

BHUTAN: RURAL ECONOMY ADVANCEMENT

United Nations Development Programme
United Nations Capital Development Fund

POVERTY REDUCTION AND MDG ACHIEVEMENT



Background

Bhutan, land-locked between China and India, is one of Asia's smallest nations with a population of 683,407. In 2009 Bhutan's GDP per capita in 2009 was \$4,837 (PPP), and the country was ranked 131st of 182 in the Human Development Index (HDI). The rate of real GDP growth peaked in 2007 at 19.7% and was 5.0% in 2008. The hydropower industry has been the major export earner for the last two decades and the largest source of income to the country, constituting about 25% of GDP in 2007. Roughly 69% of the Bhutanese population are small and subsistence farmers with limited access to fertile land, constrained by the remoteness and mountainous terrain. Its first democratic elections were held in March 2008. This momentous peaceful transition provided the country with better opportunities to establish the necessary institutional framework for its economic and social development. Bhutan balances its modernization with its ancient culture and traditions under the guiding philosophy of Gross National Happiness (GNH).

Although Bhutan has made sustained progress toward attaining the MDGs and is well on track to reach most of the targets by 2015, challenges remain, especially in rural areas, where poverty prevalence stands at 30.9% (and in some areas as high as 52.9%), compared to about 1.7% among the urban population. Reducing food poverty, enhancing gender equity, improving skilled birth attendance to reduce maternal mortality, curtailing the spread of HIV/AIDS, and addressing youth unemployment are the major areas of concern.

The government is committed to achieving the MDGs by 2015, and upholds poverty reduction as the central focus of its Tenth Five-Year Plan (2008-2013). Currently, the government allocates one quarter of its budget for the education and health sectors with the objective of providing universal free education and health services to its citizens. As the population is highly scattered and dispersed, delivering and maintaining basic services require substantial increases in financial and human resources in the long run.

MDG Localization and Local Development Programmes

UNDP, in close partnership with UNCDF, has supported local governments in decentralization through the inter-governmental fiscal transfer mechanism. This intervention has led to innovation and strong participatory decision-making processes for local governments to improve the delivery of public services. During 2008-2010, UNDP has been supporting capacity development initiatives for local government officials in all districts and blocks through 'Targeted Community Development and Pro-Poor Local Governance Initiatives for Poverty Reduction'. Within the framework of the initiative, the Local Development Division of the GNH Commission has provided training to local officials in planning, needs assessment, budgeting, monitoring, evaluation, and strategic visioning.

Moreover, the 'Local Level initiatives to Accelerate MDG Progress', a global SNV and UNDP corporate intervention, supports local



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governments to implement and manage their resources in accordance with MDG priorities at the local level. This intervention, coordinated with the larger joint UNDP/UNCDF Decentralization Support Programme (DSP 2008-2013), has resulted in an up-scaling of the programmes into a national Local Governance Support Programme that includes UN and other bilateral development partners and covers all 20 districts and 205 blocks in the country.

The Rural Economy Advancement Programme (REAP) was launched in 2008 as a targeted initiative with an overarching goal to reduce the percentage of Bhutanese people living below the poverty line to 15% by 2013. REAP identifies sections of the population who have not benefited from the broad interventions and for whom special programmes are needed to accelerate poverty reduction. For doing so, it mainstreams gender, youth and child-specific interventions,

promotes participatory approaches, and anchors implementation at the local level.

REAP led to comprehensive village development plans in two districts, Zhemgang and Mongar. Communities have benefited from targeted investments to: (a) improve agricultural productivity, including crop diversification for enhanced food security and nutrition intake; (b) generate additional income through skills development in nonagriculture livelihood activities using locally available materials; and (c) establish self-help groups to develop capacities of communities in achieving greater economy of scale, enhanced marketing of products, and cooperation. Examples of innovative interventions that are either implemented or underway, are: the provision of training and materials for the production of organic fertilizers, eco-food and non-food products, cane & bamboo handicrafts, banana chips, candles, organic cotton, and bakery. This is done through the formation of groups, annual promotional events, and skills development of farmers, including women and men, in carpentry and masonry for housing construction and income generation during off-farm seasons.

Although REAP aims primarily at contributing to MDG 1, it is very likely to deliver impact across a range of MDG targets due to its holistic and integrated approach. For example, construction of housing and public facilities reduces risks to natural disasters and, using local materials, provides a new set of skills to local men and women. Production of handicrafts using local bamboo, which has been planted under the pilot project, was coupled with measures to protect the natural water resources in targeted localities. The REAP pilots demonstrated that the project could mobilize communities in local development processes and improve their skills and knowledge to generate income. The social capital within the communities has increased through group collaboration, mutual support and creation of saving schemes among the selfhelp groups for further business development.

Opportunities for Scaling Up

The initiatives currently under implementation have demonstrated the likelihood of high impact in improving rural livelihoods, especially for disadvantaged and vulnerable communities, by combining employment creation, environmental protection, local governance and capacity development. It is evident that, in the medium term, an integrated approach at the local level is the most effective way to combat poverty and the growing threats of climate change and natural disasters.

THE ROLE OF LOCAL GOVERNMENTS IN ACHIEVING THE MDGS:

Bhutan has a decentralized system of governance, administratively divided into 20 districts (Dzongkag) and 205 blocks (Gewogs). The Local Government Act (2009) lets local governments be accountable in their functional and financial responsibilities, including specific tasks in regulation, administration, the provision and maintenance of infrastructure, capacity development, and human resource development.

The central government transfers 40% of its total budget to local governments. This money is then re-distributed in a ratio of 70:30 between a district and its blocks. The final capital annual grant allocation for each block is disbursed based on a formula using population, poverty index, and geographical area. The local government's revenue generation through rural taxes, mostly from land and property, is relatively very small.



In order to accelerate efforts in poverty reduction, the government has identified 20 additional villages to replicate successes from pilot villages supported by REAP. By delegating substantive decision-making responsibilities to local governments in the processes of planning, budgeting, implementation, and monitoring, the scaling-up initiative will support the decentralization agenda. The investments envisaged under the scaling-up phase will include innovative approaches to increase productivity through sustainable agricultural practices, skills development among farmers and rural entrepreneurs, and small businesses. Social capital investments will be replicated in the target communities. Depending on the outcome of the needs assessment in completing the Village Development Plans for Phase II, investments may be made in: (a) awareness programmes concerning education and health; (b) knowledge to enable people to pursue different livelihood strategies; (c) the provision of social resources through establishment of networks; (d) support to market development; (e) the management of services and natural resources; (f) basic infrastructure; and (g) facilities and public services that support the community's well-being, including services related to health, education, rural water supply schemes, sanitation, waste management, and energy.

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