

COVID-19 and social protection in South Asia: Bhutan¹

Krista Joosep Alvarenga and Fábio Veras Soares, International Policy Centre for Inclusive Growth (IPC-IG)

COVID-19 is posing an unprecedented challenge to countries' social protection systems. Informal workers are particularly at risk, as they often represent the 'missing middle', covered by neither social assistance nor social insurance. In a recent policy brief, the International Policy Centre for Inclusive Growth and the United Nations Children's Fund Regional Office for South Asia (IPC-IG and UNICEF ROSA 2020) analyse the economic fallout from the crisis and the policy measures taken in eight South Asian countries, and advocate for the inclusion of the missing middle in mainstream social protection. This One Pager summarises the study's findings for Bhutan.

Bhutan has dodged the weighty health impacts of the COVID-19 pandemic. It is the country with the lowest number of confirmed cases per head of population in South Asia. No nationwide lockdown was adopted, and many businesses, including restaurants, remained open; however, measures such as the suspension of tourism, school closures, closure of the border with India and a countrywide recommendation to avoid non-essential travel were adopted.

Due to these restrictions, the tourism sector has taken a considerable hit. Tourism and related sectors are estimated to employ 50,000 Bhutanese, representing about 16 per cent of the working population. This figure dismisses informal workers in entertainment, clothing retail and street vending sectors. A recent survey conducted by the United Nations Development Programme (UNDP) and the National Statistics Bureau on the impacts of COVID-19 on the tourism sector highlights that two thirds of tour companies were completely closed and 92 per cent of tourist guides working as casual employees for tour firms have been laid off. These workers do not have access to social insurance (e.g. severance payments) and are not typically eligible for social assistance programmes, representing a typical case of the missing middle.

The International Labour Organization (ILO) estimates that informal labour constitutes 87.52 per cent of total employment in Bhutan. According to the ILO, at least 90 per cent of informal workers are expected to be significantly affected. According to World Bank estimates, an additional 5,503 people will fall into poverty based on the poverty line of USD3.20 per day, and 14,083 people based on USD5.50 per day. These represent many of the informal workers requiring social protection coverage.

Bhutan's social protection response has been relatively inclusive of the missing middle. The main social assistance measure adopted by the government is the Druk Gyalpo Relief Kidu (welfare system), providing hitherto monthly transfers of BTN8,000 or BTN12,000 to 23,000 people (these amounts for 3 months and thereafter phase-out amounts), with a top-up of BTN800 for 13,000 children, totalling a budget of BTN700 million. Most of the applicants to the Relief Kidu have been from the tourism sector, followed by transport, communications and other services sectors. The Relief Kidu is available and has been granted to self-employed people, workers with suspended contracts, unemployed people and returning Bhutanese.

An employment support scheme for the tourism and hospitality sector and jobless Bhutanese citizens is also provided by the Tourism Council of Bhutan. At least 2,436 individuals have benefited. Additionally, working capital credit at a 5 per cent interest rate is available to tourism-related firms to finance operational costs, especially payroll.

Bhutan has low social insurance coverage, comprising the Rural Insurance Scheme (semi-contributory compulsory housing and life insurance for about 60,000 rural households), the Group Insurance Scheme and the National Pension and Provident Fund (NPPF). Employees of firms with at least five employees and with labour contracts beyond one year must participate in the NPPF, while employees of firms with five or fewer employees must rely on voluntary coverage, guaranteeing social insurance instruments only to a subset of formal workers. Overall, only 9.1 per cent of the working-age population contribute to pension schemes for people aged 15 years and above, and only 3.2 per cent of the population beyond retirement age are covered by a pension scheme, making it important to start formalising informal work.

As for social assistance, His Majesty's Kidu Office manages a kidu comprising cash and in-kind transfers to Bhutanese citizens. Beneficiaries must be deemed needy or landless, have a disability or be a child without a source of income to attend school. The kidu under the prerogative of the Druk Gyalpo provides benefits in the form of land grants, monthly living allowances and scholarships.

Looking beyond the COVID-19 crisis and reflecting on the current social protection system, Bhutan could enact further social protection transformations, guaranteeing adequate coverage consistent with a rights-based, universal notion of social protection:

- To safeguard minimum social security in the face of idiosyncratic or covariant shocks, social protection floors must be expanded to cover the missing middle, mostly comprising non-poor informal workers. A universal child grant could help to reach the missing middle and be a key shock-responsive instrument in the context of a covariate shock such as the COVID-19 crisis.
- Social insurance is currently only accessible to a subset of formal workers in formal-sector enterprises. Semi-contributory social insurance accounts with public subsidisation could be opened up to self-employed people—i.e. extending the NPPF pension schemes or incentivising contributions towards unemployment or severance payments.

Reference:

IPC-IG and UNICEF ROSA. 2020 (forthcoming). *Socio-economic impacts of COVID-19, policy responses and the missing middle in South Asia*. Research Report. Brasília: International Policy Centre for Inclusive Growth.

Note:

1. The authors gratefully acknowledge the support and comments received from Jigme Dorji (UNICEF Bhutan Country Office). Full references for the data cited in this One Pager can be found in the full report (IPC-IG and UNICEF ROSA 2020).