



Initial Poverty and Social Analysis

Project Number: 56010-001
June 2022

Bhutan: Fiscal Sustainability and Green Recovery Program (Subprogram 1)

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 17 May 2022)

Currency unit	–	ngultrum (Nu)
Nu1.00	=	\$0.013
\$1.00	=	Nu77.81

ABBREVIATIONS

ADB	–	Asian Development Bank
CSO	–	civil society organization
FY	–	fiscal year
PFM	–	public financial management
TA	–	technical assistance

NOTES

- (i) The fiscal year (FY) of the Government of Bhutan ends on 30 June 2022. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2022 ends on 30 June 2022.
- (ii) In this report, "\$" refers to United States dollars.

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INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Bhutan	Project Title:	Fiscal Sustainability and Green Recovery Program
Lending/Financing Modality:	Programmatic Approach and Policy-Based Loan	Department/Division	South Asia Regional Department (SARD)/ Public Management, Financial Sector, and Trade Division (SAPF)

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

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

The proposed policy-based loan aims to help Bhutan recover from the impact of the coronavirus disease (COVID-19). Specifically, it supports the government's post-pandemic economic vision by strengthening domestic resources mobilization, promoting private sector development, and supporting foundation for green economic recovery over the medium term. The government has outlined its medium-term post-pandemic strategy for a sustained, inclusive, and green economic recovery in the upcoming Thirteenth Five-Year Plan (FY2023–FY2027). The program is aligned to the plan and the Asian Development Bank's (ADB) country partnership strategy for Bhutan 2019–2023. It will contribute to the following operational priorities of Strategy 2030: (i) addressing remaining poverty and reducing inequalities by facilitating job creation and promoting cottage and small industries; (ii) accelerating progress in gender equality by improving conditions for women-owned enterprises and promoting employment for women; (iii) tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability by supporting climate finance and resilience to climate change; and (iv) strengthening governance and institutional capacity by supporting public management reforms and by improving policy coordination and implementation.

B. Poverty Targeting

General Intervention Individual or Household (TI-H) Geographic (TI-G) Non-Income MDGs (TI-M1, M2, etc.)

The program's three-pronged priority areas has the following pro-poor and inclusive design features:

- (i) creating fiscal space by enhancing domestic resource mobilization and public financial management (PFM) so that the government has adequate fiscal headroom to allocate higher investment in physical and social infrastructure required to realize the economic vision;
- (ii) facilitating private sector development by promoting value chain development and entrepreneurship that provide incentives for small and micro enterprises including those that are women-owned or women-led; and
- (iii) promoting green recovery by focusing on policy and institutional foundations such as Bhutan's first ever national adaptation plan 2022 which covers priority needs and actions in sectors such as water, agriculture, forest and biodiversity, and health and gender-responsive green finance providing incentives for women-owned or women-led enterprises that produce green goods and services.

C. Poverty and Social Analysis

The national poverty rate decreased from 23.0% in 2007 to 8.2% in 2017. Based on the \$3.20/day poverty line for a lower-middle income country, poverty decreased from 36% in 2007 to 12% in 2017. Based on the \$1.90 purchasing power parity/day, extreme poverty was as low as 1.5% in 2017.

1. **Key issues and potential beneficiaries.** The program beneficiaries are vulnerable households and cottage and small industries (CSIs), which account for 95% of all industries in Bhutan and employ over 90,000 people. The policy actions identified in the program will ensure public support in cases of crises and enable a business environment that will allow greater participation of CSIs.
2. **Impact channels and expected systemic changes.** The targeted policy actions of the program will allow for a dynamic, inclusive, and resilient participation of private stakeholders, especially the marginalized groups, through improved public sector management and service delivery, conducive business environment, and green financial policies and institutions.
3. **Focus of (and resources allocated in) the transaction technical assistance (TA) or due diligence.** Assessment will be undertaken including for (i) gender-responsive and climate-responsive PFM strategy; (ii) private sector development, particularly for CSI and creative industry strategy; and (iii) capital markets and green finance strategy.
4. **Specific analysis for policy-based lending.** The program's 3 policy support areas will support the poor, vulnerable, and excluded groups in the following mechanisms: (i) improved fiscal space and PFM will provide

higher investments in social infrastructure, (ii) enabling business environment will allow wider participation in the market economy, and (iii) green reforms will ensure economic resiliency. Short-term PFM policy and regulatory reforms are expected, supplemented by economic structural reforms in the medium term to enable greater private sector development. Ultimately, the program's impact will be a dynamic, prosperous, inclusive, and sustainable economy in line with Bhutan's overarching development objective.

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? Bhutan ranks 131st in the 2020 Global Gender Gap Index.^a This low rank can be attributed to the traditional division of work, which impacts women negatively while managing household resources. An ADB-supported study on valuation of unpaid care work in the country revealed that women perform 2.5 times more unpaid care work compared to their male counterpart.^b The program targets gender-responsive policy actions, which in this context refers to, but is not limited to, an assessment of current employment status of women and identification of opportunities to increase women-owned or women-led enterprises. These are those enterprises that have: (i) majority of shares held by woman and/or women, or (ii) a woman is the senior executive leading the enterprise.
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 access to and use of opportunities, services, resources, assets, and participation in decision-making? Yes No
The program sets gender targets (finalized after baseline data is available) for participation in entrepreneurial activities.
3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?
 Yes No
It is not envisaged that the program would have an adverse impact on women.
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 EMPOWERING THE POOR

1. Who are the main stakeholders of the project, including beneficiaries and affected people? Explain how they will each participate in the project's design.
The key stakeholders of the program include government agencies (local and central), vulnerable sectors, CSIs, and other entities responsible for project design, implementation, monitoring, and evaluation (consultants, contractors, nongovernment organizations). A consultation and participation plan will be developed to clarify levels of engagement with different stakeholders.
2. Who are the key, active, and relevant civil society organizations (CSOs) in the project area?
Since the program aims to improve private sector development, relevant CSOs include industry associations, chambers of commerce, financial market associations, and entrepreneurial groups among others.
3. Are there issues during project design for which participation of the poor and vulnerable is important?
 Yes No If yes, what are these issues?
4. How will the project ensure the participation of beneficiaries and affected people, particularly the poor and vulnerable and/or CSOs, during project design to address these issues?
Consultations with government agencies allowed for the identification of policy actions that empower targeted beneficiaries. Specific needs for empowering government agencies were also discussed and the attached transaction TA will support the implementation of programs.
5. What level of CSO participation is planned during the project design?
(M) Information generation and sharing (M) Consultation (L) Collaboration (NA) Partnership

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
The proposed program does not involve any civil works or any land acquisition that will result to physical or economic displacement. A safeguards assessment matrix will be prepared to assess possible impacts of each policy actions under subprogram 1.

2. What action plan is required to address involuntary resettlement as part of the transaction TA or due diligence process?	
<input type="checkbox"/> Resettlement plan	<input type="checkbox"/> Resettlement framework
<input type="checkbox"/> Environmental and social management system arrangement	<input type="checkbox"/> Social impact matrix <input checked="" type="checkbox"/> None
B. Indigenous Peoples Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> 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? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No While the proposed program has national coverage, the ethnic groups in Bhutan are not targeted. However, ethnic groups as individuals may participate and/or indirectly benefit from the program's reform areas. A safeguards assessment matrix will be prepared to assess possible impacts of each policy actions under Subprogram 1.	
2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
3. Will the project require broad community support of affected indigenous communities? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
4. What action plan is required to address risks to indigenous peoples as part of the transaction TA or due diligence process?	
<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"/> None
V. OTHER SOCIAL ISSUES AND RISKS	
1. What other social issues and risks should be considered in the project design?	
<input checked="" type="checkbox"/> Creating decent jobs and employment (H)	<input type="checkbox"/> Adhering to core labor standards
<input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS	<input type="checkbox"/> Labor retrenchment
<input type="checkbox"/> Increase in unplanned migration	<input type="checkbox"/> Increase in human trafficking
<input checked="" type="checkbox"/> Increase in vulnerability to climate and natural hazards (L)	<input type="checkbox"/> Affordability
<input type="checkbox"/> Creating internal social conflicts	<input type="checkbox"/> Creating political instability
<input type="checkbox"/> Others, please specify _____	<input type="checkbox"/> Creating political instability
2. How are these additional social issues and risks going to be addressed in the project design? To mitigate the risks, the effect of the reforms will be clearly reflected in the outcome indicators in the policy design and monitoring framework.	
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 process 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?	
<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social, and/or gender analysis, and the participation plan during the transaction TA or due diligence? The proposed program will be designed considering all staff and other physical resources during due diligence.	

Source: Asian Development Bank.

^a The World Economic Forum. 2019. [Global Gender Gap Report 2020](#). Geneva.

^b ADB. 2020. [Valuing Unpaid Care Work in Bhutan](#). Manila.