



IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Executive Board – Seventy-Ninth Session
Rome, 10-11 September 2003

KINGDOM OF BHUTAN

PRESIDENT'S MEMORANDUM

**REPORT ON THE CONVERSION OF THE SECOND EASTERN ZONE
AGRICULTURAL PROGRAMME
FROM A FLEXIBLE LENDING MECHANISM (FLM) OPERATION TO A STANDARD
NON-FLM OPERATION**

1. The Bhutan Second Eastern Zone Agricultural Programme (SEZAP) (Loan 512-BT) was approved in September 1999 for financing under the flexible lending mechanism (FLM), and became effective in May 2000. It was to be implemented over a period of eight years, in two phases of three years and five years, respectively.
2. The programme experienced initial delays both in implementation and in the disbursement of funds, which continued well into the second year from the date of effectiveness. Thereafter, however, implementation and disbursements picked up very rapidly, and, by early 2003, the programme was running ahead of schedule. Almost all IFAD loan funds for the 'first phase' (SDR 3.98 million) had been disbursed, and further withdrawal applications continued to be received from the Government. The programme's physical achievements were also impressive, as reported by the first-phase review. Almost all the physical infrastructure in support of research and extension had been completed, and the work undertaken was generally of good quality. Development of irrigation was expected to contribute to more food production. Staff training had been actively pursued. The programme was also showing promising results at the household level; adoption rates appeared to be high and/or increasing, and a substantial proportion of households reported increased yields and production of programme-related items.



3. The various FLM 'triggers' for progressing to the next phase of the programme had substantially been fulfilled, except that monitoring and evaluation was a weak area. Also the collection of information and coordination of action between the programme's six district-level implementing agencies proved to be weak, resulting in delays in collecting and compiling expenditure accounts, with consequent delays in submission of withdrawal applications to IFAD. These weaknesses are being addressed by Government and project management, and the situation has been improving.

4. The pace of programme implementation and flow of benefits to the target group was contingent upon an uninterrupted flow of funds to maintain the momentum. However, the FLM disbursement procedures do not allow for disbursements beyond the amount allocated to the programme's first phase until the next phase is formally approved. In order not to starve the programme of funds in the meantime, and to avoid adversely affecting the programme's beneficiaries, the Government went ahead with financing programme expenditures from its own resources, exceeding the allocations of the first phase of the programme.

5. During the required in-house review process it became clear that the expenditures at the field level already pre-financed by the Government exceeded the amount allocated to the first phase and therefore, would not be fully eligible for reimbursement under the FLM procedures. Thus, the FLM mechanism, which was intended to enhance flexibility and facilitate programme implementation, would, to the contrary, have impeded the sustained implementation of the programme. To further process the programme under the FLM mechanism would starve it of urgently needed funds, adversely affecting the programme and its beneficiaries, and undermining confidence in the programme as well as in IFAD at the grass-roots level. Moreover, the Government would not be reimbursed for the expenditures it had pre-financed.

6. In view of the above, it has been decided that, at this juncture, primary consideration should be given to the needs and interests of the programme and its beneficiaries. Moreover, it seems appropriate for IFAD to demonstrate responsiveness and flexibility in adjusting to changing circumstances and learning from emerging experience. Based on these considerations, and on the basis of intensive consultation and deliberation in-house, it was decided that it would be appropriate to treat the programme henceforth as a standard IFAD project outside the purview of FLM, and to inform the Executive Board accordingly. The Board is kindly requested to take note of this.