



# Initial Poverty and Social Analysis

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## Bhutan: Financial Market Development Program

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Asian Development Bank

**CURRENCY EQUIVALENTS**  
(as of 2 July 2019)

Currency unit	–	ngultrum (Nu)
Nu1.00	=	\$0.01451579
\$1.00	=	Nu68.8905

**ABBREVIATIONS**

ADB	–	Asian Development Bank
BHRM	–	Bhutan Resident Mission
CSO	–	civil society organization
TA	–	technical assistance

**NOTE**

In this report, "\$" refers to United States dollars.

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## INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Bhutan	Project Title:	Financial Market Development Program
Lending/Financing Modality:	Policy-based loans	Department/ Division:	South Asia Department/Bhutan Resident Mission

### I. POVERTY IMPACT AND SOCIAL DIMENSIONS

#### A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

Sustained socioeconomic development has reduced Bhutan's poverty rate from 12.0% in 2012 to 8.2% in 2017. Rural poverty declined from 16.7% in 2012 to 11.9% in 2017, and urban poverty has significantly changed from 2.0% to 0.7% in the same period. The proposed program supports the Government of Bhutan's development objective under the Twelfth Five-Year Plan for 2018–2023 by reducing multidimensional non-income poverty. The plan's key result areas supported by the program aim to create a strong macroeconomic environment (ensuring stable growth, sustainable fiscal deficit, price stability, full employment, and sound financial system). Bhutan's initiative to develop and deepen the finance sector will help increase non-food consumption, which has been historically the main driver of reducing poverty in Bhutan, helped by economic growth and better financial inclusion.<sup>a</sup> The country partnership strategy, 2019–2023 of the Asian Development Bank (ADB) for Bhutan recognizes the challenges to broad-based and inclusive economic development and the high levels of socioeconomic inequality. The private sector remains underdeveloped and dominated by micro, small, and medium-sized enterprises; and its development is constrained by a nascent finance sector and limited access to finance. The proposed program is consistent with strategic pillar 1 of the country partnership strategy—dynamic economic reforms for a resilient and diversified economy. It will support inclusive economic growth with the following outputs: (i) nonbank financial system developed, (ii) stability and integrity of the financial system strengthened, and (iii) financial inclusion promoted. This will have a strong impact on the achievability of the government's development objectives by improving the efficiency in mobilizing domestic resources.

#### B. Poverty Targeting

General intervention  Individual or household (TI-H)  Geographic (TI-G)  Non-income MDGs (TI-M1, M2, etc.)

Inclusive design features will be incorporated into the program through the three program outputs. The program also includes the development of lending covenants for housing and home ownership, and introduction of risk-sharing arrangements to help expand access to credit. With the deepening of the financial market, these initiatives will help meet the lending needs of underserved market segments backed by appropriate risk management tools and capacity, strict application of prudential regulatory requirements, and appropriate supervision and compliance monitoring. The intervention will contribute to sustained, broad-based inclusive growth by speeding up growth in poorer regions and will indirectly reduce poverty among the more deprived groups, particularly by improving the non-income dimensions of well-being, such as living standards and access to basic public services and utilities. This will in turn contribute indirectly to poverty reduction in both rural and urban areas across the country.

#### C. Poverty and Social Analysis

1. **Key issues and potential beneficiaries.** Key sector issues, manifest in the inefficiency of the overall finance system, include (i) limited access to finance by the private sector, particularly by disadvantaged groups; (ii) suboptimal investments by the government in building infrastructure and human capital; and (iii) high risk of bank fraud and bank failures. These issues are the result of deficiencies in legal frameworks; deficiencies in financial infrastructure; and inadequate capacity, knowledge, and awareness of the regulators, financial institutions, and the public at large. The program will address the root causes by (i) helping the government adopt critical reforms in a timely manner, (ii) strengthening the financial infrastructure, and (iii) implementing effective capacity building and public awareness programs. The program will benefit the population at large, but with a greater marginal gain for the disadvantaged group of rural and urban poor.

2. **Impact channels and expected systemic changes.** The program will minimize key market constraints such as the inadequate availability and the high cost of long-term financing for both the government and the private sector, including individuals. The program aims to lower the borrowing costs for the government and the private sector, and to provide long-term investment options for nonbank financial institutions, such as insurance firms and the National Pension and Provident Fund. The program will also strengthen the financial infrastructure, coupled with capacity building and awareness programs, aiming to minimize the risks related to systemic and operational failures and to boost public and corporate confidence in the financial system.

<sup>a</sup> The National Statistics Bureau's Poverty Analysis Report 2017 shows that most of the poverty reduction between 2012 and 2017 was achieved by increased non-food consumption, with no major change in food consumption patterns.

**3. Focus of (and resources allocated to) transaction technical assistance or due diligence.** There is no exclusive preparatory TA allocated for this program. The due diligence of the proposed program was compiled collectively by staff of ADB's Bhutan Resident Mission (BHRM) through (i) regular policy dialogues with the government; (ii) constant dialogue with the World Bank colleagues based in Bhutan, and those who are implementing ongoing and exploring projects and programs, particularly those who are responsible for the Strengthening Fiscal Management and Private Sector Employment Opportunities Development Policy Credits; and (iii) participation as a full member of the International Monetary Fund Article IV Review Mission fielded in Bhutan in July 2018. Program preparation used a total of 8 person-months of international and national consultant input funded from the BHRM staff consultancy budget, to synthesize information and data to identify key issues and reforms requiring technical assistance, and to update the finance sector assessment. In addition, BHRM staff conducted and continue to conduct wide-ranging consultations with financial institutions, the Bhutan Chamber of Commerce, international and local civil society organizations (CSOs), as well as development partners, to gain a granular understanding of issues related to the deficiencies of the financial market.

**4. Specific analysis for policy-based lending.** By enhancing the depth and stability of the financial market, the program is expected to improve financial inclusion and private sector investment, which will benefit underserved market segments. The program will have a broad impact on inclusive growth, and an indirect impact on poverty reduction.

## II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector and/or subsector that are likely to be relevant to this project or program?

As of December 2017, of the 64.47% of adults in Bhutan who have a savings account with a bank, 56% were male and 44% were female. Only 16.08% had access to credit, of which 54% were male and 37% female. Similarly, of the 17% of adults who have insurance, 59% were male and 41% were female.<sup>b</sup> These gender differences in the impact of poor access to credit and services tend to exacerbate other dimensions of poverty (i.e., disproportionate impact on women's productivity and earnings potential). Any potential gender differences in the financial market need to be taken into account. For instance, the Global Financial Inclusion Database 2014 shows that the account penetration for women in Bhutan is at 28%, compared with an average of 50% in other developing countries. Although the proportion of women employed in agriculture has decreased marginally since 2006, they still accounted for 83.4% of employed rural women, against 69.7% of employed rural men in 2017.<sup>c</sup> Loans to the agriculture sector accounted for only 5.33% (Nu5.07 billion) of loans in the period ending December 2017, despite being the sector that most women in Bhutan depend on economically.

2. Does the proposed project or program have the potential to contribute to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making?  Yes  No

Gender analysis will be conducted as part of the poverty and social analysis under due diligence on the proposed program. Gender actions will be incorporated in the design and implementation of the proposed program and reflected in a gender action plan. The gender action plan will include streamlining of gender dimensions in policy actions pursued under the program.

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?  
 Yes  No

4. Indicate the intended gender mainstreaming category:

GEN (gender equity)  EGM (effective gender mainstreaming)  
 SGE (some gender elements)  NGE (no gender elements)

## III. PARTICIPATION AND EMPOWERMENT

1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the program design. – The program's primary stakeholders are government financial supervisors and regulators, financial institutions, market participants, and consumers. They participated in the project design through policy dialogues, analyses, and consultations using resources from three ongoing TA projects<sup>d</sup> and the BHRM staff consultancy budget.

2. How can the program contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable, and excluded groups? What issues in the project design require participation of the poor and excluded? – The contribution of stakeholders and beneficiaries will be critical in strengthening the

<sup>b</sup> Royal Monetary Authority. 2018. *Financial Inclusion Strategy 2018–2023*. Thimphu.

<sup>c</sup> Ministry of Labour and Human Resources. 2018. *Labour Force Survey 2017*. Thimphu.

<sup>d</sup> ADB. 2012. *Enhancing Development Management for Sustainable and Inclusive Growth*. Manila (TA 8229); ADB. 2015. *Decentralized Coordination and Partnerships for Gender Equality Results*. Manila (TA 9016); and ADB. 2016. *Developing Anti-Money Laundering and Combating the Financing of Terrorism Approaches, Methodologies, and Controls*. Manila (TA 9287, regional).

stability of the financial market. The key market segments will be represented in stakeholder consultations to ensure effective targeting of the program's intervention and policy actions, and to improve the efficiency of financial intermediation and the stability of the financial system.

3. What are the key, active, and relevant civil society organizations (CSOs) in the project area? What is the level of civil society organization participation in the project design?

Information generation and sharing (M)  Consultation (M)  Collaboration  Partnership

Relevant CSOs will be identified during the preparation of the program, with the objective of deepening granular understanding of financial market deficiencies and needs of underserved segments.

4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how should they be addressed?  Yes  No

The program will focus on the financial services industry's role in deepening the financial market, but will strive to support pro-poor improvements to the enabling environment as part of the policy-based lending intervention.

#### IV. SOCIAL SAFEGUARDS

**A. Involuntary Resettlement Category**  A  B  C  FI

1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement?  Yes  No

Neither (i) the regulatory reforms under the policy-based loan nor (ii) the policy advisory and capacity-building activities under the transaction technical assistance (TA) are expected to result in involuntary resettlement. A matrix of potential impacts of each policy action will be created during project preparation.

2. What action plan is required to address involuntary resettlement as part of the transaction TA or due diligence process?

Resettlement plan  Resettlement framework  Social impact matrix

Environmental and social management system arrangement  None

**B. Indigenous Peoples Category**  A  B  C  FI

1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples?  Yes  No

Benefits from both (i) the regulatory reforms under the policy-based loan and (ii) policy advisory and capacity-building activities under the transaction TA do not target indigenous peoples as defined by ADB's Safeguard Policy Statement. A matrix of potential impacts of each policy action will be prepared during project preparation.

2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain?  Yes  No

3. Will the project require broad community support of affected indigenous communities?  Yes  No

4. What action plan is required to address risks to indigenous peoples as part of the transaction TA or due diligence process?

Indigenous peoples plan  Indigenous peoples planning framework  Social impact matrix

Environmental and social management system arrangement  None

#### V. OTHER SOCIAL ISSUES AND RISKS

1. What other social issues and risks should be considered in the project design?

Creating decent jobs and employment  Adhering to core labor standards  Labor retrenchment

Spread of communicable diseases, including HIV/AIDS  Increase in human trafficking  Affordability

Increase in unplanned migration  Increase in vulnerability to natural disasters  Creating political instability

Creating internal social conflicts  Others, please specify \_\_\_\_\_

Not applicable.

2. How are these additional social issues and risks going to be addressed in the project design? – Not applicable.

#### VI. TRANSACTION TA OR DUE DILIGENCE RESOURCE REQUIREMENT

1. Do the terms of reference for the transaction TA (or other due diligence) contain key information needed to be gathered during transaction TA or due diligence to better analyze (i) poverty and social impact, (ii) gender impact, (iii) participation dimensions, (iv) social safeguards, and (v) other social risks. Are the relevant specialists identified?  Yes  No

2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social, and/or gender analysis, and participation plan during the transaction TA or due diligence? – Inputs from a social and gender specialist will be provided under Technical Assistance for Decentralized Coordination and Partnerships for Gender Equality Results (footnote d).