

## Table of Contents

PREFACE .....	ii
TABLE OF CONTENTS .....	iv
LIST OF TABLES .....	vii
LIST OF FIGURES .....	ix
ACKNOWLEDGEMENT .....	x
GLOSSARY AND ABBREVIATION .....	xi
<b>1. INTRODUCTION: <i>THE PROBLEM &amp; THEORETICAL FRAMEWORK</i>.....</b>	<b>1</b>
1.1 INTRODUCTION.....	1
1.2 OVERVIEW OF ECONOMIC DEVELOPMENT IN BHUTAN AND THE GROWTH OF MICROENTERPRISES.....	4
1.2.1 THE GEOGRAPHICAL, POLITICAL & ECONOMIC SETTING.....	4
1.2.2 GROWTH AND DEVELOPMENT OF MICROENTERPRISES IN BHUTAN .....	11
1.3 DEFINING MICROENTERPRISES .....	14
1.4 FINANCING MICROENTERPRISES - <i>CONCEPT OF MICROFINANCE</i> .....	15
1.5 SOME MODELS FOR MICROFINANCE DELIVERY .....	16
1.6 PROBLEMS FACED BY MICROENTERPRISES IN BHUTAN .....	19
1.6.1 BACKGROUND .....	19
1.6.2 AVAILABILITY OF FINANCE AND PROBLEMS .....	20
1.6.3 POLICIES AND PROGRAMMES INITIATED BY THE ROYAL GOVERNMENT OF BHUTAN TO HELP MICROENTERPRISES ...	23
1.7 REVIEW OF LITERATURE, OBJECTIVES OF STUDY, RESEARCH METHODOLOGY, SAMPLING AND LIMITATION OF THE STUDY .....	25
1.7.1 REVIEW OF LITERATURE.....	25
1.7.1.1 ASIA.....	25
1.7.1.2 AFRICA .....	29
1.7.1.3 LATIN AMERICA .....	30
1.7.1.4 BHUTAN.....	31
1.7.2 OBJECTIVE AND SCOPE OF STUDY .....	32
1.7.3 RESEARCH METHODOLOGY .....	33
1.7.4 SAMPLING .....	35
1.7.4.1 PROCEDURES FOR SELECTING THE SAMPLE OF MICROENTERPRISES.....	35
1.7.4.2 PROCEDURE FOR SELECTING THE SAMPLE OF MONEYLENDERS .....	38
1.7.4.3 PROCEDURE FOR SELECTING THE SAMPLE OF FINANCIAL INSTITUTIONS .....	38
1.7.4.4 DESCRIPTION OF SAMPLE OF MICROENTERPRISES.....	38
1.7.5 LIMITATIONS OF THE STUDY.....	40
<b>2. SOURCES OF FUNDS AND COMPOSITION OF CAPITAL OF MICROENTERPRISES IN BHUTAN - <i>AN OVERVIEW</i>.....</b>	<b>45</b>
2.1 INTRODUCTION.....	45
2.2 SOURCES AND APPLICATION OF FUNDS .....	45
2.2.1 SOURCES OF FUNDS .....	46
2.2.1.1 FINANCIAL INSTITUTIONS .....	47
2.2.1.2 MONEYLENDERS .....	50
2.2.1.3 FRIENDS/RELATIVES.....	50
2.2.1.4 OWN FUNDS .....	52
2.2.2 APPLICATION OF FUNDS .....	54
2.2.2.1 FIXED CAPITAL .....	54
2.2.2.2 WORKING CAPITAL.....	58
2.3 ANALYSIS OF COMPOSITION OF TOTAL ASSETS .....	64
2.4 FINANCING FIXED AND GROSS WORKING CAPITAL: <i>IDENTIFICATION OF SOURCES – AN ANALYSIS</i> .....	67
2.5 CONCLUSION.....	69

<b>3.</b>	<b>MICROFINANCING - <i>ROLE OF FORMAL FINANCIAL AND OTHER INSTITUTIONS IN BHUTAN</i>.....</b>	<b>72</b>
3.1	INTRODUCTION.....	72
3.2	SCOPE OF THIS CHAPTER.....	73
3.3	FORMAL FINANCIAL SYSTEM.....	73
3.3.1	ROYAL MONETARY AUTHORITY.....	74
3.3.2	BANK OF BHUTAN.....	74
3.3.3	ROYAL INSURANCE CORPORATION OF BHUTAN.....	76
3.3.4	BHUTAN DEVELOPMENT FINANCE CORPORATION.....	77
3.3.5	BHUTAN NATIONAL BANK.....	78
3.4	FINANCIAL INSTITUTIONS' LENDING PATTERN UNDER DIFFERENT SECTORS OF ECONOMY.....	79
3.5	FINANCIAL INSTITUTIONAL LOANS FOR MICROENTERPRISES – <i>AN ANALYSIS</i> .....	83
3.5.1	REGIONS THAT HAVE TAKEN ADVANTAGE OF THE LOAN SCHEMES.....	85
3.5.2	INTEREST RATES OF FINANCIAL INSTITUTIONS FOR DIFFERENT TERM LOANS.....	89
3.5.3	SERVICES RECEIVED BY MICROENTERPRISES FROM FINANCIAL INSTITUTIONS.....	91
3.6	PROBLEMS OF FINANCIAL INSTITUTIONS IN FINANCING MICROENTERPRISES.....	92
3.6.1	WEAK PROJECT PROPOSAL AND LACK OF COLLATERAL.....	92
3.6.2	RECOVERY OF LOANS.....	93
3.6.3	COST OF LOANS.....	96
3.6.4	PERCEPTIONS OF FINANCIAL INSTITUTIONS CONCERNING MICROENTERPRISES.....	97
3.7	ROLE OF NGOs IN FINANCING OF MICROENTERPRISES – <i>A GENERAL DISCUSSION</i> .....	99
3.7.1	INTRODUCTION.....	99
3.7.2	NGOs IN BHUTAN – <i>A BRIEF ACCOUNT</i> .....	100
3.8	CONCLUSION.....	102
<b>4.</b>	<b>MONEYLENDERS IN BHUTAN – <i>ROLE IN FINANCING MICROENTERPRISES</i>.....</b>	<b>107</b>
4.1	OVERVIEW OF THE INFORMAL FINANCIAL SYSTEM.....	107
4.2	OBJECTIVE AND SCOPE.....	108
4.3	MONEY-LENDING BUSINESS IN BHUTAN.....	108
4.3.1	DESCRIPTION OF SAMPLE.....	109
4.3.2	REASONS AND CIRCUMSTANCES FOR MONEY-LENDING IN BHUTAN.....	110
4.4	MONEYLENDERS' CAPITAL AND THEIR MICROFINANCE SERVICE TO MICROENTERPRISES.....	112
4.4.1	MONEYLENDERS' CAPITAL - <i>A BIRD'S EYE VIEW</i> .....	112
4.4.2	MICROENTERPRISES SERVED BY THE MONEYLENDERS.....	112
4.4.3	AMOUNT LENT BY MLs TO MEs – <i>A VIEW OVER A 5-YEAR PERIOD</i> .....	113
4.4.4	PURPOSE AND DURATION OF LENDING TO MICROENTERPRISES BY MONEYLENDERS.....	116
4.4.5	INSTALMENTS ALLOWED IN REPAYMENT BY MONEYLENDERS TO MICROENTERPRISE BORROWERS.....	117
4.4.6	INTEREST RATE CHARGED FOR MICROENTREPRENEURS.....	117
4.5	AN ANALYSIS OF REQUIREMENTS OF MICROENTREPRENEURS WHO QUALIFY FOR LOANS FROM MONEYLENDERS.....	121
4.6	PROBLEMS OF MONEYLENDERS AND THEIR BUSINESS RELATION WITH CUSTOMERS.....	124
4.6.1	PERCEPTION OF ML REGARDING BORROWERS.....	125
4.6.2	PROBLEMS OF MONEYLENDERS IN LENDING TO MICROENTERPRISES.....	126
4.6.3	STEPS FOR RECOVERY.....	127
4.7	CONCLUSION.....	128
<b>5.</b>	<b>PROBLEMS OF FINANCING MEs – <i>VIEWS OF BORROWERS</i>.....</b>	<b>132</b>
5.1	INTRODUCTION.....	132
5.2	PROBLEMS FACED BY MICROENTERPRISES IN GETTING LOANS FROM FINANCIAL INSTITUTIONS.....	132
5.3	PROBLEMS FACED BY MICROENTERPRISES IN GETTING LOANS FROM MONEYLENDERS.....	135
5.4	PREFERENCE OF MICROENTERPRISES TO BORROW FROM MONEYLENDERS OVER FINANCIAL INSTITUTIONS.....	138
5.5	CONCLUSION.....	141

<b>6.</b>	<b>MAIN FINDINGS AND POLICY IMPLICATIONS.....</b>	<b>145</b>
<b>6.1</b>	<b>SUMMARY OF THE MAIN FINDINGS.....</b>	<b>145</b>
<b>6.2</b>	<b>RECOMMENDATIONS FOR POLICY MAKING .....</b>	<b>152</b>

## **Appendices**

<b>A1:</b>	<b>SELECT BIBLIOGRAPHY .....</b>	<b>157</b>
<b>A2:</b>	<b>TABLES AND FIGURES .....</b>	<b>167</b>
<b>A3:</b>	<b>QUESTIONNAIRES OF FINANCIAL INSTITUTES, MICROENTERPRISES, AND MONEYLENDERS .....</b>	<b>180</b>
<b>A4:</b>	<b>SAMPLE LIST OF MICROENTERPRISES (PAGE 1/78 ) .....</b>	<b>196</b>