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BNB sanctioned PSL loans without following guidelines

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Bhutan National Bank (BNB), while sanctioning Nu 152 million (M) under priority sector lending (PSL) to 118 clients in the country, applied different loan terms and interest rate.

The Royal Audit Authority (RAA) pointed out the discrepancy in its compliance audit report issued to the bank in November last year.

The report stated that the bank sanctioned loan at 8 percent with five years repayment term to two clients and 8.5 percent with seven years repayment to two other clients to establish piggery farms.

"The bank had sanctioned the loan above the maximum limit of Nu 500,000 for primary production under agriculture cottage and small industries (Agriculture CSI) to two clients," it stated.

RAA stated that sanctioning loans at different terms and interest rate discriminates the clients under the same loan product and since the PSL loan are guided by its guidelines, any loans sanctioned under the flagship needs to be in compliance with its provisions. "The terms of the loans should be applied consistently."

BNB officials justified to the auditors that BNB sanctioned loans at 8.5 percent to two clients, who were willing to pay the interest and show 30 percent equity portion, which is applicable under agriculture CSI in consultation with the Royal Monetary Authority of Bhutan.

BNB has also violated another section of the PSL guidelines that mandated loans for all activities to be based on cash-flow or project financing along with fire and theft insurance while sanctioning Nu 2.1M to three clients for setting up project and purchase of machines, equipment and vehicle.

Audit verification found that a client who took Nu 1.6M loan has not operationalised any activities and did not purchase machinery and equipment despite even seven months after the sanctioning of the loan.

It was also found that the supplier had credited the amount back into the client's account and the client did not use the loan for its intended purpose.

"Further, the client had not made any payment after lapse of three months gestation period and has not responded to officials during site visit," the audit report stated. "Although the loan amount has been directly credited to the supplier's account, the machineries and equipment were not supplied and insurance was not processed."

Another client who took a loan of Nu 516,000 has also not fully utilised the loan amount to purchase equipment and machinery. "The loan amount has also defaulted," according to the audit report.

PSL guideline also mandates financial institutions to ensure that all loans extended for priority sector activities are for approved purposes and the need use must be continuously monitored. “Financial institutions must put in place proper check and balance for all priority sector lending operations through its credit appraisal system,” the guideline states.

RAA stated that as stipulated in the guidelines, BNB should strictly adhere to proper appraisal of credit before sanctioning of the loan and periodically monitor the progress of the activities.

BNB officials justified that they issued cheque or deposits directly to suppliers in all loans pertaining to PSL but in rare cases, the amounts are deposited back to the clients account without informing the bank, as suppliers fail to deliver the equipment. “In order to avoid such issues from recurring, we discussed to issue stringent payment letter requiring an undertaking by the supplier, stating an obligation to deliver the stated equipment on time and in case of cancellation of the delivery, the supplier is fully liable to refund the full amount to the bank.”

Meanwhile, PSL was introduced as an integrated platform that will coordinate interventions from several government agencies to stimulate cottage and small industries to transform the country’s economy through improved access to finance.