

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Bhutan	Project Title:	Strengthening Economic Management Program II (SEMP II)
Lending/Financing Modality:	Policy-based lending	Department:	South Asia Department
		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 SEM P 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. SEM P 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.

<p>C. Poverty Impact Analysis for Policy-Based Lending</p> <p>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.</p> <p>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.</p> <p>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.</p>
<p>II. PARTICIPATION AND EMPOWERING THE POOR</p>
<p>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.</p> <p>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.</p> <p>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): <input checked="" type="checkbox"/> Information gathering and sharing (H) <input checked="" type="checkbox"/> Consultation (M) <input checked="" type="checkbox"/> Collaboration (NA) <input checked="" type="checkbox"/> Partnership (NA)</p> <p>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? <input type="checkbox"/> Yes. <input checked="" type="checkbox"/> No.</p> <p>Stakeholder engagement will be conducted based on the program needs through formal and informal consultations.</p>
<p>III. GENDER AND DEVELOPMENT</p>
<p>Gender mainstreaming category: Some gender elements</p>
<p>A. Key Issues</p> <p>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.^a 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.</p>

