SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Bhutan	Project Title:	Strengthening Economic Management Program II (SEMP II)
Lending/Financing	Policy-based	Department:	South Asia Department
Modality:	lending	Division:	Public Management, Financial Sector and Trade Division

I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY

Poverty targeting: General intervention

A. Links to the National Poverty Reduction and Inclusive Growth Strategy and Country Partnership Strategy
ADB's country partnership strategy (CPS), 2014–2018 and country operations business plan, 2013–2015 for Bhutan support the poverty reduction goals under the Government of Bhutan's Eleventh Five-Year Plan (2013–2018). The recent rupee liquidity crunch in FY2012 highlighted the need to strengthen economic management to reduce macroeconomic and financial volatility for sustained growth. Financial sector development is also necessary to improve financial intermediation for private sector that is critical for inclusive growth.

B. Results from the Poverty and Social Analysis during PPTA or Due Diligence

1. Key poverty and social issues. Bhutan achieved an average 8% growth rate during fiscal years (FYs) 2001–2011. Poverty incidence declined from 32% in 2003 to 12% in 2012. On average, per capita consumption of the poorest 40% of the population has grown faster than the rest of the population. Bhutan has almost eliminated extreme poverty (\$1.25 in purchasing power parity terms, per day per person) at 1.7% of population in 2012.

Although the general quality of life improved, based on the Eleventh Five-Year Plan, the country still faces high rural poverty, widening income inequality, rising youth unemployment—magnified by rural—urban migration and a narrow economic base. Based on ADB's Bhutan Gender Equality Diagnostic of Selected Sectors (GEDSS, 2014), agriculture continues to be the mainstay for many Bhutanese, particularly for family livelihoods, but productivity and earnings in agriculture are low. On the other hand, Bhutan's economic growth based on the capital-intensive hydropower sector has generated limited employment opportunities. Based on the 2013 Labor Force Survey from the Ministry of Labor and Human Resources, due to rapid urban—rural migration and skills mismatch in the labor market, urban unemployment (6.3%) is higher than rural (1.5%). The youth unemployment rate for ages 20–29 increased from 7.3% in 2012 to 9.6% in 2013, more than triple the total unemployment rate of 2.9%. Based on the GEDSS (2014), the low appreciation of entrepreneurship and self-employment and a strong cultural preference for public administration rather than business have contributed to the paradox of reported labor shortages by enterprises, while youth unemployment remains high. Based on ADB's CPS 2014–2018, using the Gini coefficient, inequality declined from 0.42 in 2003 to 0.36 in 2012, but the distribution of income deteriorated as the expenditure share of the richest quintile increased from 38.5% in 2007 to 43.7% in 2012, while the poorest declined from 9.6% to 7.1%.

Bhutan, as a small landlocked economy, remains vulnerable to external shocks from India, to which its economy is closely tied. Because of hydropower-related capital inflows, pro-cyclical credit growth and import-dependent consumption have led to current account deficits and rapid depletion of the Indian rupee reserves of the government during the rupee liquidity crunch in FY2012. The dependency of the fiscal budget on external assistance has made the country vulnerable to recurrent fiscal deficits, making it more difficult to allocate government spending to development expenditures. The economic volatility has made sustainable growth and thus attaining the poverty reduction goals even more challenging.

- **2. Beneficiaries.** Both the poor and non-poor will benefit from SEMP II. Based on the Eleventh Five-Year Plan, about 25.8% of the population is poor according to 4 of 13 health, education, and living standard indicators in the 2010 multidimensional poverty index. The four dimensions cited as falling short are improved sanitation, primary schooling, cooking fuel, and electricity. About 12% of the population was living below the national poverty line in 2012. The government aims to address multidimensional poverty, income inequality, malnutrition, and growing urban poverty. The program will contribute to attainment of these goals through sustained, inclusive, and balanced economic growth.
- **3. Impact channels.** SEMP II will sustain economic growth by improving macroeconomic management. By strengthening the financial sector, the program contributes to an investment-driven economy, and diversification through private sector development, which will generate employment for new entrants to the labor market.
- **4. Other social and poverty issues.** None. The government has many other schemes and/or programs to address issues pertaining to poverty.
- **5. Design features.** The design features that will help reduce poverty directly or indirectly include (i) improvement of revenue and macroprudential management and (ii) strengthening of financial sector development.

C. Poverty Impact Analysis for Policy-Based Lending

- 1. Impact channels of the policy reform(s). The impact of the program will be a sustainable growth trajectory through improved macroeconomic stability. Program reforms will help strengthen (i) revenue management, which will support creation of fiscal space for infrastructure development and for sustained delivery of poverty-focused social programs; (ii) macroprudential management, which will contribute to financial stability and thus achieving sustainable economic growth; (iii) financial sector development, including the Credit Information Bureau (CIB), which will deepen capital markets to reorient the economy toward investment-driven activities, such as private sector and infrastructure development rather than consumption; mobilize savings; improve financial inclusion for the women and other underserved communities, and enable access to finance for the private sector, particularly job-creating micro, small, and medium-sized enterprises. These reforms will contribute to more balanced, inclusive, and sustainable economic growth while generating employment, particularly for the youth, and reducing poverty.
- **2. Impacts of policy reform(s) on vulnerable groups.** The policy reforms envisaged under the program are not expected to have any adverse impacts on poor and vulnerable groups.
- **3. Systemic changes expected from policy reform(s).** The program will strengthen the resilience of the economy against external economic shocks and reduce volatility through better macroeconomic management. With sustained economic growth, Bhutan will reduce poverty by generating employment. Improved revenue management will expand fiscal space, enabling the government to invest more on economic and social infrastructure. Financial sector development and strengthened CIB will improve the efficiency of financial intermediation and contribute to diversification of the economy. Inclusive economic growth based on private sector jobs will reduce poverty and support Bhutan's progress toward the Millennium Development Goals.

II. PARTICIPATION AND EMPOWERING THE POOR

- 1. Participatory approaches and project activities. The stakeholders include policymakers at government agencies, financial sector representatives, and nongovernmental organizations focusing on women and children. Consultations were carried out during program processing and will continue during implementation. A public awareness strategy is integrated in the design of the financial literacy program, and introduction of mobile and branchless financial services in non-urban areas.
- 2. Civil society organizations. During the loan fact-finding missions, the National Commission for Women and Children and the Bhutan Association of Women Entrepreneurs were consulted as part of the due diligence.
- 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 (H) ☐ Consultation (M) ☐ Collaboration (NA) ☐ Partnership (NA)

4. Will a project-level participation plan be prepared to strengthen participation of civil society as interest holders for affected persons particularly the poor and vulnerable?

☐ ☐Yes. ☐ No.

Stakeholder engagement will be conducted based on the program needs through formal and informal consultations.

III. GENDER AND DEVELOPMENT

Gender mainstreaming category: Some gender elements

A. Key Issues

The CPS, 2014–2018 shows that unemployment is particularly high among young women. The GEDSS (2014) reveals that unemployment rates for women have been higher than for men at all levels of education for more than a decade. Although women are active as entrepreneurs across various sectors and comprise an important component of the private sector labor force, they experience constraints such as poor working conditions, low pay, and difficulty in accessing mainstream financial services and credit. Therefore, improving women's livelihood is critical for equitable and inclusive development. A study by the Royal Monetary Authority and World Bank noted that women and youth represent an untapped market for financial inclusion, which could be achieved through use of new technologies, collateral-free microcredit loans, and deposits that will match their income cycles. Better financial integration would improve employment and earnings prospects. The study also points out the benefits of financial literacy programs for improving financial management skills, and the use of innovative branchless banking technologies for promoting access to formal financial services for women and youth in remote areas.

B. Key Actions				
The program will promote women's financial inclusion through (i) a financial literacy program that targets gender equity				
and responds to differing needs of women; (ii) better access to financial services by introducing mobile and branchless				
banking, which can specifically benefit low income and rural women; and (iii) access to finance by strengthening of				
CIB. The mobile banking initiative will be conducted by Bhutan Development Bank Limited together with the Drinchen				
Ama Savings scheme. Under this initiative, 100,000 savings boxes will be distributed to mothers of each family, and saved money will be regularly collected and deposited to a bank account to promote a savings culture. Similarly, an				
improved regulatory framework for microfinance institutions is expected to have a positive effect on women's access to				
finance. Better macroeconomic management will contribute to effective allocation of public resources for development				
goals, as well as improve the public services targeting women and low-income population.				
☐ Gender action plan ☐ Other actions or measures ☐ No action or measure				
Gender dimension will be considered in formulating a financial literacy program to target various socioeconomic and				
demographic groups, introducing mobile and branchless banking services, and developing the CIB business plan.				
IV. ADDRESSING SOCIAL SAFEGUARD ISSUES				
A. Involuntary Resettlement Safeguard Category: A B B C FI				
Key impacts. None. Strategy to address the impacts. Not applicable.				
3. Plan or other actions.				
Resettlement plan				
Resettlement framework Combined resettlement framework and indigenous peoples				
☐ Environmental and social management planning framework				
system arrangement Social impact matrix				
No action ■ The first term of the control of the cont				
B. Indigenous Peoples Safeguard Category: A B B C FI				
1. Key impacts. None.				
Is broad community support triggered? ☐ Yes ☐ No				
2. Strategy to address the impacts. Not applicable.				
3. Plan or other actions.				
☐ Indigenous peoples plan ☐ Combined resettlement plan and indigenous peoples ☐ Indigenous peoples planning framework ☐ plan				
☐ Environmental and social management system ☐ Combined resettlement framework and indigenous				
arrangement peoples planning framework				
☐ Social impact matrix ☐ Indigenous peoples plan elements integrated in				
V. ADDRESSING OTHER SOCIAL RISKS				
A. Risks in the Labor Market 1. Relevance of the project for the country's or region's or sector's labor market, indicated as high (H), medium (M),				
and low or not significant (L). Not significant (L).				
unemployment (L) underemployment (L) retrenchment (L) core labor standards (L)				
2. Labor market impact. None. The program has no issues that adversely affect employment opportunities.				
B. Affordability None.				
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):				
☐ Communicable diseases (NA) ☐ Human trafficking (NA) ☐ Others (please specify) 2. Risks to people in project area. Not applicable.				
VI. MONITORING AND EVALUATION				
1. Targets and indicators. The expected impact of the program is a sustainable growth trajectory. Performance target				
includes sustained annual gross domestic product growth at not less than 5% by the end of FY2019. A sustainable				
growth trajectory and macroeconomic stability will help achieve poverty reduction and inclusive social development.				
The design and monitoring framework contains policy actions with a gender equity dimension, such as a financial				
literacy program. The regulatory and supervisory framework for microfinance, introduction of mobile and branchless				
banking services in non-urban areas, and strengthening of CIB will improve financial inclusion, especially for women.				
2. Required human resources. No officer is designated to monitor poverty and social impacts. However the program team and executing agency will monitor program performance, including poverty and social impacts.				
3. Information in the project administration manual. Not applicable.				
4. Monitoring tools. Compliance with policy actions will ensure the proposed poverty and gender responsive impact.				

^a C. T. Niang et al. 2013. *Connecting the Disconnected: Coping Strategies of the Financially Excluded in Bhutan.* Washington, DC: World Bank. Source: Asian Development Bank.