

Sangay's Story - an Anecdote

Yangchen Tshogyel

A few months after the launch of the Priority Sector Lending (PSL) initiative on 1 January 2018, the Governor of the Royal Monetary Authority (RMA) received a cry for help from a PSL client, 24-year-old Sangay Gempo. Sangay, who had completed his BBA in India in 2016, had returned to Trashigang to help his father start a family business. His father, a retired ambulance driver, provided the seed capital of Nu 300,000 from his retirement benefits to start the business.

The business was successful with Sangay and his father making good money but most of the savings had to be used to repay past debts incurred to buy a plastic shredding machine and hire charges for transportation vehicles.

Sangay applied for a PSL loan to expand the business and was cleared by the Dzongkhag PSL Committee. With the PSL loan Sangay and his father could buy their own transportation, additional machineries, and build a warehouse. The credit appraisal was even cleared by one of the banks. His loan was approved and the prospects for expansion and increased profits was good.

The loan was ready to be disbursed... but there was one impediment. The PSL guidelines required that Sangay needed to invest 30 percent of his own equity, which he did not have. In the following months RMA received many messages from Sangay, each one more desperate than the last.

Today, with RMA support, Sangay is one of five entrepreneurs selected to pitch to potential private equity investors under the Jab-chor platform initiated by the RMA in partnership with the Royal Securities Exchange of Bhutan Ltd., the Thimphu Techpark Ltd, Company Registry Division – Ministry of Economic Affairs, and the Bhutan Chamber of Commerce and Industry.

Jab-chor was launched on 13 December 2018, and is based on the concept of “angel investors” who are high net worth individuals who provide early stage financing to start-ups. Angel investors provide not only financing but mentorship and link-ups to their own networks and help startups to grow much beyond the financing provided.

Sangay and four other young startups will pitch their proposals on 24 December 2018. If he succeeds, he will probably continue to face many other challenges as he grows his business. If he is not successful, are there other opportunities and platforms he could turn to for the PSL to be more effective?

Sangay’s experience is shared by many other young Bhutanese entrepreneurs and offers a valuable lesson for policy makers. Under the PSL guidelines, 100 percent loan financing is available for primary production because insurance is mandatory and there is a cap on the loan limit. For all other projects however, the 70:30 debt-to-equity ratio applies, based on the economic rationale that the client must have some personal stake in the business to ensure better effort and due diligence while running the business.

The reality is that more young people are contemplating self-employment by choice, with employment pressure, and also encouraged by positive global trends. They are willing to work hard but lack the funds. The PSL was a first step towards encouraging all the banks to participate in the lending process, inspired by His Majesty The King’s advice to encourage youths and farmers. However, the PSL needs to be complemented by alternative financing schemes that provide equity and other risk capital which the banks may not offer.

There are several lessons for policy makers. While crafting policies, consultations with relevant agencies are important to ensure collective ownership. This was carried out quite extensively during the formulation of the PSL guidelines. Consultations with the targeted beneficiaries of the policy are equally important but it was clear during the implementation of the PSL that this had not been done.

Monitoring the implementation of the guidelines through field visits and interactions with authorities implementing the policy as well as the beneficiaries of the policy are crucial to understand how effective the policy is and what are remaining challenges that need to be addressed. 2018 was a pilot year for the PSL and the PSL team which comprises the RMA as well as the dzongkhag (district) and Financial Institutions' staff conducted joint field visits to interact with PSL clients and get first hand experiences and feedback to improve the initiative.

Conventional wisdom says that an entrepreneur's journey is littered with failures. But, for the entrepreneur who is facing that failure, policy makers and relevant authorities need to make sure that the failure was not caused by impediments created by them.