

Preface

Historically, microenterprises have been the promoters of economic development and have sustained better during the economic recessions than the larger enterprises. They are the most important sector of the economy with large employment potentials, better distribution of national resources and income, and regionally balanced development orientation contributing towards achieving sound and sustain macroeconomic growth.

Finance is referred to as the lifeblood, pivot or lubricant of business. Accessibility to finance has been identified as one of the major impediments to development and growth of microenterprises in all the developing countries. It is seen that this problem is so severe that any challenge of the enterprises such as technology, HRD/training, inadequacy of raw material, marketing, quality control, ultimately turns out, in the final analysis, to be directly or indirectly a financial problem. The argument that the government or responsible bodies created for the promotion of microenterprises must provide financial subsidy is, on the other hand, contested by the school of thought, which claims that subsidies will distort the market and the sustainability of these microenterprises would be at stake.

The scope of the study enables analysis of the role of formal and non-formal financial markets in meeting the vital need of finance of microenterprises. The objective of the study is to investigate how microfinance system performs in the case of Bhutan. The study investigates prospects of small business and their problems especially those of financial nature. The study lays a foundation stone to the subject to enable policy makers and future researchers to further examine the need of the microenterprises and how to address their future growth and development.

Microenterprises are heterogeneous in character, consisting of different lines of manufacture, production and services. The investment level ranges from a few hundreds to several hundred thousands of Ngultrum. **This study deals with microenterprises identified and licensed by the Ministry of Trade and Industry, the Royal Government of Bhutan, with investment level up to Nu half a million with fewer than 5 people employed.**

Primary data collected through structured survey and interview form the basis of the study. They were collected through three sets of questionnaires addressing financial institutes, microenterprises, and moneylenders in Bhutan. There were 1829 microenterprises (101 in manufacture/production and 1728 in services) licensed at the end of 1998. The data pertain to the survey of four financial institutes, 119 microenterprises (which is 6.5% of the microenterprise population excluding contractors). These microenterprises were sampled on regionally clustered random selection basis, and thirty-one moneylenders on convenience sampling.

The whole study has been divided into six chapters. The first chapter deals with the overview of economic development and growth of microenterprises in Bhutan, literature review, objectives of the study, research methodology, and sampling procedures. The second chapter focuses on composition and source of financing microenterprises and evidences that a large part of their capital needs are met through informal sector such as the moneylenders. It concludes that 50% of the fund requirements are for working capital and the other half is for fixed assets. In the third chapter, the role of financial institutions in providing finance to microenterprises is reviewed. It discusses the system and analyses the problems of financial institutions in providing loan to microenterprises. It is found that all financial institutes in Bhutan provided credit/loan of less than 4% average of their total loan portfolio to microenterprises. The borrowing cost of microenterprises was as high as 10% of the loan amount and the financial institutions have an imbedded perception that microenterprise lending is costly, unprofitable and that default rates are high. Moneylenders in Bhutan and their roles in financing microenterprises are discussed in the fourth chapter. The interest rates charged by moneylenders were found to be very high averaging to 88% per annum, yet microenterprises used this source for borrowing. The fifth chapter analyses the problems of financing microenterprises

from the point of view of the borrowers, which are largely based on their own perception of the borrowers. The study examines why the microenterprises preferred moneylenders to the financial institution because of less formalities and quick access to loans. The final, sixth, chapter concludes the study; provides findings, suggestions and recommendations.