POVERTY ANALYSIS (SUMMARY)¹

A. Poverty and Inequality

1. Recent progress in poverty reduction. Bhutan has achieved remarkable socioeconomic progress and poverty reduction on the back of robust economic growth and the government’s efforts to improve the living standards of the country’s people. Poverty incidence declined from 31.7% in 2003 to 23.2% in 2007 and 12.0% in 2012 (Table 1). The reduction was particularly significant during 2007–2012, when the poverty rate was almost halved. This is comparable to the recent advances on poverty of other high-performing developing member countries of the Asian Development Bank (ADB), such as the People’s Republic of China and Viet Nam.

<table>
<thead>
<tr>
<th></th>
<th>2003 Rate</th>
<th>2003 % of poor</th>
<th>2007 Rate</th>
<th>2007 % of poor</th>
<th>2012 Rate</th>
<th>2012 % of poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban</td>
<td>4.2</td>
<td>2.6</td>
<td>1.7</td>
<td>1.9</td>
<td>1.8</td>
<td>4.6</td>
</tr>
<tr>
<td>Rural</td>
<td>38.3</td>
<td>97.4</td>
<td>30.9</td>
<td>98.1</td>
<td>16.7</td>
<td>94.4</td>
</tr>
<tr>
<td>Bhutan</td>
<td>31.7</td>
<td>100.0</td>
<td>23.2</td>
<td>100.0</td>
<td>12.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Note: Based on the national poverty line.
Source: National Statistics Bureau of Bhutan poverty analysis reports.

2. Urban and rural trends. Disaggregated data shows that much of the reduction took place in rural areas. Poverty incidence in urban areas remained virtually unchanged at about 2%. The comparatively greater decline in the rural sector has been a welcome trend, but poverty in Bhutan remains an overwhelmingly rural phenomenon. About 94% of the country’s poor reside in rural areas. A slight increase in the urban share of the total population of the poor—from 1.9% in 2007 to 4.6% in 2012—may partly be due to rapid migration from rural to urban areas during this period, when urban population is estimated to have grown from about 26% to 34% of Bhutan’s total population.

3. Poverty profile. A regression analysis was undertaken to identify key determining factors for the probability of not being in poverty, using the 2012 Bhutan Living Standards Survey data. According to the results, households in the eastern region are more likely to be poor than those in the other regions, and urban households have a higher probability of not being poor than rural households. Larger households and/or those with a higher ratio of dependency (the ratio of children and the elderly to adults) are more likely to be poor. The results clearly show the importance of education in determining a household’s poverty status. A higher education level of household heads increases the likelihood of the households not living in poverty. The employment status of household heads also seems to play an important role. If the household head is engaged in formal employment, his or her household is less likely to be poor. In addition, access variables were found to be strong proxy indicators for material well-being. Households with access to electricity, piped water, a sanitary system, paved roads, banks, hospitals, and/or basic health units are less likely to be poor.


² The full estimation results of the regression analysis can be found in Appendix B of Bhutan—Critical Development Constraints report (footnote 1).
4. **Income inequality.** Despite commendable progress in reducing poverty in the 2007–2012 period, inequality remained high. In terms of the Gini coefficient, inequality declined from 0.42 in 2003 to 0.35 in 2007 but increased slightly to 0.36 in 2012. The distribution of income across quintile groups also deteriorated. The expenditure share of the richest quintile increased from 38.5% in 2007 to 43.7% in 2012 (Figure 1). In contrast, the share of the poorest quintile declined from 9.6% to 7.1% during the same period. This indicates that the recent economic growth seems to have benefited the rich more than the poor and needs to be made more inclusive.

![Figure 1: Expenditure Shares by Quintile in Bhutan](image)

Source: National Statistics Bureau of Bhutan poverty analysis reports.

5. **Multidimensional poverty.** According to the government’s 2010 multidimensional poverty index, 25.8% of the country’s people were found to be poor in terms of four of the thirteen health, education, and living standard indicators. In addition, food and nutritional security remains a challenge for many communities in remote areas, and chronic malnutrition continues to affect about one-third of children.

6. **Millennium Development Goals.** Despite these concerns, Bhutan has continued to make progress toward the Millennium Development Goals and is on track to achieve most of the goals and targets. In addition to headway on income poverty reduction, it has made particularly significant strides in providing access to improved drinking water, establishing gender equity in school enrolment at the primary and secondary levels, reducing the spread of communicable diseases, and enhancing the protection and management of natural resources. However, it needs to do more in such areas as child malnutrition, gender equity at the tertiary education

---

3 Access to improved sanitation, cooking fuel, schooling, and electricity.
4 The 13 indicators that comprise Bhutan’s multidimensional poverty index relate to data on primary schooling and numbers of children out of school (education); nutrition, food insecurity, and child mortality (health); and access to electricity, housing, cooking fuel, drinking water (less than 30 minutes away), and improved sanitation as well as ownership of livestock, land, and appliances (living standards).
6 Progress toward the Millennium Development Goals and Targets in Country and Portfolio Indicators (accessible from the list of linked documents in Appendix 2). Table 1.
level, mortality rates for infants and children under 5, the spread of HIV/AIDS, and youth unemployment.

B. Constraints on Reducing Poverty and Inequality

7. Key constraints on reducing poverty and inequality. ADB’s 2013 country diagnostic study for Bhutan identifies a number of critical obstacles to reducing poverty and inequality, including (i) limited opportunities for productive and decent employment; (ii) limited and unequal access to quality education (particularly secondary, tertiary, and vocational education); and (iii) poor connectivity, particularly in rural areas.7

8. Limited opportunities for productive and decent employment. Bhutan’s economic growth has been driven mainly by the capital-intensive hydropower sector and so has generated only limited employment opportunities. As a result, employment growth has been muted and unemployment has risen, particularly in urban areas where educated young people have been affected disproportionately. Youth unemployment was 7.3% in 2012, compared with an overall unemployment rate of 2.1% in the same year. This reflected a mismatch in the labor market between the available skills of job-seekers and the skills needed by potential employers, as well as a wealth and motivation factor, since many of the educated young can afford to be unemployed. In the country’s rural areas, unemployment has been relatively low, but the degree of underemployment and informal employment has remained relatively high.

9. Limited and unequal access to quality education. Bhutan has achieved the Millennium Development Goal of providing primary education for all ahead of the 2015 deadline, but access to education remains limited and unequal at the secondary and tertiary levels. The quality of education also continues to be an issue. The skills level of Bhutan’s labor force is therefore generally low, especially among poor and rural workers. Numerous programs have sought to increase the intake into vocational education, but results have been modest. This is partly due to a cultural prejudice against manual labor, particularly among the younger population.

10. Poor connectivity. Bhutan’s rugged terrain makes it difficult to provide adequate infrastructure and key public services throughout the country. Recognizing that good roads are important to broad-based economic growth and poverty reduction, the government has expanded the road network, but transport connectivity remains poor in many parts of the country. According to the 2012 Bhutan Living Standards Survey data, people in rural areas take an average of about 30 minutes to reach the nearest asphalt road, compared with 2 minutes for urbanites. This limited accessibility hampers the access of many in Bhutan to the country’s economic opportunities and thus continues to be a major hurdle to inclusive growth.

C. Government’s Poverty Reduction Strategy

11. Gross national happiness. Under Bhutan’s principal guiding philosophy of gross national happiness (GNH), the country’s long-term development vision and rational calls for a holistic approach to development that gives the economic and noneconomic aspects of well-being equal importance. The four pillars of GNH are the promotion of sustainable development, the preservation and promotion of cultural values, the conservation of the natural environment, and the establishment of good governance. The GNH development philosophy guided the

---

government's formulation in 1999 of the Bhutan 2020 long-term vision for development. It sets out the national goals, broad targets, and overall policy principles. The government’s 5-year planning mechanism operationalizes the GNH concept and has been an effective instrument through which Bhutan has made impressive progress in its socioeconomic transformation.

12. **Targeted poverty reduction programs.** The overarching goal of the recently completed tenth five-year plan for 2008–2013 was poverty reduction. It aimed to reduce poverty to 15% by 2013. While the government used to address poverty reduction through broad social sector and rural development programs to improve the quality of life and promote income generation activities, it initiated targeted poverty reduction programs under the tenth plan. They included the Rural Economy Advancement Program, the National Rehabilitation Program, and the Common Minimum Program. The Rural Economy Advancement Program focused on improving sustainable livelihoods through such measures as diversifying crop cultivation to enhance food security and nutritional intake, and generating supplementary income through skills development in nonfarm livelihood activities. The program also aimed to build social capital by facilitating the formation of self-help groups for mutual collaboration. The National Rehabilitation Program provided land and better socioeconomic opportunities to landless, socioeconomically disadvantaged, and other needy groups. The Common Minimum Program aimed to ensure that all gewogs (village blocks) had minimum basic socioeconomic infrastructure and services, including a road to gewog centers, a water supply and sanitation system, electricity, telecommunication facilities, health care, and schooling.

13. **Eleventh five-year plan.** The objective of the eleventh five-year plan for 2013–2018 is to achieve self-reliance and inclusive green socioeconomic development (footnote 5). Its main thrusts are on (i) inclusive social development, (ii) accelerated green economic development, and (iii) strategic infrastructure development. To work toward inclusive social development, the government aims to further reduce both income and multidimensional poverty, address emerging social issues, and improve education and health outcomes. It will continue targeted efforts through several key programs, such as the Rural Economy Advancement Program, the National Rehabilitation Program, the Local Government Empowerment Program, a special program for vulnerable groups, and education and health interventions.

D. **Recommendation for ADB’s Support**

14. To further reduce poverty and tackle high inequality, Bhutan needs to enhance the inclusiveness of its economic growth. Building on its comparative advantage and areas of expertise, ADB could help the government address the key obstacles to more inclusive growth by (i) continuing its support for key infrastructure development to enhance connectivity and living standards, including infrastructure in the energy, transport, and urban sectors; (ii) supporting the creation of a business-enabling environment to promote private sector development to generate more employment; and (iii) providing support for skills development to address the skills mismatch in the labor market and thereby broaden access to economic opportunities. ADB will also support the government’s efforts to strengthen macro financial stability, which is a prerequisite for government success in its pursuit of inclusive growth.

---