

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Kingdom of Bhutan	Project Title:	COVID-19 Active Response and Expenditure Support (CARES) Program
Lending/Financing Modality:	Countercyclical Support Facility COVID-19 Pandemic Response Option	Department/ Division:	South Asia Regional Department/ Bhutan Resident Mission

<p>I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY</p> <p>Poverty targeting: general intervention</p> <p>A. Links to the National Poverty Reduction and Inclusive Growth Strategy and Country Partnership Strategy</p> <p>The proposed program aims to increase the country’s resilience by mitigating the significant negative social and economic impact of the COVID-19 on Bhutan, and to maintain macroeconomic stability for sustained economic growth. The proposed program is aligned with the Royal Government of Bhutan (RGoB)’s Twelfth Five-Year Plan (12th Plan) and its overarching objective of “just, harmonious, and sustainable society through enhanced decentralization.”^a The COVID-19 pandemic is likely to significantly affect the ability to achieve this objective. The ADB country partnership strategy, 2019–2023 for Bhutan recognizes the challenges to broad-based and inclusive economic development and socioeconomic inequality and identifies greater inclusiveness through more equitable socioeconomic development as one of the strategic pillars.^b However, the COVID-19 pandemic has a major impact on economic activities and people’s livelihoods. Past experiences from the region shows that economic shocks hit the poor and the vulnerable including women the hardest and that these groups take the longest to recover. Bhutan, as a small landlocked economy, is expected to experience heightened impact from the pandemic. Hence, there is a need to provide targeted support to help the government provide vital financial support and strengthen resilience of these groups. As such, one of the primary focus of the proposed program is to provide relief measures to the most vulnerable groups in the country.^c</p> <p>B. Results from the Poverty and Social Analysis</p> <p>1. Key poverty and social issues. Bhutan’s national poverty rate has declined substantially from 23.0% in 2007 to 8.2% in 2017. Rural poverty declined from 16.7% in 2012 to 11.9% in 2017, and urban poverty has reduced from 2.0% to 0.7% in the same period.^d Based on 2017 poverty assessment, only about 56,000 people are poor while 62.6% of households reported that they were neither poor nor non-poor, indicating that they are within the margins of being near poor.^e These groups are highly vulnerable to economic shocks that can pull them below the poverty line. This is further corroborated by an Economic Research and Regional Cooperation Department assessment, which indicates that COVID-19 containment policies are expected to reduce economic activities and earnings for vulnerable groups thereby raising poverty incidence. The poverty analysis for Bhutan indicates rise in poverty incidence for various income groups. For instance, for \$1.9/day poverty line, a 5%–20% reduction in per capita consumption is expected to increase poverty incidence from 0.6% in pre-COVID-19 scenario to 0.8–1.7% with the pandemic outbreak.^f A decline in export growth and limited employment opportunities in formal labor market will increase the country’s poor and near poor’s vulnerability to shocks. The pandemic is expected to further exacerbate the situation from lost wages and jobs thereby triggering spikes in poverty. The effect of the pandemic is already visible in many sectors, especially tourism and hospitality, which provides a vital source of income for a large number of people, including women.</p> <p>2. Beneficiaries. The program will benefit the poor and vulnerable, who need protection from the socioeconomic fallout of the COVID-19 crisis especially people below poverty line, displaced employees, unemployed people actively seeking employment, and self-employed individuals in the informal sector, most of whom are women.</p> <p>3. Impact channels. The program will help implement necessary reforms and interventions under the RGoB’s comprehensive Economic Contingency Plan (ECP). ECP will mitigate the impact of COVID-19 by achieving a manageable fiscal position thereby propelling the economy on a sustainable growth path. The program will help maintain and increase expenditures for securing essential commodities reserves and implementing fiscal and monetary measures which will directly benefit poor households, and cottage and small industries (CSIs) in the rural and agriculture sector.</p> <p>4. Other social and poverty issues. Youth may experience increased joblessness depending on the actual duration of the crisis particularly given already high rates of unemployment (almost 15.7% in 2018), the elderly may incur greater health-care costs and experience higher health risks, informal sector workers may have limited employment protection as well as unemployment and health insurance, and women and workers in the informal sector may be particularly vulnerable if left unprotected.</p> <p>5. Design features. The proposed program will facilitate major initiatives to address the economic ramifications from COVID-19 pandemic especially focusing on the relief measures for the poor and vulnerable in a sustainable way. It will facilitate beneficiary targeting and monitoring to improve transparency and effectiveness of the social relief measures. Specifically, the program will support: (i) establishment of about \$16 million worth of essential commodities reserves; (ii) deferment of loans for at least 110,000 business establishments and individual debtors; and (iii) provision of micro loans at 2% interest rate to at least 5,000 CSIs in the rural and agriculture sector.</p>
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C. Poverty Impact Analysis for Policy-Based Lending

1. Impact channels of the policy reforms. The program will emphasize on relief measures geared toward protecting the poor and vulnerable segments from the exacerbated impact of the pandemic. The program will also help enhance fiscal space to allow the government to address critical public health needs while managing the economic downturn. Targeted interventions for rural CSIs will create or save jobs, which will have direct benefits to the poor and near poor. The highly concessional loans to CSIs in rural and agriculture sector and loan deferment up to 3 months with 0% interest will directly benefit the poorer sections of the population.

2. Impacts of policy reform(s) on vulnerable groups. No adverse impacts. The financing support to operationalize the economic contingency plan is critical to mitigate the impact of the crisis and implement the economic stabilization program that will benefit the poor and vulnerable, especially women.

3. Systemic changes expected from policy reforms. The program will support the RGoB in implementing an equitable and inclusive economic response. Improved macroeconomic management will help create necessary fiscal space for the government to implement social protection programs for the poor and vulnerable including women and propel the economy to a sustainable growth path in the long run.

II. PARTICIPATION AND EMPOWERING THE POOR

1. Participatory approaches and project activities. The program's primary objective is to support the RGoB to initiate macroeconomic management and provide financial support to address the socioeconomic impact of COVID-19 pandemic. Some action areas—such as the inclusive relief measures to affected sectors and informal sector workers—will address the constraints faced by the poor and vulnerable and empowering them to manage the impact of disasters.

2. Civil society organizations. Since the program is an emergency response, it does not provide opportunities for meaningful consultation with civil society organizations apart from information gathering and share as indicated below.

3. The following forms of civil society organization participation are envisaged during project implementation, rated as high (H), medium (M), low (L), or not applicable (NA):

Information gathering and sharing [M] Consultation [NA] Collaboration [NA] Partnership [NA]

4. Participation plan.

Yes. No. Participatory approaches under specific reform activities will be adopted by the RGoB.

III. GENDER AND DEVELOPMENT

Gender mainstreaming category: effective gender mainstreaming

A. Key issues. Bhutan has high levels of gender inequality and ranks 134th out of 142 countries on the global gender inequality index. Gender inequality remains in different spheres, such as literacy, employment and access to finance. The literacy rate for male (adults) is 78.1% as compared to only 63.9% for female.⁹ In 2018, female labor force participation was 55.5%, significantly lower than 70.1% for males. In the same year, female unemployment stood at 4.2%, which is 1.5% higher than male unemployment.^h The incidence of unemployment among female youth is higher than that of male at all levels of education. Unemployment for female youth with middle secondary education is almost double at 11.4% compared to 5.3% for male counterparts. Also, women have much lower participation in regular paid employment (18.4% for women as compared to 33.4% for men) indicating that employment for women is mostly in the informal economy, estimated to account for about 73.6% of total employment in the country.ⁱ Although the proportion of women employed in the agriculture and farming enterprises has decreased marginally over the years, in 2018 they still accounted for 63.2% of employed against 46.4% of men in the agriculture sector. Agriculture is a sector in which productivity and earnings remain low. In terms of access to credit, there are significant gender differences. As of December 2017, out of 16.08% population who had access to credit, only 36% were women against 54% men. Similarly, of the 17% of adults who have insurance, 59% were men and 41% were women. The share of loans to the agriculture sector which employs the highest number of women is only 5%.^j These gender differences in the poor's access to credit and services exacerbate other dimensions of poverty (i.e., disproportionate impact on women's productivity and earnings potential). Also, credit tightening by banks during an economic crisis may make it even harder for women to sustain their businesses. Further, women bear a disproportionate brunt of pandemics. There is possibility of increase in domestic violence resulting from unemployment and related economic pressure at household level. This has been confirmed by a UN Policy Brief, which states that the pandemic is deepening pre-existing inequalities, exposing vulnerabilities in social, political and economic systems which are amplifying the impacts of the pandemic.^k

B. Key actions. The program is categorized as effective gender mainstreaming (EGM) and will support key government expenditure items with significant gender equality and social inclusion elements. These include the establishment of a National Resilience Fund with gender-, age- and disability targeting and monitoring system, which aims at: (i) securing essential commodities reserves; (ii) loan deferment at 0% interest; and (iii) providing highly concessional micro loans for rural and agriculture sector. The RGoB has already started the registration of vulnerable individuals, including single mothers, elderly and differently abled to ensure their effective targeting as part of the economic contingency programs. In addition, the following gender targets have been set in the design and monitoring framework to support women through economic stimulus program: women comprise at least 35% of beneficiaries of 3 months interest rate deferral at 0% interest rate, and 30% of concessional micro-loans borrowers. All gender targets will be monitored and tracked during program implementation and adequately reported upon in semiannual progress reports from the MOF.

Gender action plan Other actions or measures No action or measure

IV. ADDRESSING SOCIAL SAFEGUARD ISSUES	
A. Involuntary Resettlement 1. Key impacts. The program does not require land acquisition and does involve civil works and is not expected to have involuntary resettlement impacts. 2. Strategy to address the impacts. Not applicable. 3. Plan or other Actions. <input type="checkbox"/> Resettlement plan <input type="checkbox"/> Resettlement framework <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> No action	Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> Combined resettlement and indigenous peoples plan <input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework <input type="checkbox"/> Social impact matrix
B. Indigenous Peoples 1. Key impacts. The program does not specifically target indigenous peoples and is not expected to have adverse impacts on indigenous peoples. Is broad community support triggered? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No 2. Strategy to address the impacts. Not applicable. 3. Plan or other actions. <input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Environmental and social management system arrangement <input type="checkbox"/> Social impact matrix <input checked="" type="checkbox"/> No action	Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> Combined resettlement plan and indigenous peoples plan <input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework <input type="checkbox"/> Indigenous peoples plan elements integrated in project with a summary
V. ADDRESSING OTHER SOCIAL RISKS	
A. Risks in the Labor Market 1. Relevance of the program for the country's or region's or sector's labor market , indicated as high (H), medium (M), and low or not significant (L). <input checked="" type="checkbox"/> unemployment (L) <input checked="" type="checkbox"/> underemployment (L) <input checked="" type="checkbox"/> retrenchment (L) <input checked="" type="checkbox"/> core labor standards (L) 2. Labor market impact. No such risks envisaged.	
B. Affordability. N/A	
C. Communicable Diseases and Other Social Risks 1. The impact of the following risks are rated as high (H), medium (M), low (L), or not applicable (NA): <input type="checkbox"/> Communicable diseases <input checked="" type="checkbox"/> Human trafficking (L) <input type="checkbox"/> Others (please specify) _____ 2. Risks to people in program area. N/A	
VI. MONITORING AND EVALUATION	
1. Targets and indicators. Relevant socio- and gender-related indicators and targets are included in the design and monitoring framework of the program, consistent with its poverty and gender categorizations. 2. Required human resources. One ADB—a multi-sector and thematic HQ and RM-based team—has been put together by BHRM for the design of the program. Additional TA resources have been mobilized by SAOD to ensure timely and effective implementation and monitoring of the program's social- and gender-related design features and—equally important—assess the social- and gender-related impacts of COVID-19 emergency response, including this program. 3. Information in the project administration manual. N/A 4. Monitoring tools. National datasets from the Ministry of Finance, and relevant sector/line agencies implementing activities supported under the Program.	

^a Royal Government of Bhutan, Gross National Happiness Commission. 2018. Twelfth Five Year Plan 2018-2023. Thimphu.

^b ADB. 2019. Country Partnership Strategy: Bhutan, 2019-2023. Manila.

^c Vulnerable groups include people below poverty line, displaced employees, people who are unemployed and actively seeking employment, and self-employed individuals in the informal sector, most of whom are women.

^d Royal Government of Bhutan, National Statistical Bureau. 2017. Bhutan Poverty Analysis Report 2017. Thimphu.

^e Royal Government of Bhutan, National Statistical Bureau. 2017. Bhutan Living Standard Survey 2017. Thimphu.

^f ADB Estimates, 2020. The ERCD assessment shows various scenarios for poverty line if there is reduction in 5%, 10% and 20% reduction in per capita consumption.

^g Royal Government of Bhutan, 2018. *Population and Housing Census of Bhutan 2017*. National Statistics Bureau, Thimphu.

^h Royal Government of Bhutan, National Statistical Bureau. 2018. National Labour Force Survey 2018. Thimphu.

ⁱ Royal Monetary Authority of Bhutan. 2020. Annual Report. Thimphu.

^j Royal Monetary Authority of Bhutan. 2017. National Financial Inclusion Strategy. Thimphu.

^k United Nations. 2020. Policy Brief: The Impact of COVID-19 on Women.