any application or fill up forms, or put the assets as collateral. Often it is just a discussion between the ML and the ME loan amount, interest rates, and time of repayment followed by a simple agreement. The ML disburses the loan either immediately or within the next two days (release of loan takes less than a week in all cases – see table 4.4.I at the appendix). Quick access with relatively ease makes MEs go to MLs although the interest rates charged by MLs are sky high, averaging at 88% per annum. Often as regular borrowers, MEs bargain for interest rates and MLs do grant a few percent less, also making the borrower happy about the transaction.

In cases where the relation is formal or indifferent, MEs need to make an agreement supported by documents like assets statement or mortgage of assets, witness or a surety in case the ME is unknown to the ML. If the relation of MLs is friendly and/or cordial, just the agreement is drawn up while releasing the loan. Since MEs are mostly family owned and have little time and also hold low resources in hand, it greatly facilitates them when the entire transaction up to concluding the deal takes only a few hours followed by release of loan, either immediately or in next two days. Unlike the borrowing from FIs, the transaction cost and the time are saved through such a quick deal with MLs and, therefore, the microentrepreneurs do not mind paying such high interest rate.

MEs also have easy mode of repayment if they are unable to pay in time, which is often negotiable with a short notice. The repayment can be worked out in 25 instalments for an amount between Nu 10,000 and Nu 50,000. From merely one month, the duration of lending can go up to three years. As discussed at the outset, the cash needs of MEs are often mixed with their business needs, the loan is used for both the purposes. MEs do not have to justify the need for the loan nor are they restricted to use it only

for microenterprise units. It enables them to be flexible with the utilisation of the loan. Unlike FIs, the poor borrowers stand a good chance for borrowing from MLs, which is clear from the rankings made by them. The equation for the poor is: poor borrower = needy person, trustworthy, closely known. There is no compulsion that borrower needs collateral of 1.5 to 2 times the loan amount, project report, credit ratings or other documents in case of borrowing from MLs. Unlike FIs, MLs function on face to face relation, which probably is the most advantageous point in favour of MLs. The repayment schedule is also relatively well spread. For e.g. a borrower, who borrows Nu 10,000 from a ML, can repay in more than 1 but less than 5 instalments.

The moneylenders have come to stay as a part of the informal financial system. The ML business is well established in Bhutan. 26% of the MLs have inherited the money lending business. Moneylenders are highly esteemed by community for their influence on the society although in a few cases the local community dislikes them. MLs mostly maintain friendly and cordial relationship with the borrowers. One of the gnawing sides of the problem is that the ML business is illegal in the eyes of the law. Moneylenders can be penalised if court finds out any person doing such business. Although the community does not report against MLs, may be because they depend on them for money and advice, MLs are scared of and cautious with community. It is a difficult situation for MLs to maintain.

MLs would lend to the poorest of the poor if he/she has a means to earn. They help assess the repayment capacity of poor people and advise them on how they could do so, which could be a combination of repayment of principal amount in cash and the interest in form of labour or grains or horticultural produce. MLs from rural areas said that about 60% of the lending generally went to the poorer section of the community (a community could be a village, with about 100 households or even a *geog* with about 300 households). As far as possible, MLs said that they try to discourage un-purposeful lending by increasing the interest rates, and putting additional clause e.g. reducing the repayment instalment, increasing the interest rates, asking for collateral of up to 100% of the loan amount, which MLs know cannot be fulfilled. The only negative point in the MLs system is that the interest rates are very high. But, as a whole, the ML system functions very well in the informal financial market. It serves MEs' cash needs regularly and makes itself an earning equal to its capital invested within a year. Indirectly, this money comes to the financial system either through savings or investment, although an expensive way. It is a good business provided the interest rates are lowered and that more money was available for lending. *As the ML system is so well imbedded in the informal financial system, can it be replaced by institutional financing systems?*

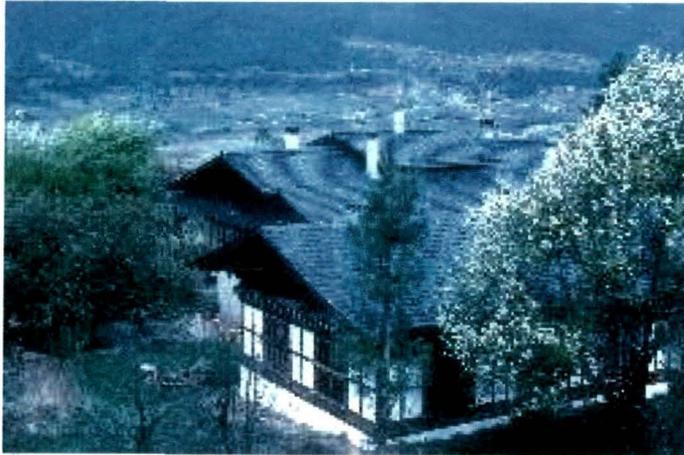
Although money lending is called a social evil, yet it cannot be wiped out unless the formal financial sector or NGOs come into addressing the needs of the poor and as well as the microenterprises. Even

in a most financially developed system, like the case of Grameen in Bangladesh, the money lending business is prevalent among the poorer section of the society. With the prevailing financial system, MLs have served the MEs in a much broader context and better than financial system and could still remain the best financial delivery system in times to come. Since Bhutan's population is relatively small sized, the socio-political environment could actually monitor MLs to tailor them as good financiers until they can be replaced with high delivery rural banking, co-operative banking and NGOs. With a certain amount of political will, they could be linked to financial system, as they are already existing with good reach and social esteem in the country and function as the most effective financial intermediaries.

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Mushroom Production Training at Natural Resources Training Institute, Lobeysa for school drop outs who are in farming



Kharsumpe Guesthouse in Bumthang, which grew from microenterprise to cottage



Agro-Mechanical Workshop, Bumthang, which increased its production line to cooking and heating stoves from production of agriculture implements. Its was initiated under Helvetas programme in early 1970s.