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INITIATION/CONCEPT STAGE

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I. Introduction and Context

Country Context

Poverty in Bhutan has declined, but remains high in rural areas. Bhutan's past development efforts have resulted in strong economic progress, with per capita gross national income (GNI) consistently growing from US\$730 in 2000 to US\$2,070 in 2011. GDP growth was at about 8 percent in 2011/12. Per capita GDP increased to US\$1,800 in 2011; as a result, the poverty rate fell from 36 percent in 2000 to 23 percent in 2007, and down to 12 percent in 2012.¹ However, progress has been markedly slower in the rural areas of Bhutan, which accounted for 98 percent of the country's poor in 2007.² Another notable trend is that poverty is spread unevenly geographically; poverty rates are especially high in the remote and isolated mountainous areas, where there is limited access to jobs, services, infrastructure, and markets. They are the highest in the remote areas of the south and south-west and east where average poverty rates are well above the national average, ranging from 22.4 percent to 61.6 percent. Employment opportunities in these areas are further constrained because of the low absorption capacity of the public sector and the slowly growing private sector.

Young people represent the largest segment of the poor, and unemployment among youth is associated with increasing social problems. The unemployment rate in Bhutan has risen from 9.9 percent in 2007

¹ State of Nation Report, Bhutan, 2013

² Country Partnership Strategy for the Kingdom of Bhutan FY11-14, October 27, 2010.

to 13 percent in 2010, and is highest among young people (CPS for Bhutan, 2010). Bhutanese at ages 15 to 24 years old now account for four-fifths or 81 percent of the unemployed^{3, 4}. Due to the limited income generating opportunities in rural areas, many youth are moving to the urban and peri-urban areas, and abroad. Youth migration from rural areas in turn leads to a scarcity of labor in agriculture, a weakening of the traditional social fabric in rural areas, and the erosion of cultural and traditional values among young people. Without employment opportunities in the urban areas, the youth that migrate to the urban areas are especially vulnerable to drug and alcohol abuse, petty crime, and prostitution – all of which are on the rise. During the past year, moreover, there has been an increasing rate of suicide among youth – mostly tied to unemployment and misuse of illegal drugs and alcohol.

There is a mismatch between employment opportunities and youth education, skills, expectations, and market needs. Young people, especially in remote, poor, and mountainous rural areas, lack access to the limited land and other productive resources in Bhutan, and have little interest in the mostly subsistence and manual-labor based farming. At the same time, the youth lack job and income-generating opportunities outside the farming sector. Education curricula, which are heavily academic, do not equip youth with the knowledge, skills, and attitude to match the country's labor needs. There is also a limited number of short-term private training and re-training institutions and courses. This is aggravated by poorly developed life skills among youth, most of whom lack the confidence to make decisions, take risks, and be proactive in seeking income generating opportunities. In addition, the expectations and preferences of youth on the quality and location of employment do not match labor market realities.

Jobs held by women compared to those held by men tend to pay less, are less secure, or lead to poverty. According to the Gender Policy Note (2013) launched by the National Commission for Women and Children in collaboration with the World Bank and AusAID, Bhutan has made tremendous progress in female labor force participation, and now surpasses the East Asia and Pacific average. According to the labor force survey of 2011, the data show that there is little gender disparity in terms of overall employment, with labor force participation rates of 72.3 % for males and 67.4 % for females. However, the survey also showed that Bhutanese women work in lower quality jobs than men and are less secure. This observation is supported by the fact that women tend to work in low-paying sectors such as agriculture, which accounts for 68% of all female workers (compared to only 53% of male workers).

Sectoral and Institutional Context

Bhutan is predominantly an agricultural country with more than 60 percent of its population depending on natural resources for livelihoods. Although growth in the renewable natural resources (RNR) sector has remained relatively slow since 2000 at around 1.6 percent per year, with its share of GDP declining from 22 percent in FY 2004/05 to 11.6 percent in FY 2011/12 (RNR 11th Sector Plan, 2012), it continues to be a major player in improving the economy, livelihoods, and environment of Bhutan. Difficult to cultivate mountainous terrain, limited fertile arable land, natural disasters such as landslides and flash floods, and climate change with unpredictable droughts and heavy rainfalls make agriculture in Bhutan challenging and risky.

Youth has little incentive to engage in agriculture. With limited availability of arable land, young people

³ Youth Employment in Bhutan, Millennium Development Goals Acceleration Framework, December 2013

⁴ The Labor Act of Bhutan of 2007 allows young people from the ages of 13 years to undertake work in certain categories and in specified work places (reference National Youth Policy 2010 of Department of Youth and Sports, Ministry of Education).. However, all available youth employment data for Bhutan cover youth from the ages of 15-24, which is consistent with the International Labor Organization (ILO) indicators on youth employment.

traditionally do not own land and do not make decisions in family-based farming while their parents remain economically active. Young people mostly work as laborers in their parents' farming structures even after starting their own families. Any incentive to establish their own farms and settle in their own villages also are undermined by the quality of life, especially in remote isolated areas, marked by poor physical and social infrastructure; poor or no roads; inadequate, often distant educational, child care, and health facilities; and the low productivity of the existing agricultural lands. Young people's incentives to engage in agriculture are further constrained by the lack of basic modern entrepreneurial and farm management skills, inadequate access to financial resources and the high cost of capital from informal rural credit sources, weak market linkages, and vulnerability to price fluctuations. Limited off-farm opportunities contribute further to the exodus of youth to urban areas. It is mostly young women who stay engaged in farming as family laborers. For example, 15-24 year-old women are engaged in farm labor at twice the rate as their male counterparts.⁵

The pillars of the 11th National RNR Sector Plan are the advancement of equitable and sustainable socioeconomic development, preservation and promotion of cultural values, and conservation of the natural environment. On this basis, and guided by the country's philosophy of Gross National Happiness (GNH), RNR sector management in Bhutan is characterized by a holistic approach to rural livelihoods based on the interconnection of agriculture, livestock, and forest resource use in the context of cultural heritage preservation. Such a holistic approach presents an opportunity to address rural poverty, livelihoods, and vulnerability issues in a complex way year-round while ensuring sustainable use of natural resources without eroding rich cultural and traditional values.

The RGoB aims to achieve green economic growth, inclusive of social development, poverty alleviation, and climate smart sustainable management and use of natural resources. It specifically focuses on populations in districts having the most vulnerable *geogs* (*communities*) with high poverty levels, aiming to develop sustainable rural livelihoods through improved farm productivity, market trading, management, and the application of market-oriented information and communication technology. In addition,

Job creation is the highest priority for RGoB. Creating jobs, particularly for the increasing number of unemployed youth in the poorest and most vulnerable remote regions of the country, is a formidable challenge because almost all educated Bhutanese youth and those leaving agricultural activities are now seeking urban employment opportunities. In the past, the majority of the educated Bhutanese were employed in the public sector, where most Bhutanese preferred to work. However, this sector has reached its saturation point with only a handful of graduates gaining employment on an annual basis, thereby leaving the rest to be engaged in other sectors, potentially the private sector. RGoB, therefore, has placed improving the quality of employment and job opportunities to ensure full employment, particularly for youth, as a high priority in the 11th five-year plan (2013-2018). Six sectors were identified as being most promising for youth employment: tourism, arts and crafts, construction, agriculture, health, and information and communication technologies (ICT).

Tourism is the country's second largest industry after hydropower,ⁱ contributing about US\$150 million to its GDP (2011). However, benefits from the growing tourism sector are prospering a relatively small group of people, and rarely trickle down to local communities, especially in areas not frequented by tourists. In order to ensure a larger share of benefits from tourism, particularly because Bhutan's current policies support attracting high-end tourists, the RGoB aims to support community-based tourism and enterprise development, which could bring a significant number of jobs and other income-generating opportunities to rural areas, and especially to young people. In addition, tourism income can be

⁵ Labor Force Survey 2012, Ministry of Labor and Human Resources, 2013

diversified with the improvement of hospitality facilities and services in rural areas, and with the development of local tradition-based products such as crafts and cottage industry products. There is a great potential to improve the marketability of craft products through a diversification of products themselves, an introduction of simple but more efficient technologies, and improved skills and pricing. At the same time, there is a need to train youth in traditional crafts so the ancient skills mastered by the older artisans are not lost. While rural areas in the south-western part of the country are not major craft producing areas, the eastern districts are known for weaving and other crafts, most of which are sold to tourists in Thimphu, Punakha, and Paro.

Bhutan's booming ICT sector affords important opportunities to engage rural communities, especially youth. With Bhutan's small population of about 750,000 spread over very difficult mountainous terrain, access to global markets, technology, and services are essential to promote sustainable development in Bhutan in which the private sector can play an important role. The RGoB recognized this, and adopted a two pronged strategy for private sector development: (a) improving the investment climate in the country to reduce the cost of doing business; and (b) facilitating the growth of niche sectors as a potential source of growth and employment generation. In this regard, information and communication technology (ICT) has been identified as having a great potential for the creation of jobs and increasing incomes. According to the Government's ICT master plan, the development and application of IT will need to be guided by three broad policy objectives: (a) using IT as an integral tool to enhance good governance, (b) developing IT and IT-enabled industries in the private sector to generate income and employment, and (c) applying IT to improve the livelihoods of all Bhutanese. Although Bhutan is a relative newcomer to using IT, young people in the Dzongkhag centers access the internet through their smartphones, and at community information centers established by the RGoB in each *Dzongkhag*. Nonetheless, a rapid assessment in the target areas revealed negligible internet use and little use of data transfers by smartphones.

Employment of youth in rural areas is constrained by the lack of access to finance, business, and technical training as well as life skills and orientation toward making the most of local opportunities. Removing these constraints requires support in the form of interest-free or low interest project-based lending, technical training in business management, project mentoring and start-up technical support, and idea generation workshops to stimulate interest and confidence amongst the youth. Considering the country's cultural traditions and current state of development, youth in rural areas especially need support in accessing income-generating opportunities during non-farming seasons that do not require capital investment and professional education. In addition, the lack of engagement and motivation in the depressed regions need to be addressed in order to generate local entrepreneurship. This is feasible if the youth are empowered with self-confidence, knowledge, appropriate skills, and start-up opportunities.

Relationship to CAS/CPS/CPF

The proposed project is fully in line with the World Bank's Country Partnership Strategy (CPS) and Bhutan's 11th Plan for National Development (2013-2018). The CPS reinforces the importance of addressing employment and its diversification, noting the unprecedented pressure from rising youth unemployment, and the increase in social problems associated with the migration of rural youth to urban areas. In addition, the CPS highlights the importance of "continued expansion of basic infrastructure and quality services in growing urban centers while simultaneously ensuring that rural parts of the country have the services, infrastructure, and opportunities people need for an improved standard of living and to make rural life more appealing overall."

The CPS aims at unleashing the potential for private sector development through local entrepreneurship, advancement of appropriate knowledge and skills in partnership with the private sector, and

diversification of the economy. Both the CPS and Bhutan's National Plan emphasize the importance of the country's rich and living cultural heritage because it is not only a potent source of national identity and social interaction, but it also holds considerable potential for generating economic and social benefits such as through the promotion of income-generating opportunities based on cultural and natural heritage, and the development of micro, small, and medium sized enterprises (MSMEs).

The proposed project is also fully consistent with Bhutan's National Youth Policy which aims at promoting employment opportunities for young people in eco-tourism, small and medium scale enterprise development, life skills, education, and job opportunities for young people who have dropped out of school. Since the new Government took office in August 2013, one of the main targets that will be pursued to meet the objectives of the 11th Five Year Plan is to reduce youth unemployment in the next five years.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From CN)

The project's development objective is to generate new and more productive sources of income for poor and vulnerable youth in selected dzongkhags in south-western and eastern Bhutan. The proposed project will achieve this objective by promoting the establishment or upgrading of existing youth-led, managed, and operated business enterprises that aim at generating employment for poor and unprivileged youth. In achieving this objective, the project will contribute to the national goal of enhancing economic opportunities for unemployed youth, alleviating rural poverty, and reducing the vulnerability of the local population in the poor and remote areas of the country, which also are the most vulnerable to climate variability.

Beneficiaries: The direct beneficiaries of the project will be around 2,000 out of school, unemployed, and under-employed young people up to age 30 years old in around 6 dzongkhags in south-western and eastern Bhutan. While youth from these dzongkhags will benefit directly from the youth-led enterprise development, capacity building programs, and value added production and marketing activities, residents of the surrounding communities where these enterprises will be established will be *indirect* beneficiaries through the development of job opportunities and income generating youth-led enterprises that would be expected to improve the overall economic status of these dzongkhags.

The initial six dzongkhags that will be the focus of Phase I of the youth enterprise development program would be selected from the following dzongkhags: Samtse, Haa, Chukha, Trongsa, Dagana, and Wangdue in south western Bhutan and Pema Gatsel, Sandrup Jongkhar, Trashigang, and Trashigang Yangtse in eastern Bhutan. Selection of the pilot Phase I dzongkhags would be based on readiness and commitment of the dzongkhag administration to the program and will be finalized at the Appraisal stage of the project. Based on the satisfactory completion of the Phase I pilot, it is anticipated that additional financing will be provided to support a Phase II program to expand activities to dzongkhags that are not covered under Phase I as well as other additional dzongkhags (that are not in the list of ten) with high poverty levels. According to the Bhutan Living Standards Survey 2012, these dzongkhags are among those with the highest poverty rates in the country. In order to build synergies, maximize benefits, and improve cost effectiveness, the dzongkhags in south western Bhutan are located in the same geographical areas as those in the Remote Rural Communities Development Project (RRCDP) financed by the World Bank and implemented by the Ministry of Agriculture and Forests (MoAF) so as to maximize benefits (for example, improved roads and community development) from the two complementary programs, ensure cost effectiveness, and more importantly, address issues of vulnerability and poverty among the youth in the target Dzongkhags in a more holistic and integrated manner. This is in keeping with the RGoB's philosophy of Gross National Happiness, which among

other principles recognizes the need for a holistic and comprehensive approach to improving rural livelihoods, and reducing economic and climatic vulnerabilities and takes into account cultural and natural heritage as an integral element of rural development and job creation in the country. The proposed project has the potential to innovate by piloting this integrated approach to rural development.

The level of poverty in the listed dzongkhags is among the highest in the country (with a significant number of geogs (villages) having poverty rates that are over 50 percent), with very limited employment opportunities for young people and weak local capacity. The main development objective of the RRCDP in the six south western dzongkhags is to increase agricultural productivity and access to community assets in remote rural areas by improving access to markets, irrigation, agricultural technologies, and community infrastructure. Improvement in market access would be achieved by investments in farm roads and marketing infrastructure. Agricultural productivity and rural incomes would increase through the promotion of improved irrigation and agronomic practices and the rehabilitation of productive assets for key commodities.

There is a built-in synergy between the RRCDP and the proposed JSDF project. In particular, marketing infrastructure and services, training and skills development, and market outreach supported through the RRCDP would benefit participants of the JSDF project. The participants in the proposed JSDF project will also benefit from the RRCDP investments in community infrastructure. While the main focus of the RRCDP is on-farm agricultural improvements, the proposed JSDF activity will focus primarily on off-farm income generating activities, ensuring complementarities of efforts and benefits. Locating the project activities in the same areas as the RRCDP will allow JSDF to capitalize and maximize the benefits of the RRCDP-financed investments, training, and capacity building, and to promote a more holistic approach to rural development and job creation.

Key Results (From CN)

Progress in achieving the PDO by the end of the project period would be measured by the following key results indicators:

- At least 2,000 young people (which will include at least 30% women) from the target dzongkhags actively engaged in project-related activities.
- At least 50 percent of the youth-led enterprises operating profitably and reporting improved incomes;
- New jobs created by the youth-led enterprises (target: 1,000).

III. Preliminary Description

Concept Description [and Implementation Arrangements]

The proposed project aims at supporting a pro-poor, youth-led, locally-driven enterprise development approach to generating new opportunities for youth employment in the south-western and eastern regions of Bhutan. Taking into account local need and social dynamics, the project would: (a) empower the poorest and most vulnerable communities through support for capacity building and investment in youth-driven enterprise initiatives; (b) create jobs for poor and unemployed youth through agricultural and natural resource based activities, and (c) improve the lines of communication between the local government and private sector entities and the unemployed youth in the poorest and most vulnerable communities, building local capacity, and raising awareness of employment options and opportunities.

The concept for the proposed project addresses the urgent need to generate jobs for rural and vulnerable youth living in some of the poorest and most remote areas in Bhutan, through support for development of sustainable businesses that can generate increased income and jobs for their members, which include youth, women, and the elderly. The concept is based on lessons learned from previous and ongoing state, donor-funded, and private-sector operations in areas of youth empowerment, poverty reduction, and niche product development in Bhutan and other countries in South and Central Asia. The following are major lessons learned that are reflected in the project concept to help ensure that it achieves its development objectives.

- (a) *The project needs to be closely linked to other investments and technical assistance to maximize results and cross-support operations, and ensure a holistic and cost-effective approach to rural development and job creation.* Innovative approaches to poverty reduction and employment generation need intensive support with technical assistance and capacity building. In this regard, it is effective to link grant and loan based operations to ensure synergy of investments in capacity building and empowerment with projects supporting improved infrastructure, technologies, and production.
- (b) *Project support should focus on developing limited types of production to ensure economy of scale and marketing of products.* There have been projects run by CSOs in Bhutan focusing on a wide range of value chain productions in different areas with a limited number of beneficiaries. This approach faced problems with producers not able to market their products outside of their settlements.
- (c) *Youth-led social entrepreneurship can be deployed successfully in the South Asian context to engage youth and women on a sustainable basis.* There is successful experience in South Asia, and other parts of the world, of youth-led social enterprises tackling social problems of communities while generating income. In Bangladesh, for example, this approach has been successful by motivating people around problems, and solving these problems not through charity but through the calculation of overall benefit to individuals and their community that provides a return on the effort (labor) expended. Young people can benefit from such enterprises that build their skills and confidence. The approach can create wealth in the community, build trust and responsibility among young people, provide role models, generate income, and give youth decision making power and voice. When addressing social problems, youth-led enterprises tend to *engage* more people and create more jobs than standard businesses, and reach the most disadvantaged.
- (d) *In a country with poor infrastructure and mountainous terrain, internet and mobile technologies can be used to reach communities in remote and isolated areas, improve product development, and marketing.* In Bhutan, the use of internet-based social networks and other media can disseminate information and raise awareness among youth, especially in the remote project areas. In general, youth can be better reached through social networks and tend to be adept and motivated to then harness ICT for their enterprises.
- (e) *Projects need to engage youth from the start to ensure that it is tailored to their needs and expectations.* Youth need to be actively involved in generating project ideas and project preparation to ensure they are engaged in project implementation not only as beneficiaries, but as partners in studies, job opportunity decision making, capacity building, and empowerment activities. They also will aid in formulating strategies for the development and functioning of youth groups and their associations, elaborating business plans, and developing advisory networks. To ensure the effectiveness and sustainability of social enterprises, the project will engage dynamic and motivated youth to start up social enterprises in target areas.

B. Description

The proposed Phase I of the JSDF project will consist of the following four components that will be implemented over the course of a three-year period:

Component 1: Support Structures to Facilitate Youth-Led Enterprise (YLE) Development (US\$150,000). The objective of this component is to establish specialized project technical support teams and equip them with the necessary capacity to assist youth living in the targeted communities to identify, develop, and lead new business enterprises in a sustainable manner. The teams will consist of specialists who have skills and experience in the niche products and services that the new youth-led enterprises are likely to pursue. A preliminary assessment identified the following potential niche products and services as those that can be developed with a modest investment and improvement in existing skills (Annex 2 presents a longer list of potential products and services as well as the types of support needed):

- Jams, juices, and syrups processed from local forest and cultivated fruits and berries; dried wild and cultivated fruits, berries, and mushrooms;
- Cottage products such as traditional art and crafts, soaps, aromatic oils and incense, hand-made paper, yak and sheep wool products, pottery for cooking and gardening, cane and bamboo items, and other similar niche products for the tourism and hospitality sector;
- Dairy products such as cheese and yogurt for tourists and local consumption;
- Community-based tourism with home stay and hospitality services;
- Non-wood forest products (NWFP) such as fodder, fiber and flosses, medicinal plants (exudates), natural dyes, ornaments, honey, and beeswax;
- Organic vegetables and seed production; and
- Briquette production, fresh water bottling, and small-scale furniture enterprises.

In working with the youth, the teams will ensure that new enterprises in any one community involve production and promotion of no more than three niche products or services depending on local conditions. This principal follows a community-based business development strategy known as “One Village-One Product” which aims to ensure a consistently good quality of the products, sufficient quantity of the products to be marketed at the national and even global levels, and the development of a brand that reinforces informal efforts at the community level to maintain needed quality and quantity of products. Another important reason to focus on a limited number of products is that it will facilitate broad-based mobilization and engagement of youth and other community members into enterprises to ensure economies of scale and efficient marketing. The aim is to select products that are part of Bhutan’s cultural and environmental heritage, have local importance, and can generate demand outside of the specific regions and ultimately as potential exports. The project would also seek to identify special niche market products that have potential for export.

Through this component, the project also is expected to enhance self-reliance by substituting imported products with the new products produced in the project communities, and strengthen the community’s social fabric and pride through collective activities such as the branding and marketing of community products at the local and national levels. To the extent feasible, the selection of value chains for the proposed project will be coordinated with RRCDP activities, especially in terms of its horticulture and non-timber forest products development, particularly in the western dzongkhags. Thus, citrus and other horticulture production supported by the RRCDP in target areas can be linked to post-harvest processing of these fruits by the YLEs. The same links will occur with activities based on the processing of non-timber forest products. Component 1 includes three sub-components. The following activities under this component are all aimed at supporting youth in developing new enterprises in the project dzongkhags.

(a) **Rapid Market Assessment and Business Planning.** The project will fund rapid economic and technical studies that will assess an area and its natural resources' potential for community-based enterprises, ecotourism, and development of value-added niche products through simple, yet green and creative processing. These assessments will formulate ways to increase benefits for local communities from these enterprises and support services and products. Based on community discussions and a participatory decision making process, no more than *three value chains* for niche products or services for any one community will be selected and studied for technical and economic feasibility. There will be a corresponding number of master business plans developed for each selected value chain to be used as a foundation for each enterprise. The master plans will have two elements: (i) a market analysis to confirm the viability of and demand for the niche products/services, and (ii) a business plan that follows a generic template (the template will be a guide for enterprises in developing their own specific business plans). Based on the stakeholder consultations, Annex 4 presents a list of potential activities that could be supported in the 6 project dzongkhags during Phase I.

(b) **Project Advisory Network Establishment.** Based on the results of the rapid market studies, the PMU will support the establishment of a project advisory network (PAN) that will include representatives of relevant state agencies (for example, Agency for Promotion of Indigenous Crafts, Tourism Council of Bhutan), educational institutions, NGOs (for example, Youth Development Fund, Royal Textile Academy, Loden Foundation, Tarayana Foundation), and the private sector (for example, senior staff of major local travel agencies, BioBhutan). The objective of the PAN is to select the business proposals that will receive funding and then provide independent technical support and overall guidance to young entrepreneurs from the initial stage throughout the enterprise development and operation. Specifically, the PAN will:

- Review and approve selected value chain business plans and small grant proposals submitted by Youth Led Enterprises (YLEs) after they are reviewed by the project management to ensure that the proposal meets basic criteria (see description of Component 3, section b) ;
- Advise on branding and standards for local cooperative associations when they are established.
- Provide advice and guidance on business opportunities.
- Assist in the establishment of an association of YLEs to ensure coordination of capacity building activities, exchange of experience, joint procurement, and brand marketing.
- Assist in identifying experts and trainers with specialized expertise and resources that will become members of mobile training and mentoring teams (see below).

(c) **Mobile Training and Mentoring Team Formation.** The project will create a mobile training and mentoring team (MTMT) consisting of competitively selected experts/trainers on the following topics: (i) entrepreneurial skills; (ii) business management skills; (iii) technical skills along selected value chains; and (iv) ICT skills. Depending on the selected products for the value chain, the project will recruit international (or local, if available) experts to train and coach MTMTs, and assist in the preparation of a capacity building and mentoring program tailored to the needs of specific enterprises. Specifically, the MTMT will:

- Provide awareness building and technical advice to YLEs in the preparation of small grant funding proposals which would be submitted for consideration to the Project Advisory Network (PAN);
- Advise and guide in the preparation of business plans;
- Support the setting up of YLEs in project target areas;

- Provide training and capacity building to YLEs in entrepreneurial, business, technical, and ICT skills; and
- Implement a mentoring and coaching program.

Through the MTMT, the project will identify young people from the targeted project area who are capable, motivated, and interested in developing their own small-scale enterprise. These motivated youth could serve as a catalyst for encouraging and mobilizing other unemployed or under-employed youth to explore the route of entrepreneurship. The project will identify potential young people through broad campaigns, using Facebook and other social networks, mass media at the national level, village meetings, and information dissemination at the community level. It is anticipated that many of these individuals will be youth who have connections to the RRCDP or other development project areas, live in the dzongkhag centers or other urban areas, and are seeking employment or business development opportunities.

Component 2: Youth Capacity Building and Empowerment (US\$210,000). This component aims at empowering youth to set up and meaningfully participate in community-based enterprises, and equip them with entrepreneurial, organizational, business, and technical skills to generate sustainable jobs and income. This will be achieved through training and mentoring programs, learning by doing, and exchange of experiences through established horizontal networks supported by the MTMT. This component will include three types of core training activities:

- (a) **Capacity Building for Youth Empowerment (Organizational Development and Life Skills).** Youth groups will be provided with tailored training on organizational development and on life skills that will boost their ability to participate actively in society. This capacity building will equip the young people with an ability to make decisions, leading to an increased feeling of self-worth and confidence based on problem-solving through participatory and active learning. It is expected that after the young people receive this training, they will have more confidence and be more likely to want to engage in the businesses developed in their areas, and their capacity to do so will be developed throughout the life of the project. The design of this training will build on the experience of the Youth Development Fund (NGO).
- (b) **Business and Technical Training in Specific Skills and Product Development.** A special training program will be developed on business skills, business planning, financial and records management, and production and marketing rules. Technical training also will be provided on topics related to adding value to specific niche products. The latter will be tailored to the demands of the youth enterprises and needs of the value chain program, and provided by a MTMT comprised of competitively selected private service providers. Private and state agents providing technical training on niche products' design, production, and marketing will be identified, and the training will be provided by relevant international and local experts (for example, topics may include textiles, industrial design, small scale fruit and berry processing, small scale cheese production, and community-based tourism). This approach to upgrading skills will benefit not only the youth residing in the project dzongkhags, but will be open to youth from other areas, especially in and around Thimphu, resulting in a ripple effect.

Training will be arranged to ensure that the MTMTs can provide the initial and follow-up training to YLEs, coaching, and mentoring. It is important to link payment to MTMTs between the training and mentoring services of the project beneficiaries. MTMTs will be paid on the basis of their performance. The payments will be made in two parts: (a) the first payment will be made after the submission of training completion report and the YLE verification report, and (b) the second payment will be based on coaching, mentoring, and follow-up support provided to YLEs over a 6-12

month period after receiving training. Capacity building and coaching will be delivered using modern communication technologies. The project will use mobile training approaches to ensure quality, cost effectiveness, and outreach to geographically isolated areas. Existing community centers, classrooms (after school hours), and other spaces would be used.

The MTMT will establish a mentoring system with the YLEs to provide ongoing support using such ICT technologies as mobile phones and the internet. It is expected that even if young people drop out of project activities, the skills and qualifications (including certificate provided at the end of the trainings) will enable them to seek quality jobs elsewhere.

- (c) **ICT training and application:** The project will aim to use ICT extensively to overcome the remoteness of the target areas, and contribute to establishing stronger brand identity for local products. Training programs would be organized to provide capacity building in ICT to YLEs, and through this training, help facilitate the creation of communications networks aimed at marketing products/services, handle basic management functions such as accounting, and access knowledge and information through web-based training. This capacity building will address the currently low ICT skills in the region, where a rapid assessment indicated that there is almost no ICT skills and technology other than mobile phones which are rarely used for data transmission.

Component 3: Operationalization of YLEs (US\$640,000). The objectives of this component are to (a) build capacity for establishing YLE internal governance arrangements that will ensure the sustainability of the YLEs, and (b) provide seed capital to operationalize the YLEs.

- (a) **Capacity Building for Established YLEs:** Institutional development and internal governance arrangements will be supported through the same MTMT involved in the first project year in establishing the YLEs. Particular attention will be paid to business accounting, transparency, and rules for members to join or leave the YLE, sharing arrangements for input and marketing efforts, and contracting arrangements. It is expected that the YLEs will attract additional persons once they are operational, requiring a nimble administrative structure. For example, if jam is the niche product, then multiple YLEs should be open to pooling resources and outputs to form a producer group of high quality jam producers to meet market demand. In addition, there will be the need to guard against elite capture of the resources that would be made available through the project. Thus, the project's Internal Auditor will conduct simple financial and performance audits, which would be made publicly available to communities to provide information on internal governance arrangements and the recommendations for management improvements. A significant negative audit finding would bar the YLE from accessing further project financing.
- (b) **Grants for New Enterprises.** YLEs will be eligible to compete for small business grants after completion of the capacity building and empowerment program, which is expected to take place during the first nine months of the project. Eligibility criteria will include (i) establishment of a legal entity, (ii) completion of mandatory training, (iii) involvement of an agreed minimum percentage of youth and women, and (iv) submission of an acceptable business plan. The Financial Management/Grant Administrator and PMU staff will carry out a preliminary review of proposed applications for a grant. If the proposal meets the minimum eligibility criteria, it will be sent to the Project Advisory Network (PAN), consisting of independent evaluators with relevant and known expertise in the sectors covered by this project, which would review and recommend the best plans to the project management unit for funding. It is expected that the YLEs will contribute cash and/or in-kind contribution to complement the proposed grant funding (it is proposed that the contribution will be a minimum of 20% of the investment cost). The most successful business plans will be awarded small grants for start-up enterprises in the first round. Those remaining can strengthen their

business plans and apply for start-up grants in successive rounds. There will be three batches of competition, one in the first year (PY1), and two in the second year (PY2), with completion of all external financing by the end of the third year. The maximum amount of an individual grant would be \$5,000 and the amount of financing to be made available to an eligible YLE will be based on the amount of contribution from the YLE itself and the number of youth to be involved in the proposed venture. The grant plus the small amount of each YLE's contribution have the potential to generate additional funds from other sources. Disbursement of funds will be in tranches and contingent on reaching milestones in the implementation of the business plans. Adverse audit findings would affect any future disbursements.

- (c) **Strengthening of Market Linkages.** This activity is designed to facilitate the marketing of new products outside the product area. The types of assistance to be provided will depend on the needs of the enterprises and the products produced. In the case of handicrafts or other niche items (for example, organic soaps), products are sold mainly to tourists either in Thimphu, Paro, or Punakha. Thus, this sub-component will be used to facilitate the marketing of the products in these cities' centralized bazaars, at the airport in Paro, or other special locations. In Thimphu, for example, project funds could be used to support the planning of one or more craft bazaars where crafts produced in the project areas can be exhibited and sold. Funds also can be used to support the organization of craft fairs in association with the Agency for Promotion of Indigenous Crafts (APIC), Handicraft Association of Bhutan, Tarayana Foundation, and others. During project appraisal, MoUs between selected private sector organizations and NGOs will be pursued where appropriate. The final design of this activity will take into account the existing role of middle-men to ensure that they will continue to function as needed to facilitate the local producers' access to market, without compromising the sustainability of the new enterprise.

Component 4: Project Management, Monitoring and Evaluation, and Knowledge Dissemination (US\$250,000)

This component will cover project management costs; implementation of a comprehensive Project Monitoring and Evaluation Strategy and Plan, which will include community baseline and follow-up surveys; and dissemination of project results and lessons learned in project implementation.

- (a) **Project Management and Implementation Arrangements:** For the day-to-day administration of the project, the RGoB would establish an Independent Project Management Unit (PMU) within the MoAF that will be responsible for overall management of all project activities. The PMU will have a team consisting of a dedicated project coordinator, and a financial management/grant administrator. The PMU team will provide oversight, technical support, and guidance to the grantees and other youth enterprises. In the course of project implementation, the project management unit will recruit a monitoring and evaluation (M&E) specialist and additional local and international technical assistance based on needs in line with results of the assessments carried out during the initial stage of project implementation. The PMU will also have oversight and be responsible for management of project funding. Coordination of the implementation of the JSDF and RRCDP will help maximize and ensure synergies and complementarity of efforts, ensure cost-effectiveness of investments, provide opportunities for experience and lesson sharing, and facilitate a more comprehensive and holistic approach to rural development.

The Financial Management/Grant Administrator, with support from the Project Coordinator and MTMT will have overall responsibility for the grant component, including; (i) developing outreach and application materials and procedures for the grant facility; (ii) working with the national, dzongkhag, and geog authorities to disseminate the material to youth and youth organizations; (iii) providing technical support to grant proponents for the preparation and submission of the grant

proposals; (iv) consolidating grant proposals and submitting them to the Project Advisory Network (PAN) for review and approval; (v) managing grant disbursements and providing technical support to the grantees for the implementation of the approved initiatives; (f) mobilizing specialized expertise to provide technical support to the grantees when needed for the implementation of the initiatives; and (g) receiving, synthesizing, and preparing progress reports for the approved initiatives to the RGoB and World Bank. The MoAF will provide additional support to the PMU in the form of an administrative assistant and typist as part of the government contribution to the project. In addition, specific capacity building, business development and marketing support will be provided through the individual consultancy activities financed by the project.

A Project Steering Committee would be established under the chairmanship of the Secretary, MO synergies and complementarity of efforts as well as ensure government buy-in and commitment to scaling up and replication of successful models of youth employment and enterprise development. It would approve annual work plans, review monitoring reports, and support the use of existing local, district, and national funding to benefit the youth employment efforts.

(b) **Monitoring and Evaluation.** Through this sub-component, the project will include dynamic monitoring and evaluation (M&E) to track input, output, outcome, and impact indicators to measure the performance and results obtained from the implementation of the proposed activities. The M&E activities, which will be integrated into the existing M&E system established by the MoAF, will be participatory in nature, involving engaged youth groups and target communities in assessing (i) the functioning of the YLEs, (ii) outcomes on youth employment and income generation, and (iii) the impact of the project on community-based economic growth and livelihoods. Specifically, the JSDF component of the larger project M&E system will:

- Carry out a comprehensive baseline survey to determine the skills and income levels of the targeted beneficiaries by gender and by age;
- Carry out a qualitative assessment of the aspirations of women and men of various age groups, especially the most vulnerable, through focus group discussions, to solicit feedback on the challenges being faced by them, their views on solutions and coping mechanisms, culture conflict issues, and generational gap issues, as well as feedback on the training programs and how they can be improved;
- Monitor quantitatively as well as qualitatively the outputs, outcomes, and development impacts of the training programs on behavioral changes and productivity, track new and improved income levels at the local level and contribution to gross national happiness at an individual and community level (if possible); track key success factors; and document lessons learned and project performance indicators.
- Carry out an independent evaluation, one at mid-term and the second one at the end of the project period. Based on the results of the mid-term evaluation, the project team will determine what steps, if any, may need to be introduced to improve performance or maximize project benefits.

(c) **Knowledge Dissemination.** The project will support the preparation of *knowledge notes* on the activities and conditions that made a significant difference in improving the livelihoods of the vulnerable target group, and the interventions which may not have succeeded and the underlying reasons to avoid such mistakes in the future. The notes will be disseminated as widely as possible and used in the design of an expanded project for possible Bank or other sources of financing.

IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	X		
Natural Habitats OP/BP 4.04	X		
Forests OP/BP 4.36	X		
Pest Management OP 4.09		X	
Physical Cultural Resources OP/BP 4.11	X		
Indigenous Peoples OP/BP 4.10		X	
Involuntary Resettlement OP/BP 4.12		X	
Safety of Dams OP/BP 4.37		X	
Projects on International Waterways OP/BP 7.50		X	
Projects in Disputed Areas OP/BP 7.60		X	

V. Financing (in USD Million)

Total Project Cost:	\$1,250,000	Total Bank Financing:	\$1,250,000
Total Co-financing:		Financing Gap:	
Financing Source: Japan Social Development Fund (JSDF) Grant			\$1,250,000
BORROWER/RECIPIENT			
Total			\$1,250,000

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ⁱ Tourism Council of Bhutan (TCB), 2012.

Annex 1

Potential Enterprises and Support Required for Youths

Community-Based Tourism/ Eco-Tourism	
Potential Enterprise Activities	Support Required

<p>Farm house/homestay operation and management Guide Services Campsite operation and management on trekking routes Chef (local cuisine) Cultural programs Antiques/handicrafts displays/showrooms Transportation services Repair and restoration of buildings in historic villages Organic Vegetable Production Captured Fishery Fishing Services</p>	<ul style="list-style-type: none"> • Technical planning support in converting rural house to farm houses for home stays with toilet and sanitation • Access to finance • Trainings in operation and management of home stays and food establishments • Training in cooking, guiding, and hospitality services • Training in repair of traditional Bhutanese buildings • Marketing, sales, accounting, financial management • Training in organic vegetable farming and fish farming and establishment of market linkages • Training in small business financial management
Handicrafts	
Potential Enterprise Activities	Support Required

<ul style="list-style-type: none"> • Cane and bamboo crafts production and marketing • Handloom weaving from yak and sheep wool and marketing • Bamboo treatment unit • Bamboo works, such as bamboo houses/structures, and furniture. • Handloom weaving of textiles • Production and marketing of value-added items from designing, tailoring, and stitching • Tailoring/stitching unit 	<ul style="list-style-type: none"> • Training in new designs and production of new products, quality standards, and labeling • New tools, machines, and training to use them • Support for construction of work sheds • Technical training in bamboo treatment, support in procurement of machines and other inputs • Start-up support • Marketing, sales, accounting, financial management • Training in tailoring
Niche Products	
Potential Enterprise Activities	Support Required

<ul style="list-style-type: none"> • Organic vegetable production and marketing • Vegetable seeds production and marketing development • Poultry Farming (eggs) • Medicinal herbs production and marketing development (grading, packaging, labeling) • Briquette production factory and marketing • Fresh water bottling plant and marketing development • Modern furniture • Value-addition (drying and packaging) of mushroom and marketing • Apple pulping plant • Aromatic processing unit • Off season vegetable production (greenhouse technology) • Pickling (from round chili) and marketing development • NTFP (medicinal herbs) processing and marketing development • Goat, cow, and sheep farming (dairy processing) • Bee Farming for Honey Production and Marketing • Mushroom (shitake) cultivation in higher altitudes and oyster cultivation in lower altitudes • Areca Nut processing • Cardamom nursery raising and supplying unit 	<ul style="list-style-type: none"> • Training in organic vegetable production and support market linkage • Training in seeds production, seed sorting, packaging, labeling, marketing • Support for procurement of high-bred cattle and access to finance • Training in dairy/poultry (health care and management) • Explore PPP model in briquette and water bottling unit • Technical trainings and start-up support • Business management training: • Marketing, sales, accounting, financial management
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Annex 2
Selected Products by Dzongkhag

[From Economic Resource Mapping- 2013, One District Three Products (ODTP)- The Way Forward for Enhancing Rural-Urban Interconnectedness and Livelihood, Bhutan Chamber of Commerce & Industry (BCCI)]

Dzongkhag	Product 1	Product 2	Product 3
Chhukha	Assorted Vegetables	Dairy Farming	Hazelnut
Dagana	Maize	Kiwi fruit	
Haa	Summer Vegetables	Tourism	
Samtse	Paddy	Fruits	Spices (Cardamom & Ginger)
Trongsa	Oilseeds	Dairy Farming	Tourism (Korphu)
Wangduephodrang	Vegetable	Cold Water Fishery	Seeds & Seedling Nursery
Pema Gatshel	Maize	Fruits	Vegetables
Trashigang	Vegetables	Dairy Farming	Tourism (Sakteng)
Trashi Yangtse	Wood products	Paper making	Tourism
Samdrup Jongkhar	Maize	Vegetables and spices	Oilseed production

Annex 3

Illustrative Activities to Generate Youth Employment in Sample Project Dzongkhags

	Potential Enterprise Activities
Haa	<p>Community-Based Tourism</p> <p>Farm house/home stay operation and management Guide services Heritage village tours and related services (for example, Takchu Goenpa, Ha-Tey) Camp site operation and management on trekking routes Chef and local Cuisines Hospitality and cultural programs Antiques/handicrafts displays/showrooms Transportation services Captured Fishery Fishing Services</p> <p>Crafts</p> <p>Cane and bamboo crafts production & marketing in Gakiling Handloom weaving from yak wool & marketing</p> <p>Niche Agriculture</p> <p>Organic vegetable production and marketing, Vegetable seeds production and marketing development Backyard dairy and processing Medicinal herbs production and marketing development (grading, packaging, labeling) Briquette Production factory and marketing Fresh water bottling plant and marketing development Modern furniture house Value-addition (drying and packaging) of mushroom and marketing Apple pulping plant Aromatic processing unit Cardamom production and marketing (in Sombaykha and Gakiling)</p>
Wangdi	<p>Community-based Tourism</p> <p>Farm house/home stay operation and management Heritage village tours and related services (for example, Rinchengang, Langdraney, Khotokha, Galeykha) Guide services Campsite operation and management on trekking routes Chef and local cuisine Hospitality and cultural programs Antiques/handicrafts displays/showrooms Portering (transportation) services Organic vegetable production</p>

	<p>Crafts</p> <p>Improved bamboo craft works in Sephu and Athang</p> <p>Niche Agricultural Products</p> <p>Vegetable production and marketing Off season vegetable production (green house technology) Mushroom (shitake) production and marketing development Pickling (from round chili) and marketing development NTFP (medicinal herbs) processing and marketing development Dairy farming</p>
Chukha	<p>Community-Based Tourism</p> <p>Farm house/home stay operation and management Guide services Heritage village tours and related services (for example, Tapa Dramdey) Camp site operation and management on trekking Routes Chef and local Cousines Hospitality and cultural programs.</p> <p>Crafts</p> <p>Bamboo plantation Bamboo treatment Unit Bamboo works such as bamboo houses/structures, and furniture Handloom weaving from sheep wool and marketing</p> <p>Niche Agricultural Products</p> <p>Cardamom production and marketing Dairy farming and setting up MPU Bee farming for honey production and marketing Mushroom (shitake) cultivation in higher altitude and oyster cultivation in lower alt.</p>
Samtse	<p>Community-based Tourism</p> <p>Market-based operation and management of <i>Hindu Bukay Dham Nye</i> by the CFMG. Heritage village tours and related services (for example, Lhops)</p> <p>Crafts</p> <p>Bamboo Plantation Bamboo treatment Unit Bamboo works, such as bamboo houses/structures, furniture, etc. Handloom weaving from sheep wool & marketing</p> <p>Niche Agricultural Products</p> <p>Cardamom production and marketing Areca nut plantation and processing Dairy farming and setting up MPU Goat and sheep farming (dairy) Cardamom nursery raising and supplying unit Organic vegetable production and marketing (with use of biogas plant by-products) Fabrication units</p>

Local Government	Local governments at the <i>geog</i> and <i>dzongkhag</i> levels in all project areas	Interested in benefitting from the project by strengthening relationships with constituent territories and especially with their young residents to improve economic growth, as well as social and cultural fabric of communities. Dzongkhags and geog officials are willing to be involved in information supply, directing technical inputs to relevant areas, and coordinating and facilitating activity implementation, but recognize need for project management responsibility needs to be entrusted with one relevant central agency, and all technical training (processing, marketing promotions) and business management related activities must be led by a reliable NGO or privatesector with needed capacity and resources.	H
Intended beneficiaries	Out of school and unemployed young people in areas with highest poverty levels in nine project Ddzongkhags	Interested in new employment opportunities and income generation activities outside of agriculture not requiring capital investments and professional education.	H
Private Sector	Bio-Bhutan	Bio-Bhutan is one successful business whose founders expressed interest in mentoring new YLEs involved in production of niche forest or agricultural products.	L-M
	Taj Group	Interested in purchasing locally produced first quality soaps, organic and good quality fruit, and vegetables.	M
	Tourist Companies	Willing to bring tourists to new sites where there are good facilities for homestays with clean toilets.	L-M
NGOs	Loden Foundation	Potential main non-governmental partner with its directors involved as PAN members and/or in identifying members for PAN and trainers for the Mentoring Teams. Staff of Foundation also could manage the Mentoring Teams or deliver their course in entrepreneurship.	H
	Tarayana Foundation	Potential partner in supporting crafts training and marketing.	M-H

	Royal Textile Academy	Potential main non-governmental partner with director involved as PAN member, identifying trainers for Mentoring Teams, and identifying youth from project areas that could benefit from JSDF project.	M-H
	Youth Development Fund	Potential partner in providing life skills training to youth in rural areas	M-H
	Bhutan Association of Women Entrepreneurs	Potential partner area of production and marketing of niche agricultural products	L-M
Donors	UNDP	Interested in crafts sector but their activities do not overlap with the proposed project	L
	Helvetas (Swiss)	Involved in some activities related to training in crafts in the eastern part of Bhutan. Need coordinate to ensure there is no duplication.	L
Other External/International Stakeholders	JICA	The proposed activities would complement JICA activities in the agricultural sectors	H