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Enabling poor rural people  
to overcome poverty

## **President's report**

### **Proposed loan and grant to the Kingdom of Bhutan for the**

### **Market Access and Growth Intensification Project**

#### **Note to Executive Board representatives**

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Executive Board — 101<sup>st</sup> Session  
Rome, 14–16 December 2010

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**For: Approval**

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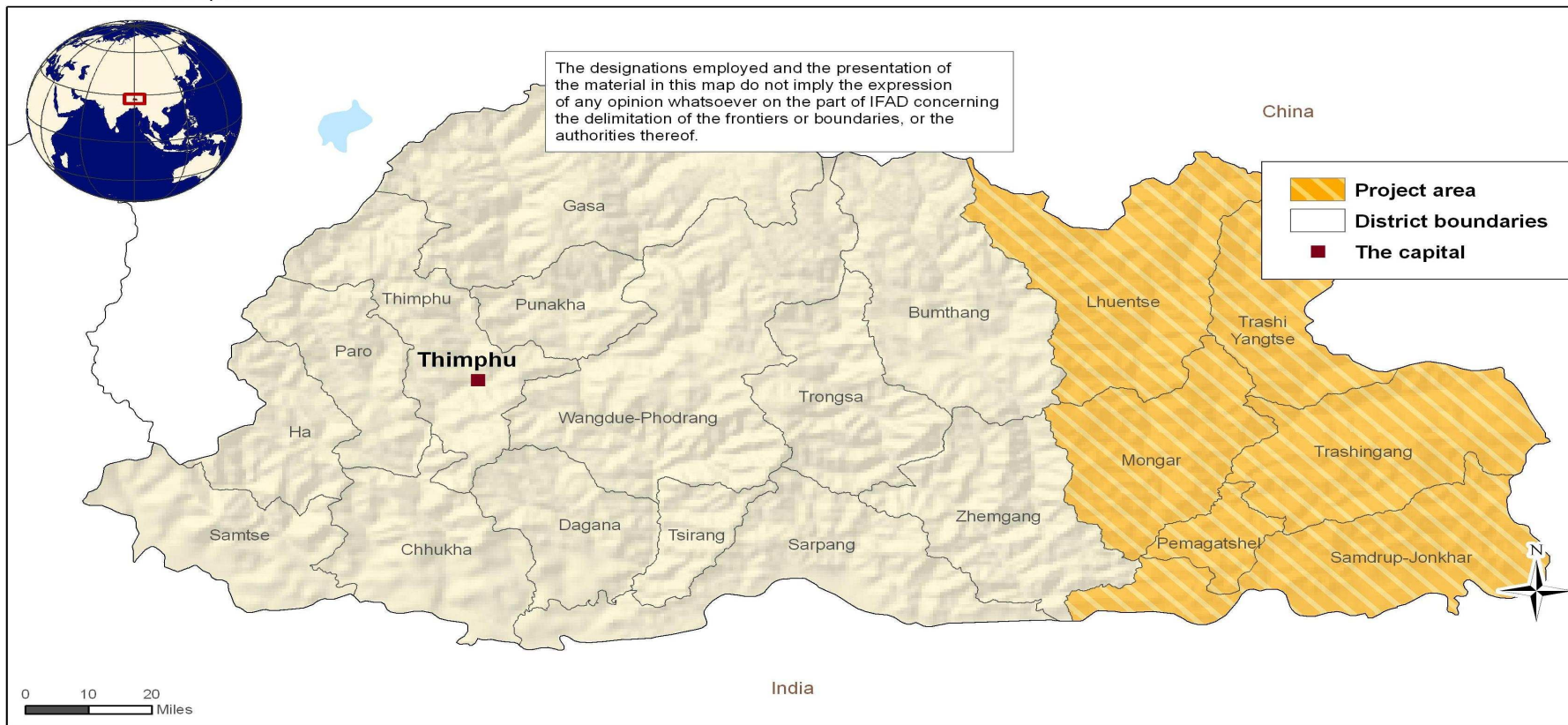
## Abbreviations and acronyms

FFS	farmers' field school
MOAF	Ministry of Agriculture and Forests
SNV	SNV Netherlands Development Organisation
RAMCO	Regional Agriculture Marketing and Cooperation Office

# Kingdom of Bhutan

## Market Access and Growth Intensification Project

President's report



## Kingdom of Bhutan

### Market Access and Growth Intensification Project

#### Financing summary

<b>Initiating institution:</b>	IFAD
<b>Borrower:</b>	Kingdom of Bhutan
<b>Executing agency:</b>	Ministry of Agriculture and Forests
<b>Total project cost:</b>	US\$15.78 million
<b>Amount of IFAD loan:</b>	SDR 5.6 million (equivalent to approximately US\$8.49 million)
<b>Terms of IFAD loan:</b>	40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
<b>Amount of IFAD grant:</b>	US\$2.0 million
<b>Cofinancier(s):</b>	SNV Netherlands Development Organisation (SNV)
<b>Amount of cofinancing:</b>	SNV: US\$0.40 million
<b>Terms of cofinancing:</b>	Grant
<b>Contribution of borrower:</b>	US\$3.81 million
<b>Contribution of beneficiaries:</b>	US\$1.04 million
<b>Appraising institution:</b>	IFAD
<b>Cooperating institution:</b>	Directly supervised by IFAD

## **Recommendation for approval**

The Executive Board is invited to approve the proposed financing to the Kingdom of Bhutan for the Market Access and Growth Intensification Project as contained in paragraph 37.

## **Proposed loan and grant to the Kingdom of Bhutan for the Market Access and Growth Intensification Project**

### **I. The project**

#### **A. Main development opportunity addressed by the project**

1. Covering six eastern districts of Bhutan, the project will address the following challenges: (i) farmers in remote communities with no road access who need support to increase the productivity of their subsistence farming systems in order to become food-secure throughout the year; and (ii) farmers located in communities with road access who need support in starting or intensifying cash crop and dairy production and in achieving economies of scale in production, processing and transportation. The end purpose is to enable these emerging commercial farmers to take full advantage of both internal and export markets.

#### **B. Proposed financing**

##### **Terms and conditions**

2. It is proposed that IFAD provide a loan to the Kingdom of Bhutan in the amount of SDR 5.6 million (equivalent to approximately US\$8.49 million) on highly concessional terms to help finance the Market Access and Growth Intensification Project. The loan will have a term of 40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum. It is also proposed that IFAD provide grant financing to the Kingdom of Bhutan in the amount of US\$2.0 million under Sweden's complementary contribution to the Eighth Replenishment.

##### **Relationship to the IFAD performance-based allocation system (PBAS)**

3. The allocation defined for Bhutan under the PBAS is US\$8.76 million over the 2010-2012 allocation cycle. The loan amount falls within this allocation.

##### **Country debt burden and absorptive capacity of the State**

4. The 2009 joint International Monetary Fund/World Bank debt sustainability analysis concludes that Bhutan's external debt profile is sustainable under most alternative scenarios and subject to a moderate risk of distress. This takes into consideration the commercial viability of Bhutan's hydropower projects, the country's strong track record of project implementation and high level of international reserves, and committed donor support.

##### **Flow of funds**

5. The flow of funds will follow the normal government procedures. A designated loan account and a designated grant account will be maintained at the Royal Monetary Authority to receive remittances from IFAD. Funds will then be transferred to a district project account established in each of the six districts to finance project activities.

##### **Supervision arrangements**

6. The project will be supervised and the financing administered by IFAD.

## **Exceptions to IFAD General Conditions for Agricultural Development Financing and operational policies**

7. No exceptions are foreseen.

### **Governance**

8. The following measures are intended to enhance the governance aspects of the IFAD financing: (i) district-level project accounts will be audited annually, and separately from the districts' accounts, by an external auditor acceptable to IFAD; (ii) a project focal point will be appointed within the Engineering Division of the Department of Agriculture, Ministry of Agriculture and Forests (MOAF), to ensure that district authorities strictly adhere to the IFAD Procurement Guidelines when procuring civil works; and (iii) the procurement and contracting of service providers will comply with the IFAD guidelines.

## **C. Target group and participation**

### **Target group**

9. In line with the IFAD Policy on Targeting, the project will target: (i) poor, food-insecure subsistence farmers, woman-headed households and yak herders living in 11 remote *gewogs* (subdistricts); and (ii) emerging farmers living in 37 *gewogs* with road access and the agroecological potential for agricultural and livestock intensification and growth.

### **Targeting approach**

10. Pre-identification of the proposed 48 targeted *gewogs* was based on two criteria: (i) *gewogs* with the highest percentage (45 to 100 per cent) of households living at more than one day's walking distance from the nearest road; and (ii) *gewogs* with road access and with large wetland, dryland or cash crop-producing areas, or with highest cattle and yak populations. This preliminary selection will be confirmed at project start-up.
11. The project will follow an inclusive approach for the selection of beneficiary households. Preliminary household identification will be conducted in a participatory manner by *gewog* extension staff and village leaders in each selected *gewog* according to criteria such as interest in participating in project activities, and potential (in terms of farming systems and available land resources) and capacities (in terms of available manpower in the household) to do so. During the final selection, special efforts will be made to ensure that the poorest households and woman-headed households that are interested can participate in project activities.

### **Participation**

12. Project beneficiaries will participate in the project primarily through the farmers' field school (FFS) approach. This approach is based on adult education and experiential learning methods applied to enable groups of farmers to diagnose constraints and opportunities for improving production and subsequently to agree on actions to be taken. Through the FFSs and other producers' groups, beneficiaries will access required support services and inputs.

## **D. Development objectives**

### **Key project objectives**

13. The overall goal of the project is to reduce poverty and improve food security and the standards of living of poor rural households in six eastern districts of Bhutan.
14. The specific project purpose is to improve the productivity of subsistence-based farming systems in communities with no road access, and to intensify the production of cash crops and dairy products, while enhancing smallholders' access to markets in communities with road access.

### **Policy and institutional objectives**

15. The project will improve the efficiency of extension services systems; strengthen the organic linkages between MOAF line departments and district line officers; support the newly created Department of Agricultural Marketing and Cooperatives; support implementation of the Cooperative Act 2009; and strengthen the MOAF group formation guidelines.

### **IFAD policy and strategy alignment**

16. Project objectives and proposed activities are in line with the IFAD Strategic Framework 2007-2010, IFAD's Private-Sector Development and Partnership Strategy and its Innovation Strategy.

## **E. Harmonization and alignment**

### **Alignment with national priorities**

17. The project is fully aligned with Bhutan's renewable natural resources sector policy and the objectives outlined in its Tenth Five-Year Plan (2008-2013), which include: (i) enhancing sustainable rural livelihoods through improved agriculture and livestock productivity and expanded commercial prospects for agriculture and other natural resources; (ii) conserving, and promoting sustainable commercial use of, forests and water resources; (iii) promoting sustainable commercial agriculture and pasture land resources; and (iv) transforming subsistence agriculture without compromising food security. In particular, the project will support the implementation of the priority MOAF programme, One Gewog Three Products.

### **Harmonization with development partners**

18. Few donors are currently active in the six eastern districts. The project will seek to establish synergies with the activities implemented under the Horticulture Research and Development Project funded by the Japan International Cooperation Agency, being implemented by the Wenkhar Natural Resource Research Centre, and with the Sustainable Land Management Project funded by the World Bank and the Global Environment Facility and implemented in Trashigang District. SNV Netherlands Development Organisation (SNV) will provide, and cofinance, essential technical assistance.

## **F. Components and expenditure categories**

### **Main components**

19. The project has three components: (i) support to poor subsistence farming communities; (ii) agricultural intensification and support to market access; and (iii) project management and coordination.

### **Expenditure categories**

20. There are five expenditure categories: (i) civil works (30.6 per cent); (ii) training and technical assistance (16.4 per cent); (iii) equipment and materials (42.1 per cent); (iv) livestock (5.7 per cent); and (v) recurrent costs (5.2 per cent).

## **G. Management, implementation responsibilities and partnerships**

### **Key implementing partners**

21. These will be the MOAF; the district administration offices and the Regional Agriculture Marketing and Cooperative Office (RAMCO); private-sector companies contracted for the construction or rehabilitation of roads; and organized producers' groups and cooperatives.

### **Implementation responsibilities**

22. The project coordination unit located in the MOAF Secretariat will be responsible for the overall coordination of project activities, while project focal points will be appointed within each MOAF line department (Department of Agriculture, Department of Livestock, Department of Forestry and Park Services and Department of Agricultural Marketing and Cooperatives) to provide technical backstopping to

their district line officers. Activities at the grass-roots level will be the responsibility of district line officers, *gewog* extension staff and RAMCO staff.

#### **Role of technical assistance**

23. The project will finance essential technical assistance to fine-tune the MOAF group formation guidelines; prepare training curriculums for the FFS approach and for key improved technologies promoted by the project; support the agro-tourism pilot; and assist RAMCO in implementing sound marketing support activities.

#### **Status of key implementation agreements**

24. A memorandum of understanding will be signed between the MOAF and SNV upon project approval for the use of SNV technical assistance.

#### **Key financing partners and amounts committed**

25. The total project cost is US\$15.78 million over four years. The sources of financing are (i) IFAD, with a loan of US\$8.49 (53.8 per cent of total costs) and grant financing of US\$2.0 million (12.7 per cent); (ii) the Government (24.2 per cent); (iii) SNV (1.1 per cent); (iv) project beneficiaries (8.1 per cent); and (v) the private sector (0.1 per cent). The proposed grant financing is available under Sweden's complementary contribution to the Eighth Replenishment of IFAD's resources.

## **H. Benefits and economic and financial justification**

### **Main categories of benefits generated**

26. Targeted households will benefit directly from higher incomes from cash crop and dairy production, derived from increased productivity, value-adding activities, reduced post-harvest losses and transportation costs, and greater access to markets. Subsistence-based households will benefit from improved food security, derived from increased crop yields and vegetable production, reduced post-harvest losses, and backyard poultry activities. Unquantifiable benefits include community empowerment, strengthened extension service delivery, and environmental benefits. The overall eastern population will benefit indirectly from increased input and output trade.

### **Economic and financial viability**

27. The financial analysis reveals an attractive profit margin for all main crops promoted and for dairy production, with a good return to labour for the farmers. The economic analysis shows an economic rate of return of about 18 per cent, with moderate sensitivity to a reasonable decrease in benefits and increase in costs.

## **I. Knowledge management, innovation and scaling up**

### **Knowledge management arrangements**

28. Knowledge and lessons learned generated from project implementation, in particular from the innovations promoted, will be shared among the various partners through regular workshops and knowledge-sharing events and during project steering committee meetings. The project will contribute regular articles and performance updates to the MOAF website, IFAD knowledge exchange platforms and the relevant regional programmes of international centres for agricultural research.

### **Development innovations that the project will promote**

29. The project will pilot or implement a number of innovations: (i) the agro-tourism pilot, never tried before in the country, which proposes to establish a partnership between a tourism entrepreneur and a rural community for tourists' home-stay in remote locations; (ii) pilot measures to prevent crop damage from wildlife; (iii) leasing of government land for horticulture and pasture development; (iv) organizing of joint ventures between farmers and the private sector; and (v) large-scale introduction of the FFS approach.



**Scaling-up approach**

30. The project will scale up the successful approaches piloted within the framework of its predecessor, the IFAD-funded Agriculture, Marketing and Enterprise Promotion Programme. If successful, the various innovations and pilot initiatives promoted by the project offer good replication prospects.

**J. Main risks****Main risks and mitigation measures**

31. The project faces three main risks: (i) delays in strengthening technical capacities of district and *gewog* extension staff; (ii) difficulties in organizing communities into cohesive groups; and (iii) poor capacity by district engineers to manage the procurement of civil works and to supervise contractors. The planned mitigation measures include: (i) organizing a supervision mission within six months of project start to verify progress in curriculum development, training of trainers and staff training; (ii) ensuring that the group formation processes are properly monitored; and (iii) clarifying all IFAD requirements in the project implementation manual and ensuring regular staff training on fiduciary aspects.

**Environmental classification**

32. Pursuant to IFAD's environmental assessment procedures, the project has been classified as a Category B operation in that an environmentally sensitive approach will be followed in the implementation of all proposed activities. In particular, road construction/rehabilitation activities will be implemented following the Government's environmentally friendly road construction standards.

**K. Sustainability**

33. As part of a post-project sustainability strategy, the project intends to develop cohesive groups of rural producers, which will be supported to evolve into legally registered cooperatives when they reach maturity. To enhance the sustainability of larger investments, the project will support RAMCO in arranging an equity financing arrangement with private-sector investors. The post-project sustainability of farm roads will be enhanced by the project's provision of funds for monsoon restoration and road maintenance for a period of two years after road completion. After this period, road maintenance will be financed and carried out as per the plan specified in the tripartite agreement signed between the district administration, the *gewog* administration and the MOAF for each farm road.

**II. Legal instruments and authority**

34. A project financing agreement between the Kingdom of Bhutan and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement is attached as an annex.
35. The Kingdom of Bhutan is empowered under its laws to receive financing from IFAD.
36. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

### **III. Recommendation**

37. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall make a loan on highly concessional terms to the Kingdom of Bhutan in an amount equivalent to five million six hundred thousand special drawing rights (SDR 5,600,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the Kingdom of Bhutan in an amount of two million United States dollars (US\$2,000,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze  
President

## **Negotiated financing agreement: "Market Access and Growth Intensification Project (MAGIP)"**

(Negotiations concluded on 8 December 2010)

### **FINANCING AGREEMENT**

Loan Number: \_\_\_\_\_

Grant Number: \_\_\_\_\_

Project Title: Market Access and Growth Intensification Project (the "Project")

The International Fund for Agricultural Development (the "Fund" or "IFAD")

and the

Kingdom of Bhutan (the "Borrower/Recipient")

(each a "Party" and both of them collectively the "Parties")

**WHEREAS** the Borrower/Recipient has requested financing in the form of loan and grant from the Fund to assist in financing the Project described in schedule 1 to this Financing Agreement,

**NOW THEREFORE**, the Parties hereby agree as follows:

#### **Section A**

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1) and the Allocation Table (Schedule 2).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
3. The Fund shall provide a Loan (the "Loan") and a Grant (the "Grant") to the Borrower/Recipient (the "Financing"), which the Borrower/Recipient shall use to implement the Project in accordance with the terms and conditions of this Agreement.

#### **Section B**

1. The amount of the Loan is five million six hundred thousand Special Drawing Rights (SDR 5 600 000). The amount of the Grant is two million US dollars (USD 2 000 000).
2. The Loan is granted on highly concessional terms.
3. The Loan Service Payment Currency shall be USD.
4. The first day of the applicable Fiscal Year shall be 1 July.

5. Payments of principal and service charge shall be payable on each 15 April and 15 October of each year in the payment currency. Principal of the loan will be paid in fifty nine (59) equal semi annual instalments of SDR 93 334 payable on each 15 April and 15 October, starting on 15 April 2021 and ending on 15 April 2050, plus a further final instalment of SDR 93 294 payable on 15 October 2050.
6. Designated accounts.
  - (a) There shall be a loan designated account (the "Loan Designated Account") and a grant designated account (the "Grant Designated Account") for the purposes of receiving the Loan and the Grant respectively and financing the Project.
  - (b) Both Designated Accounts shall be opened in a bank acceptable to the Fund, denominated in USD and on terms and conditions satisfactory to the Fund, including but not limited to appropriate protection against set off, seizure or attachment. The Designated Accounts shall be operated by the Department of Public Accounts ("DPA") of the Ministry of Finance ("MOF") of the Borrower/Recipient or any other competent department authorized by the MOF.
7. Project accounts.

There shall be eight (8) Project Accounts (known as "Project Letter of Credit Accounts") for the benefit of the Project opened in a bank acceptable to the Fund to receive resources from the Loan Designated Account and the Grant Designated Account through the Government Budget Fund Account of the Borrower/Recipient. One (1) Project Account is to finance the eligible expenditures of the Project Coordination Unit ("PCU") as referred to in paragraphs 8 and 8.1 of Schedule 1 hereto. One (1) Project Account for the eligible expenditures of the Regional Agricultural Marketing and Cooperative Office ("RAMCO") as referred to in paragraph 11 of Schedule 1 hereto. The remaining six (6) Project Accounts are to finance the eligible expenditures incurred in the six *Dzongkhags* in the Project Area as referred to in paragraph 10 of Schedule 1 hereto.
8. The Borrower/Recipient shall provide counterpart financing to finance expenditures covered under paragraph 1 of Schedule 2, as well as recurrent costs.

### **Section C**

1. The Lead Project Agency shall be the Ministry of Agriculture and Forests ("MOAF") of the Borrower/Recipient.
2. The following are designated as additional Project Parties:
  - (a) The *Dzongkhag* Administrations as described in paragraph 10 of Schedule 1 hereto; and
  - (b) The RAMCO.
3. The Project Completion Date shall be the fourth anniversary of the date of entry into force of this Agreement.

### **Section D**

The Loan and Grant will be administered and the Project supervised by the Fund.

## Section E

1. The following are designated as additional grounds for suspension of this Agreement:

Any competent authority has taken action without the prior consent of the Fund for institutional changes to the Programme Steering Committee (the "PSC") as referred to in paragraph 6 of Schedule 1 hereto and/or the PCU, including but not limited to modification of the membership composition, dissolution and merger and the Fund has determined that any such event listed above is likely to have a material adverse effect on the Project.

2. The following are designated as additional conditions precedent to withdrawal:

- (a) The PCU is established and a full-time Project Coordinator as described in paragraph 8 in Schedule 1 has been appointed by the MOAF;
- (b) The IFAD no-objection on the first Annual Work Plan and Budget ("AWPB") shall have been obtained; and
- (c) The Designated Accounts and Project Accounts shall have been opened on terms and conditions in accordance with this Agreement.

3. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Fund:

The President of IFAD  
International Fund for Agricultural Development  
Via Paolo di Dono 44  
00142 Rome, Italy

For the Recipient:

Director  
Department of Public Accounts  
Ministry of Finance  
Thimphu, Bhutan

This agreement, dated \_\_\_\_\_, has been prepared in the (English) language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower.

\_\_\_\_\_  
For the Fund

\_\_\_\_\_  
For the Borrower/Recipient

## Schedule 1

### *Project/Programme Description and Implementation Arrangements*

#### I. Project/Programme Description

1. *Target Population.* The Project shall benefit i) poor, food insecure subsistence farmers, women-headed households and yak herders living in remote *gewogs* (sub-districts); and ii) emerging commercial farmers living in *gewogs* with road access and the agro-ecological potential for agricultural and livestock intensification and growth. Both categories of beneficiaries are located in six eastern *dzongkhags* (districts), namely, Lhuentse, Tashiyangtse, Trashigang, Mongar, Pemagatshel and Samdrup Jongkhar (the "Project Area").

2. *Goal.* The goal of the Project is to reduce poverty and improve food security and the standards of living of target rural households in the Project Area.

3. *Objectives.* The objectives of the Project are to improve the productivity of subsistence-based farming systems in communities with no road access, and to intensify the production of cash crops and dairy products, while enhancing smallholders' access to markets, in communities with road access.

4. *Components.* The Project consists of three Components: (i) Support to poor subsistence farming communities; (ii) Agricultural intensification and support to market access; and (iii) Project management and coordination.

4.1. *Support to poor subsistence farming communities.* The specific objective of this Component is to enhance the productivity of subsistence farming systems and to diversify the livelihood means of remote communities, with a view at improving food security. It is composed of the four following sub-components:

(i) Agricultural development, which aims at strengthening the capacities of poor subsistence farmers to adopt improved agricultural practices and better manage their natural resources base;

(ii) Livestock development, whereby improved pullets, along with related training, will be provided to target poorest households;

(iii) Community forestry management, which will strengthen existing Community Forest Management Groups (CFMGs) through the provision of planting materials, tools and small equipments; and

(iv) Agro-tourism pilot, aiming to support the MOAF's efforts to promote tourism in the Project Area.

4.2. *Agricultural intensification and support to market access.* This Component targets exclusively farmers, primarily dairy and horticulture producers, who are located in *gewogs* with agro-ecological potential for growth or intensification of production and with access to roads, with the goal of increasing agricultural production, productivity and intensity in selected strategic sub-sectors with market potentials. It is composed of the four following sub-components:

(i) Selected support for intensified agricultural and livestock production, which aims at providing technical and material support to selected groups of farmers and/or livestock owners (vegetable growers, potato seeds producers, citrus growers, dairy producers and yak herders) in selected *gewogs* so as to increase agricultural and/or livestock productivity and the production of marketable surpluses.

(ii) Infrastructure development, which will finance the rehabilitation (or construction) of strategically selected existing (or new) farm roads, as well as the rehabilitation of existing, or development of new, strategically selected irrigation schemes.

(iii) Support to supply chain and market development, which will finance the establishment of key marketing infrastructure and provide training and material support to existing, or new, farmers' groups engaged in the processing and marketing of agricultural produces.

4.3. Project Management and Coordination. This Component consists of two sub-components:

(i) Service delivery mechanism to farmers, which will finance the costs for introducing and implementing the Farmers' Field School concept; and

(ii) Project management, which will finance the acquisition of essential equipment and technical assistance to support *Dzongkhag* Administrations as described below in implementing grass-roots level project activities.

## **II. Implementation Arrangements**

5. *Lead Project Agency*. The MOAF of the Borrower/Recipient, in its capacity as Lead Project Agency, shall take overall responsibility for the Project.

6. *Project Steering Committee ("PSC")*. The PSC will provide oversight and policy guidance to the implementation of the Project.

6.1. *Composition*. The PSC will be chaired by the Secretary of MOAF, and composed of the Directors of line departments of MOAF including the Department of Agriculture, the Department of Livestock, the Department of Agricultural Marketing and Cooperatives, and the Department of Forestry and Park Services, the Project Coordinator, senior representatives at or above the division-chief level from line departments of the Ministry of Finance (MOF) including the Department of National Budgets and the Department of Public Accounts ("DPA"), and the representatives of the Ministry of Home and Cultural Affairs ("MOHCA") and of the Gross National Happiness Commission ("GNHC"). The PSC will meet twice a year. It will, inter alia, review project progress, discuss issues and shortcomings, provide policy guidance and approve the Annual Work Plans and Budgets (AWPBs).

7. *Ministry of Finance (MOF)*. The IFAD Focal Point within the DPA of the MOF will be responsible for the clearance of Withdrawal Applications and will facilitate operation of the Designated Accounts. The IFAD Focal Point will also facilitate the preparation of consolidated financial progress reports and will ensure liaison with all relevant Departments of the MOF and with the Royal Audit Authority, the GNHC and the MOAF.

8. *Project Coordination Unit ("PCU") and the Project Coordinator*. Project coordination and overall implementation will be the responsibility of the PCU, led by a fully-dedicated Project Coordinator and established within the MOAF Secretariat. The Project Coordinator will be directly accountable to the MOAF Secretary and undertake the same responsibilities as those of the Project Director as described in Section 7.11 of the General Conditions, as may be amended from time to time. The Project Coordinator will be selected and appointed by the MOAF with prior approval of IFAD based on qualifications, experience and Terms of Reference approved by the Fund. The Project Coordinator will be assisted by a Finance Officer or a senior Accountant to be nominated and to be located within the Administration and Finance Division of the MOAF, and by a Planning, Monitoring and Evaluation Officer to be nominated from the existing staff of the Policy and Planning Division of the MOAF.

8.1. *Main Responsibilities.* The Project Coordination Unit under the leadership of the Project Coordinator will be responsible for, inter alia: (i) support to the preparation of district-level AWPBs and preparation of the consolidated project AWPB for submission to the Fund and to the PSC for approval; (ii) approval of budget releases to the *Dzongkhag* Administrations; (iii) preparation of accounts for submission to MOF and preparation of consolidated financial reports and statements of expenditures for submission to the Fund and the Borrower/Recipient; (iv) supervision of Monitoring and Evaluation activities and outcome and impact measurement; (v) preparation of consolidated semi-annual and annual progress reports; (vi) ensuring the compliance with the Borrower/Recipient's procurement rules and IFAD's Procurement Guidelines, Loan Covenants and Guidelines on Project Audits; (vii) supervision of field-level activities and identification of capacity building needs at the *dzongkhag* and *gewog* levels and organization of necessary technical assistance or training; (viii) coordination of inter-departmental work; (ix) liaison with the Fund and all partner organizations; (x) procurement of selected equipment, material and technical assistance; and (xi) management of the PCU Project Letter of Credit Account.

9. *Line Departments.* The Line Departments of the MOAF will be the lead technical agencies. Within each of the Project-related line departments, a Project Focal Point will be appointed to provide the necessary technical backstopping to the Project Coordinator, the RAMCO staff and District Officers as and when required.

10. *Dzongkhag Administrations.* The *Dzongkhag* Administrations in the six districts within the Project Area will be the main implementing entities at the grass roots level. Field activities will be coordinated and supervised by: (A) the District Agricultural Officers, District Livestock Officers and District Forestry Officers who will be responsible for, inter alia, the following: (i) identification of most suitable activities and Project investments as inputs for the preparation of district-level AWPBs; (ii) supervision, technical backstopping and training of *gewog* staff; (iii) community mobilization, group formation and training of farmers' groups' members and support to cooperatives, where appropriate; and (iv) management of inputs and equipment supply, and (B) the District Engineering Officers, who will be responsible for, inter alia, the following: (i) identification and selection of the farms roads and irrigation schemes to be newly constructed or rehabilitated; (ii) supervising civil works' procurement processes in accordance with IFAD Procurement Guidelines, dated 17 September 2010, as may be amended from time to time; and (iii) management of contractors' contracts. In addition, the District Planning Officers will assist in the preparation of the draft district-level Project AWPBs and progress reports; while the District Finance Offices will manage the district Project Letter of Credit Accounts and prepare the required financial reports.

11. Regional Agricultural Marketing and Cooperative Office ("RAMCO"). The RAMCO will be responsible for, inter alia, the following: (i) implementation of marketing-support related activities; (ii) management of the RAMCO Project Letter of Credit Account; and (iii) preparation and submission of related financial reports to the PCU.

12. *Annual Work Plans and Budgets (AWPBs).* The PCU will prepare a draft AWPB for each Project year, and will propose such a draft to IFAD for no objection, after which the draft AWPB will be submitted to the PSC for approval. In cases where the PSC introduces substantial changes to the AWPB previously seen by IFAD, no-objection shall be sought from IFAD for such changes.

13. *Project Implementation Manual ("PIM").* The PCU shall prepare a draft PIM as soon as practicable, but in no event later than ninety (90) days after the entry into force of this Agreement. The PSC shall approve the PIM only with prior agreement of the Fund, and provide a copy thereof to the Fund.



## Schedule 2

### Allocation Table

1. *Allocation of Loan and Grant Proceeds.* (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and Grant, the allocation of the amounts of the Loan and Grant to each Category and the percentages of expenditures for items to be financed in each Category:

Category	Loan Amount Allocated (expressed in SDR)	Grant Amount Allocated (expressed in USD)	Percentage of eligible expenditures
I. Civil Works	2 110 000		80% of total expenditures
II. Training and Technical Assistance		1 880 000	100% of total expenditures excluding cofinanciers' contributions
III. Equipment and Material	2 245 000	20 000	70% of total expenditures, excluding beneficiaries' contribution.
IV. Livestock	210 000		100% of total expenditures excluding beneficiaries contribution
Unallocated	1 035 000	100 000	
<b>TOTAL</b>	<b>5 600 000</b>	<b>2 000 000</b>	

(b) The terms used in the Table above are defined as follows:

“Livestock” means expenditures related to the purchase of livestock and poultry except for the expenditures related to vaccines.

“Equipment and Material” includes, inter alia, one (1) vehicle to be financed by resources from the Grant.

## **Key reference documents**

### **Country reference documents:**

Tenth Five-Year Plan (2008-2013)

RNR Sector Tenth Plan (2008-2013)

Cooperative Amendment Act (2009)

Farmer Group and Cooperative Development Strategy (2008)

Amended Local Government Act (2009)

Road Act of Bhutan (2004)

Guidelines for Farm Road Development (2009)

Guidelines on Road Classification System and Delineation of Construction and Maintenance Responsibility (2009)

Environmental Assessment Act (2000)

Land Act of Bhutan (2007)

Draft Tourism Bill (2010)

### **IFAD reference documents:**

Project design document (PDD) and key files

Administrative Procedures on Environmental Assessment

## Logical framework

EXPECTED RESULTS	PERFORMANCE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<b>OVERALL GOAL</b>			
To reduce rural poverty, enhance the standards of living and enhance food security of poor rural households in six eastern districts.	<ul style="list-style-type: none"> <li>- Percentage reduction in the proportion of people living below poverty line</li> <li>- Percentage of farmers reporting increase in agricultural and livestock productivity</li> <li>- Percentage of farmers and livestock owners reporting increased income</li> <li>- Percentage of farmers reporting improved food security</li> </ul>	<ul style="list-style-type: none"> <li>- PCU impact surveys</li> <li>- Statistics collected by <i>gewogs</i> extension staff and monitored through the PLAMS</li> </ul>	No major economic shocks or crisis
<b>PROJECT PURPOSE</b>			
To improve the productivity of subsistence-based farming systems in communities with no road access, and to intensify the production of cash crops and dairy products, while enhancing smallholders' access to markets, in communities with road access.	<p><i>Remote gewogs - Subsistence farming:</i></p> <ul style="list-style-type: none"> <li>- <u>Incremental production:</u> 100 tons Paddy; 420 tons vegetables ; 180 tons maize; 60 tons grains, pulses and oil seeds; ; 360 tons potatoes; 90 tons chilli; 1,600 tons fruits; 1.1 million eggs</li> <li>- Increase in cropping intensity for subsistence farming from 79 percent to 100 percent</li> <li>- Percentage reduction in post-harvest losses</li> </ul> <p><i>Other gewogs:</i></p> <ul style="list-style-type: none"> <li>- <u>Incremental production:</u> 1,170 tons Paddy; 1,900 tons vegetables ; 220 tons maize; 430 tons grains, pulses and oil seeds; 4,000 tons potatoes; 200 tons chilli; 3,000 tons fruits; 3.45 million litres milk; 270 tons yak cheese; 27 tons yak butter</li> <li>- Increase in cropping intensity from 112 percent to 155 percent</li> </ul>	<ul style="list-style-type: none"> <li>- Statistics collected by <i>gewogs</i> extension staff and monitored through the national Planning and Monitoring System (PLAMS)</li> <li>- Records from producers' groups</li> </ul>	<p>No major natural disaster in the Eastern region (such as earthquake or floods)</p> <p>Cheaper imports do not make farming an unattractive proposition</p>
<b>OUTCOMES AND OUTPUTS</b>			
<p><b>Component 1: To enhance the productivity of subsistence farming systems and to diversify the livelihoods means of remote communities.</b></p>	<p><u>Outcomes:</u></p> <ul style="list-style-type: none"> <li>- 1,216 ha of arable land under appropriate land use and land management practices</li> <li>- 6 ha of land producing fruit tree seedlings</li> <li>- 18.5 ha of land producing quality seeds</li> </ul> <p><u>Outputs:</u></p> <ul style="list-style-type: none"> <li>- 44 Farmers' Field Schools established and functional</li> <li>- 880 farmers provided with tools, planting materials and other inputs and trained in improved farming practices, vegetable and fruit production</li> <li>- 880 household-based food drying/storage facilities constructed</li> <li>- 500 households provided with poultry and trained in backyard poultry raising</li> <li>- One agro-tourism pilot implemented</li> </ul>	<ul style="list-style-type: none"> <li>- PCU impact surveys</li> <li>- Statistics collected by <i>gewogs</i> extension staff and monitored through the PLAMS</li> <li>- Records from producers' groups</li> </ul>	<p>Adequate labour available to increase production</p> <p><i>Gewog</i> Extension Agents are willing to walk long distances to reach out to remote communities</p>
	<p><b>Component 2: To increase agricultural production, productivity and cropping intensity in selected, strategic sub-sectors with market potentials and to improve market access for rural producers</b></p>		<p><u>Outcomes:</u></p> <ul style="list-style-type: none"> <li>- 2,600 ha of arable land under appropriate land use and land management</li> <li>- 150 ha of organic farms developed</li> <li>- 7 ha of land producing citrus seedlings</li> <li>- 134 ha of fruit orchards rehabilitated or developed</li> <li>- 1,900 ha of potato/maize-based dry land and 450 ha of paddy-based wet land developed</li> <li>- 1,600 households and 800 yak herders engaged in commercial dairy production</li> </ul> <p><u>Outputs:</u></p> <ul style="list-style-type: none"> <li>- 100 agricultural-based FFS and 24 dairy groups established and functional</li> <li>- 3,050 households trained in improved agricultural practices and dairy production and provided with planting material, livestock, tools and other inputs</li> <li>- 100 protected vegetable producing units, 50 vegetable seedling producing units. 10 milk collection points and 4 small-scale milk processing units established</li> <li>- 39 km of farm roads rehabilitated/constructed</li> <li>- 400 ha of irrigation schemes rehabilitated</li> <li>- Marketing, processing and storage infrastructure constructed</li> <li>- Linkages established between producers' groups and traders and producers' groups trained in marketing, processing and value-addition</li> </ul>