

a

**IFAD**  
**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**  
**Executive Board – Eighty-Fourth Session**  
Rome, 18-20 April 2005

**REPORT AND RECOMMENDATION OF THE PRESIDENT**

TO THE EXECUTIVE BOARD ON PROPOSED FINANCIAL ASSISTANCE TO THE

**KINGDOM OF BHUTAN**

FOR THE

**AGRICULTURE, MARKETING AND ENTERPRISE PROMOTION PROGRAMME**

**TABLE OF CONTENTS**

<b>CURRENCY EQUIVALENTS</b>	<b>iii</b>
<b>WEIGHTS AND MEASURES</b>	<b>iii</b>
<b>ABBREVIATIONS AND ACRONYMS</b>	<b>iii</b>
<b>MAP OF THE PROGRAMME AREA</b>	<b>iv</b>
<b>FINANCING SUMMARY</b>	<b>v</b>
<b>PROGRAMME BRIEF</b>	<b>vi</b>
<b>PART I – THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY</b>	<b>1</b>
A. The Economy and Agricultural Sector	1
B. Lessons Learned from Previous IFAD Experience	2
C. IFAD’s Strategy for Collaboration with Bhutan	3
<b>PART II – THE PROGRAMME</b>	<b>4</b>
A. Programme Area and Target Group	4
B. Objectives and Scope	5
C. Components	5
D. Costs and Financing	7
E. Procurement, Disbursement, Accounts and Audit	7
F. Organization and Management	9
G. Economic Justification	9
H. Risks	10
I. Environmental Impact	10
J. Innovative Features	11
<b>PART III – LEGAL INSTRUMENTS AND AUTHORITY</b>	<b>11</b>
<b>PART IV – RECOMMENDATION</b>	<b>11</b>
<b>ANNEX</b>	
<b>SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED FINANCING AGREEMENT</b>	<b>13</b>

**APPENDIXES**

<b>I. COUNTRY DATA</b>	<b>1</b>
<b>II. PREVIOUS IFAD FINANCING TO BHUTAN</b>	<b>2</b>
<b>III. LOGICAL FRAMEWORK</b>	<b>3</b>
<b>IV. PROGRAMME MANAGEMENT AND IMPLEMENTATION</b>	<b>7</b>
<b>V. ORGANIGRAMME</b>	<b>10</b>

**CURRENCY EQUIVALENTS**

Currency unit	=	Ngultrum (BTN)
USD 1.00	=	BTN 45
BTN 1.00	=	USD 0.022

**WEIGHTS AND MEASURES**

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m <sup>2</sup> )	=	10.76 square feet (ft <sup>2</sup> )
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 ac

**ABBREVIATIONS AND ACRONYMS**

BDFC	Bhutan Development Financing Corporation
COSOP	country strategic opportunities paper
EFRC	environmentally friendly road construction
JICA	Japan International Cooperation Agency
PFO	Project Facilitation Office
SEZAP	Second Eastern Zone Agricultural Programme
SNV	SNV Netherlands Development Organisation
UNDP	United Nations Development Programme

**GOVERNMENT OF THE KINGDOM OF BHUTAN****Fiscal Year**

1 July - 30 June

MAP OF THE PROGRAMME AREA



Source: IFAD Appraisal Report.

*The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.*

**KINGDOM OF BHUTAN**  
**AGRICULTURE, MARKETING AND ENTERPRISE PROMOTION PROGRAMME**  
**FINANCING SUMMARY**

<b>INITIATING INSTITUTION:</b>	IFAD
<b>RECIPIENT:</b>	Kingdom of Bhutan
<b>EXECUTING AGENCY:</b>	Ministry of Agriculture
<b>TOTAL PROGRAMME COST:</b>	USD 19.7 million
<b>AMOUNT OF IFAD FINANCING:</b>	<b>Loan:</b> SDR 9.25 million (equivalent to approximately USD 13.9 million) <b>Grant:</b> SDR 70 000 (equivalent to approximately USD 100 000)
<b>TERMS OF IFAD LOAN:</b>	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
<b>COFINANCIERS:</b>	SNV Netherlands Development Organisation
<b>AMOUNT OF COFINANCING:</b>	USD 1.6 million
<b>TERMS OF COFINANCING:</b>	Grant
<b>CONTRIBUTION OF RECIPIENT:</b>	USD 3.1 million
<b>CONTRIBUTION OF BENEFICIARIES:</b>	USD 1.0 million
<b>APPRAISING INSTITUTION:</b>	IFAD and the SNV Netherlands Development Organisation
<b>COOPERATING INSTITUTION:</b>	United Nations Office for Project Services

**PROGRAMME BRIEF**

**Who are the beneficiaries?** The programme area comprises the six eastern *dzongkhags* (districts) of Bhutan, with a population of some 226 200 persons living in 26 600 households. Approximately 22 000 of these households (over 80% of the total) will form the primary target group. These rural households are located in isolated areas that lack access to infrastructure. Women are a significant part of the target group since they contribute most to farm production and livestock-raising, in addition to their other household responsibilities. Women's roles are expanding with the growing out-migration of male household members, leading to the gradual feminization of agriculture.

**Why are they poor?** A recent poverty analysis indicates that the programme districts are among the poorest in the country. Main causes of poverty include: remote location and rugged terrain that make access to the outside world difficult; a growing imbalance between limited productive resources and rapid population growth; a lack of productive skills that constrains the application of modern agricultural techniques; a lack of income-generation and remunerative employment opportunities; and a lack of rural financial service providers. Since the programme area is characterized by very rugged terrain with high mountain ranges separated by deep valleys, inadequate road infrastructure represents the most severe constraint. Many rural communities are still cut off from the road network and depend on animal and head-load transport.

**How will they benefit from the programme?** The programme aims to improve the livelihoods of the target group on a sustainable basis by enhancing their productivity and income growth, and improving their access to economic and social services. The programme objective will be achieved through support for both land-based and non-land-based production. Specifically, the programme will benefit the target group by: (i) promoting capital formation in crop, livestock and niche-crop production; (ii) improving the conditions under which small rural enterprises and income-generating activities are started and operated; (iii) facilitating access to rural financial services, especially credit, to enable beneficiaries to acquire the necessary capital inputs for productive activities; (iv) supporting capacity-building of organizations at the grass-roots level and promoting skills development for programme beneficiaries; and (v) improving the common socio-economic infrastructure, especially the road network and marketing support systems.

**How will they participate in the programme?** Building on the past experience of IFAD and its partners, beneficiary participation in the programme will be secured through *geog* (village block) based development plan. The *geog* plan follows a participatory process involving villages in both infrastructure development and the targeting of productive activities, including training and provision of credit. *Geog* planning will precede the drafting of the Tenth National Five-Year Plan and must therefore be undertaken virtually from the start of the programme. The *geog* development committees and their leaders, who are directly elected by the villagers, will play an important role in disseminating information about the programme and mobilizing communities.

**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD  
TO THE EXECUTIVE BOARD ON PROPOSED FINANCIAL ASSISTANCE TO THE  
KINGDOM OF BHUTAN  
FOR THE  
AGRICULTURE, MARKETING AND ENTERPRISE PROMOTION PROGRAMME**

I submit the following report and recommendation on proposed financial assistance to the Kingdom of Bhutan, comprising a loan of SDR 9.25 million (equivalent to approximately USD 13.9 million) on highly concessional terms and a grant of SDR 70 000 (equivalent to approximately USD 100 000) to help finance the Agriculture, Marketing and Enterprise Promotion Programme. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. It will be administered by the United Nations Office for Project Services as IFAD's cooperating institution.

**PART I – THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY<sup>1</sup>**

**A. The Economy and Agricultural Sector**

1. The Kingdom of Bhutan is a landlocked country located in the eastern Himalayas; it borders India to the south and China to the north, and has one of the most formidable mountainous terrains in the world, ranging from 100 metres to 7 500 metres in altitude. According to the 2003 Statistical Yearbook of Bhutan, the Kingdom has a total land area of 38 394 km<sup>2</sup> and 72% forest coverage. The population is estimated at 734 340, 79% of whom live in rural areas. Climate varies according to latitude and altitude although the latter is the most important factor. Winter and summer are distinct seasons and rains are concentrated in the monsoon season from May to September. Land use correlates with altitude and climate. Administratively, Bhutan is divided into 20 *dzongkhags* (districts), which are further sub-divided into 201 *geogs* (village blocks).

2. The Bhutanese economy has experienced rapid development since the country's opening up in the 1960s. The Government's overarching development philosophy is gross national happiness, which recognizes the need to balance material well-being with spiritual, emotional and cultural well-being of the individual and society for holistic development. Gross national happiness has four pillars: (i) economic growth and development; (ii) preservation and promotion of cultural heritage; (iii) preservation and sustainable use of the environment; and (iv) good governance.

3. In line with the main tenets of gross national happiness, the Government of Bhutan has developed the 20-year strategy "Bhutan 2020: A Vision for Peace, Prosperity and Happiness." Bhutan 2020 sets the direction for where Bhutan wants to be in the first two decades of the twenty-first century, and serves as a guide for the planning and implementation of national five-year plans towards managed development. The current Ninth National Five-Year Plan was launched in 2002 with five specific goals: (i) improve the quality of life and income, especially for the poor; (ii) ensure good governance; (iii) promote private-sector growth and employment generation; (iv) preserve and promote cultural heritage and environmental conservation; and (v) achieve rapid economic growth and transformation. High priority has been given to infrastructure and better quality social services. The Ninth Plan is different from past plans in that, for the first time in the plans' history, individual plans are included for 201 *geogs* prepared by the village communities and their elected representatives.

---

<sup>1</sup> See Appendix I for additional information.

4. A stable macroeconomic environment has contributed to sustained growth in Bhutan. During the Eighth Plan period (1997-2002), real GDP growth averaged 6.7% per annum and average per capita income reached USD 600 in 2002. Inflation decreased to a historic low of 1.3% in December 2003; fiscal policies have been prudent. Public spending continues to focus on poverty reduction and economic growth, emphasizing infrastructure and social services in line with the priorities of the Ninth Plan. Recent achievements in health and education have been impressive, with an estimated life expectancy of 61.2 years in 1998 and an adult literacy rate of 41.2% in 1999. The majority of the population has primary health care coverage.

5. The economy is dominated by the agricultural sector, which is known in Bhutan as the renewable natural resources sector, reflecting the high priority given by the Government to conservation of natural resources. In 2002 the sector accounted for 34% of GDP and 94% of employment. Arable land constitutes only 3% of the total land area. Most of the rural population supports itself through subsistence farming and animal husbandry. Because of this sector's significance to the country's mainly rural population, the Government attaches great importance to renewable natural resource development, with the objective of improving the livelihoods of the rural population while ensuring sustainable use of natural resources. Enhancing agricultural productivity, access and marketing is a sectoral priority.

### B. Lessons Learned from Previous IFAD Experience

6. IFAD has financed five projects in Bhutan since 1980 for a total of USD 28 million. One of the projects, the Second Eastern Zone Agricultural Programme (SEZAP), is still ongoing. The main lessons learned from previous IFAD experience include the following:

- (i) **Participation.** The preparation of the Ninth Plan included a participatory planning methodology, resulting in detailed diagnostic studies and 'envisioning exercises' in *geogs*. This approach has permitted the introduction of beneficiary participation in the planning and selection of project activities. The fact that *geog* personnel usually originate from the same area has greatly facilitated dialogue and knowledge of villagers' expectations. Participatory rural appraisal methodologies should be further refined to consolidate the advantages of the existing structure, with a particular focus on ensuring participation of poor people and women.
- (ii) **Gender.** Bhutan is a comparatively balanced society in terms of gender. Nevertheless, all IFAD projects specifically identify women as main beneficiaries, and SEZAP has paid particular attention to women as a target group with specific characteristics, opportunities and constraints. To avoid increasing their workloads, women are given priority to participate in training and remunerated activities. The gender action plan currently implemented by SEZAP should be sustained under the new programme.
- (iii) **Marketing and enterprise development.** Internal and external marketing is hampered by inadequate road infrastructure. Suppliers are confronted with uncertainty while traders have the opportunity to collude. There may be opportunities to organize farmers into commodity-based farmers' associations to counterbalance the influence exerted by traders. Suppliers need improved physical conditions in which they can present their output. Producers normally work on an individual basis, even for non-farming ventures. The recent promulgation of the Cooperatives Act may serve as a stimulus for the development of collective enterprises.
- (iv) **Rural financial services.** IFAD's rural finance policy seeks to enable existing financial intermediaries to deliver financial services to the target group. In Bhutan, this policy objective is achieved through engagement of the Bhutan Development Financing Corporation through a subsidiary loan agreement.

- (v) **Rural infrastructure.** Transport infrastructure should be implemented within a wider framework of local and regional infrastructure planning. The damage caused to road infrastructure during the 2004 monsoon season underlines the need to take all measures to limit such damage. While this increases programme costs, experience shows that the extra investment cost is likely to be recuperated subsequently through less costly maintenance. The design of rural roads must meet national standards, which have recently been revised to make them more environmentally friendly through the implementation of environmental friendly road construction (EFRC) technology. User groups and committees have been utilized for the operation and maintenance of irrigation water supply systems. Farm roads, tracks and footpaths are, in principle, the responsibility of the *geogs* and villages. The operation and maintenance system for access roads needs strengthening, with adequate financial and technical support.
- (vi) **Management and coordination.** The Project Facilitation Office has proved to be an effective and efficient structure for the coordination of project implementation with the guidance of decision-making institutions at the national and local level. This model should continue to be used for the new programme.

### C. IFAD's Strategy for Collaboration with Bhutan

7. **Bhutan's policy for poverty eradication.** The 2004 poverty reduction strategy paper emphasizes that the development philosophy of gross national happiness provides a sound overall framework for poverty reduction. Given that poverty in Bhutan is predominantly a rural phenomenon, comprehensive rural development programmes supported by adequate infrastructure, private-sector-led income and employment generation, and good governance will remain integral parts of the strategy for reducing poverty under the Ninth Plan. The Government seeks to achieve sustainable poverty reduction through rapid and equitable economic growth and balanced regional development. Macroeconomic management will continue with a clear pro-poor orientation. Since a large majority of poor people are dependent on agriculture, the sectoral strategy focuses on: improving productivity through the adoption of modern farming and animal husbandry practices; expanding irrigation; facilitating diversification into high-value, low-bulk crops and products; increasing access to credit; constructing and improving farm and feeder roads and market infrastructure; promoting sustainable management of natural resources; and providing an enabling policy and legal framework. The national poverty monitoring and assessment system is expected to become operational soon.

8. **The poverty eradication activities of other major donors.** There are no major donor-funded activities in eastern Bhutan, where the programme will be located. However, the Japan International Cooperation Agency (JICA) recently funded a study of the rural sector in two *dzongkhags* in the IFAD programme area, focusing on the agricultural service delivery infrastructure. The study may lead JICA to provide equipment to a future decentralized engineering unit within the Ministry of Agriculture. Meanwhile, JICA will continue to support agricultural research in eastern Bhutan, focusing on paddy cultivation and horticulture. The SNV Netherlands Development Organisation (SNV) has been a partner in SEZAP with technical assistance and training activities, and will continue to collaborate with IFAD in the new programme. Beyond the eastern region, SNV is providing technical assistance to four national programmes: rural roads; decentralization and governance; strengthening of the Bhutan Development Financing Corporation; and the Rural Enterprise Development Programme, a joint programme with the United Nations Development Programme. The World Bank has an ongoing rural road project and is expected to commence the Decentralized Rural Development Project in mid-2005.

9. **IFAD's strategy in Bhutan.** A country strategic opportunities paper (COSOP) for Bhutan was adopted in 1996 and successive project design missions have confirmed the validity of the basic strategic orientation spelled out in the COSOP. Over the last two decades, IFAD has concentrated its project operations in eastern Bhutan, which is remote, has a relatively dense population and is the most food-insecure area of the country. These projects were viewed from the start as part of a

long-term endeavour to support the Government in achieving greater food security and higher incomes for the rural poor while ensuring environmental sustainability. The focus of IFAD support has primarily been on the development of economic capital, especially rural access infrastructure. Such a focus is of paramount importance to the rural poor in view of the severe constraints posed by the road and transport network. Building on these interventions, greater attention should be given to activities beyond economic capital development to ensure sustained improvement in the livelihoods of the rural poor. These include skills development for the target population, capacity-building of support services, strengthening of decentralized institutions at the local and grass-roots level, and pilot activities that may have significance for the country as a whole, such as development of the district transport master plans and establishment of an effective marketing information service. All these activities will be supported under IFAD's new programme. The full integration of the programme into the *geog* development plans, and its implementation under the newly established decentralization of authority to the *dzongkhag* and *geog* level, will ensure programme sustainability and serve as an exit strategy.

10. **Programme rationale.** While the economic situation of eastern Bhutan has improved considerably over the years, it still lags behind the rest of Bhutan. The main constraints include: (i) lack of access to economic and social infrastructure resulting from an inadequate road and transportation network; (ii) low productivity of labour and land due to low farm output and income; (iii) incomplete trade and marketing infrastructure; (iv) lack of coherent support for small enterprise and income-generation development; and (v) insufficient awareness of poverty and gender issues. Yet eastern Bhutan has considerable potential for development and has strengthened its institutional and technical capabilities during successive IFAD projects. This programme will consolidate the achievements of past projects – especially SEZAP – and aim to instil stronger services and institutions that are more responsive to poor people's needs.

## PART II – THE PROGRAMME

### A. Programme Area and Target Group

11. **Programme area.** The programme area comprises the six eastern *dzongkhags* of Bhutan – Lhuntshe, Mongar, Pemagatshel, Samdrup-Jongkhar, Trashigang and Yangtse. It is composed of 66 *geogs* covering an area of 11 000 km<sup>2</sup> (close to 29% of the national total), with a population of some 226 200 living in 26 600 households. The area is characterized by rugged terrain with high mountain ranges separated by deep valleys. Climate varies with altitude and is the main determinant of economic activities. Forest occupies 78% of the total land area. Cropped land, excluding *tseri* (slash-and-burn) areas totals 25 000 ha, with an average holding of roughly 1.25 ha per farming household. Some of this land is terraced, and most terraced land is irrigated. Pasture land accounts for 4 000 ha. The main economic activity is agriculture, both crop- and livestock-raising. Although the area is not self-sufficient in food – particularly with regard to rice (the main staple) – it is known for citrus fruits, apples and some livestock produce. Non-timber forest products, such as medicines and lemongrass, are also harvested. Mushroom-growing has been promoted during recent years, with some success. Export markets are being rapidly developed.

12. Inadequate road infrastructure is the region's most severe constraint. In June 2003, the programme area was served by 930 km of official roads, corresponding to roughly 0.08 km per square kilometre of land surface, well below the national average. As a result, transportation costs are extremely high, preventing potential productive capabilities from being realized. Poor transportation and travel conditions are also major contributing factors to the insufficient adoption of technologies by farming households and to their poor access to social services, including education and health.

13. **Target group.** A recent poverty analysis indicated that these six districts are among the poorest in the country. The main causes of poverty include: remote location and difficult terrain that make access to the outside world difficult; a growing imbalance between limited productive resources and rapid population growth; a lack of productive skills that constrains the application of modern

agricultural techniques; a lack of income-generation and remunerative employment opportunities; and a lack of rural financial service providers. The primary target group will be households in the locations that are most isolated in terms of lack of access infrastructure. For practical purposes, geographical targeting will be done on the basis of existing road infrastructure. Households in remote villages, which are poorer than those with better access to facilities, will receive highest priority. Altogether, 22 000 households – 80% of the rural households in the programme area – will form the primary target group. Women are a significant part of the target group since they contribute most to farm production and livestock-raising, in addition to their household responsibilities. Since their role is expanding with the growing out-migration of male household members, they will be especially targeted.

14. The main targeting instrument will be the *geog* development plan – drawn up through a participatory process involving villages – for infrastructure development and for the targeting of productive activities such as training and the provision of credit. *Geog* planning will precede the drafting of the Tenth National Five-Year Plan and must therefore be undertaken virtually from the start of the programme. The *geog* development committees and their leaders, who are directly elected by the villagers, will play an important role in disseminating information about the programme and mobilizing communities.

15. The participatory process initiated under SEZAP for the preparation of the Ninth Plan must be expanded to all *geogs*. SEZAP conducted ‘envisioning’ exercises in all *geogs* but finalized actual plans in only 16 of them. These plans were excellent in listing the real needs expressed by village communities. What needs to be strengthened is prioritization and an explicit poverty and gender focus, which should be adopted as the central objectives of the programme’s local-level implementation. The progress made in decentralization will undoubtedly facilitate the application of this planning and targeting process. Building on SNV support for gender mainstreaming under SEZAP, a gender mainstreaming and targeting plan will be developed upon start-up of the programme.

## B. Objectives and Scope

16. The primary objective of the programme is to improve the livelihoods of the rural poor in the programme area on a sustainable basis by enhancing productivity, income growth and access to economic and social services. This objective will be achieved through both land-based and non-land-based production by: (i) supporting capital formation in crop, livestock and niche-crop production; (ii) improving the conditions under which enterprises and income-generating activities are started and operated; (iii) enhancing access to rural financial services (especially credit) so that beneficiaries can acquire the necessary inputs for productive activities; (iv) building the capacities of grass-roots organizations and developing beneficiaries’ skills through training; and (v) improving the common socio-economic infrastructure, especially the road network and marketing support systems.

## C. Components

17. The six-year programme will have five components: (i) on-farm production; (ii) marketing and enterprise promotion; (iii) rural financial services; (iv) rural infrastructure development; and (v) management.

18. **On-farm production.** The programme will support activities aiming at productivity enhancement for crop and livestock production. Extension services at the grass-roots level will be further strengthened with the setting up of village relay farmers for crops and village animal health workers. Demonstrations will be carried out on the farms of the poorer households, with particular attention to the specific needs of woman-headed households. Soil and water conservation activities will focus on enhancing soil structure and fertility. Niche cash crops will be promoted to increase beneficiaries’ cash-earning potential. Livestock management systems for all species will be improved. Training will be provided to both beneficiaries and extension workers.

19. **Marketing and enterprise promotion.** The programme will tackle weaknesses in the economic chain that connects producers and consumers with a view to increase the value added of local produce. Marketing support will focus on: the provision of appropriate marketing infrastructure such as local market sheds and collection points; the establishment of an effective marketing information service within the Ministry of Agriculture, as part of the Agricultural Marketing Service; and capacity strengthening for quality control. Rural enterprise promotion will involve business outreach support by the Agricultural Marketing Service, introduction of *dzongkhag* marketing officers, a business opportunities facility managed by the Project Facilitation Office, a 'godfather' enterprise programme<sup>2</sup> and the creation of rural enterprise parks. Beneficiaries will receive training in both marketing and enterprise promotion. Institutional capacity-building for agricultural marketing will also be provided. In the emerging World Trade Organization trade regime and regional trade environment, Bhutan's capacity to analyse policy and strategy options is relatively weak, although it has some unexploited comparative advantages; grant funding would strengthen this capacity.

20. **Rural financial services.** Rural financial services are an important instrument to help the target group build assets for sustainable development. The programme will provide resources in the form of revolving funds to help the Bhutan Development Financing Corporation (BDFC), the only provider of financial services in rural Bhutan, to operate in the programme area by building up its lending capacity. BDFC will also be assisted in strengthening its management and implementation capabilities, especially in monitoring of its portfolio. Since BDFC is expected to obtain a deposit-taking licence in 2005, the programme will emphasize savings mobilization to ensure sustainability of financial services beyond the programme's duration.

21. **Rural infrastructure development.** Access is a key requirement for market-based rural poverty reduction. A limited network of rural tracks and roads will be developed, but high unit costs will elevate the overall cost of this component. The programme will foster the development of road and irrigation infrastructure to help mitigate the effects of distance and isolation for scattered communities, and to increase the production of staple foods. Specific programme activities will include: support for preparation of district transport master plans; construction of farm roads and power-tiller tracks; institutional support to *dzongkhag* engineering sections, which are the primary institutions in the field; and support for gravity-fed irrigation, with a focus on rehabilitating and upgrading existing conveyance systems. Power tillers are a suitable mode of transport in rural Bhutan, and with sustained support from Japan, they have rapidly become a popular and accessible means of transportation. In addition, power tillers can enhance labour productivity if they can be taken to the field. Power-tiller tracks will therefore serve the dual purpose of enhancing agricultural labour productivity and facilitating the harvest of produce from the field. Farm roads will connect isolated rural communities to higher-level road facilities in the national road network; EFRC technology will be adopted for infrastructure development. Community maintenance of infrastructure will also be tested on an experimental basis in addition to ongoing public intervention at the national, regional and *dzongkhag* level.

22. **Management.** Programme implementation will be guided by the principles of: (i) supporting the strengthening of decentralized economic management processes based on *dzongkhag* and *geog* planning; (ii) supporting beneficiary-focused participatory programming, implementation and monitoring; (iii) synchronicity and synergy with the national planning process; and (iv) developing the successful concept of the SEZAP's Project Facilitation Office to strengthen technical, financial and institutional capacities at the *dzongkhag* and *geog* level. The programme will provide support for institutional capacity-building at the *dzongkhag* and *geog* level, including the establishment of *dzongkhag* gender focal points and support for the operation of the Project Facilitation Office. Resources will also be made available for a business opportunities facility, a microinitiatives fund for ad-hoc funding of beneficiary-oriented activities in villages and an innovation opportunities search

---

<sup>2</sup> The principle governing so-called 'godfather' enterprises is that a number of young entrepreneurs meet regularly with an experienced and successful entrepreneur (the 'godfather'). The aim is for the 'godfather' to transmit his or her knowledge and experience with the start-up entrepreneurs for the purpose of making them more professional.

fund. SNV will provide technical assistance to the programme, focusing on decentralized economic management, good governance, sound infrastructure, investment planning and implementation. IFAD funding will be needed for some technical assistance, especially assistance of a short-term or highly technical nature.

#### **D. Costs and Financing**

23. The total programme cost, including price and physical contingencies, is estimated at USD 19.7 million over the six-year implementation period, as shown in Table 1. The financing plan is set out in Table 2. IFAD will provide a loan of USD 13.9 million (or 71% of the total programme cost). The Government will contribute USD 3.1 million (16%). Beneficiary contributions will be primarily composed of voluntary labour estimated at USD 1.0 million (5% of the total). SNV will provide grant funding of USD 1.6 million (8%) to finance technical assistance expenditures. In addition, IFAD will provide grant financing of USD 100 000 for capacity-building in marketing and enterprise development and programme management, within the decentralized decision-making framework (see paragraphs 19 and 22) and in line with the sectoral priorities referred to in paragraph 5.

#### **E. Procurement, Disbursement, Accounts and Audit**

24. **Procurement.** The Government of Bhutan and IFAD have agreed on the procurement plan for the first 18 months of the programme. Procurement of goods and services financed by IFAD will be in accordance with IFAD's Procurement Guidelines. Contracts for farm roads will be awarded on the basis of local competitive bidding. Civil works for power-tiller tracks and irrigation conveyance systems are small and scattered, and will be awarded on the basis of local shopping procedures. Programme goods and services will be procured as follows: (i) items costing less than USD 50 000 will be procured through local shopping procedures, including at least three valid proposals; and (ii) items costing USD 50 000 or more will be procured through local competitive bidding.

25. **Disbursement.** The IFAD loan will be disbursed over six years through a special account capitalized with an initial IFAD deposit of USD 1.4 million. Withdrawals for local training and payment expenditures under contracts costing less than USD 20 000 will be made against certified statements of expenditure. All other disbursements will be fully documented. BDFC loans to farmers will be pre-financed under revolving funds set up within BDFC. The conditions applicable to this transfer of resources will be specified in detail in the subsidiary loan agreement.

26. **Retroactive financing.** A limited programme of work will need to be carried out after loan negotiation and prior to loan effectiveness in order to test certain methodologies relating to agricultural service delivery and to ensure the preparedness of technical agencies for programme implementation. Items proposed for retroactive financing include: (i) **on-farm production**, including preparatory activities for the crop subcomponent such as workshops, meetings and mobilization of extension services, initial training for trainers in livestock development, start-up of horticulture nurseries and training, and establishment of a first set of fodder plant production nurseries; (ii) **marketing and enterprise promotion**, including training in marketing data management, initial studies on enterprise promotion and initial running costs for the marketing information service at the Ministry of Agriculture and the regional Agricultural Marketing Service; (iii) **rural infrastructure**, including the design cost of infrastructure work to be undertaken during fiscal year 2006/07 and an initial training session for district engineers; and (iv) **management**, including implementation planning such as start-up and planning workshops, and entry training of *dzongkhag* planning officers. The total amount of proposed retroactive financing is estimated at USD 400 000, to be eligible after loan negotiation and prior to loan effectiveness. This additional amount will be included in the initial deposit into the special account.

**TABLE 1: SUMMARY OF PROGRAMME COSTS<sup>a</sup>**  
(USD '000)

Component	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
On-farm production	831	1 254	2 085	60	12
Marketing and enterprise promotion	635	1 760	2 395	73	14
Rural financial services	1 192	193	1 385	14	8
Rural infrastructure development	3 779	4 851	8 630	56	50
Management	1 474	1 327	2 801	46	16
<b>Total base costs</b>	<b>7 912</b>	<b>9 385</b>	<b>17 297</b>	<b>54</b>	<b>100</b>
Physical contingencies	598	721	1 319	55	8
Price contingencies	424	613	1 036	59	6
<b>Total programme costs</b>	<b>8 934</b>	<b>10 719</b>	<b>19 653</b>	<b>54</b>	<b>114</b>

<sup>a</sup> Discrepancies in totals are due to rounding.

**TABLE 2: FINANCING PLAN<sup>a</sup>**  
(USD '000)

Component	IFAD Loan		IFAD Grant		SNV		Government		Beneficiaries		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%			
On-farm production	2 146	88.7	-	-	240	9.9	33	1.4	-	-	2 419	12.4	1 438	980	-
Marketing and enterprise promotion	1 621	59.6	50	1.8	677	24.9	372	13.7	-	-	2 720	13.8	-1 972	748	-
Rural financial services	1 430	100	-	-	-	-	-	-	-	-	1 430	7.3	218	1 212	-
Rural Infrastructure development	6 139	61.7	-	-	581	5.8	2 252	22.6	974	9.8	9 946	50.6	5 599	4 347	-
Management <sup>b</sup>	2 570	81.9	50	1.6	121	3.9	397	12.7	-	-	3 138	16	1 491	1 646	-
<b>Total</b>	<b>13 907</b>	<b>70.8</b>	<b>100</b>	<b>0.6</b>	<b>1 619</b>	<b>8.2</b>	<b>3 053</b>	<b>15.5</b>	<b>974</b>	<b>5</b>	<b>19 653</b>	<b>100</b>	<b>10 719</b>	<b>8 934</b>	<b>-</b>

<sup>a</sup> Discrepancies in totals are due to rounding.

<sup>b</sup> All amounts have been defined without taxes because consumption and income taxes are mostly insignificant in Bhutan. Simple and effective waiver procedures are applied by the Ministry of Finance.

27. **Accounts and audit.** The financial reporting and accounting practices followed by the Ministry of Finance are acceptable to IFAD. The Project Facilitation Office will maintain consolidated accounts for the programme and records of all expenditures on items purchased for the programme. The *dzongkhag* accounting sections are adequately staffed and capable of handling the programme's accounting requirements. The Office of the Auditor General of Bhutan will audit all programme accounts, and will furnish a certified copy of the audit report to IFAD and the cooperating institution within six months after the end of each financial year.

#### F. Organization and Management

28. **Programme coordination and management.** The Ministry of Agriculture will be the lead agency for programme execution while the Ministry of Finance will have overall responsibility for the flow of funds and financial monitoring at the national level. At the *dzongkhag* level, each district head will assume responsibility for implementation and will coordinate the work of all agencies involved, in accordance with the policy guidance provided in the programme planning documentation. Based on the experience of SEZAP, a programme steering committee will be formed at the national level and a programme coordination committee will be formed at the regional level to provide strategic guidance to the programme. The Project Facilitation Office will be responsible for facilitating day-to-day implementation under the immediate supervision of the programme coordination committee and in direct support of the *dzongkhag* administrations, which are the focal institutions for programme implementation under the decentralization policy. Technical implementation will be the responsibility of the various technical units. BDFC will be responsible for implementation of the rural financial services component. Further details on the programme management and implementation arrangements are provided in Appendix IV.

29. **Monitoring and evaluation.** Monitoring will be directly linked to the regular reporting system established under SEZAP, which is now an integral part of PFO operations in that programme. A credit programme management and information system will also be established by BDFC to monitor credit activities. The programme's monitoring system will be compliant with the national poverty monitoring and assessment system proposed in the poverty reduction strategy paper. The PFO will prepare annual progress reports, coordinate information from participating agencies, and ensure that gender-specific details are generated. Supervision missions will pay particular attention to monitoring indicators of: (i) road and track building and maintenance; (ii) food, livestock and economic crop production; (iii) household income or proxy indicators related to increased food self-sufficiency and discretionary expenditure; (iv) graduation out of poverty; and (v) income of women participating in supported activities. Physical, environmental, financial, institutional and socio-economic aspects will be included in reports for IFAD.

#### G. Economic Justification

30. Approximately 22 000 rural households are expected to benefit directly from the programme. The main programme benefits will derive from improved access to economic and social opportunities and services. In physical terms, benefits will accrue from increased on-farm food production and cash incomes, which will improve nutrition and welfare. More efficient marketing and trade – combined with the growing number of small enterprises – will strengthen the economic and social fabric of civil society and make the local economy more resilient to external disturbances. The various training programmes, along with participatory village-level planning of programme activities, will lead to greater awareness of individuals', households' and communities' social and economic situations. These benefits will be further amplified with the posting of relay farmers and village animal husbandry workers as focal points for participatory programme planning at the *geog* level and programme service delivery within communities. Because of each activity's specific focus, the impact on women is expected to be particularly strong. The proposed crop and livestock support activities will free up women's time, enabling them to participate more effectively in other production and income-oriented activities.

## **H. Risks**

31. Four categories of risk can be expected for the programme: the impact of peak climate events – especially monsoon storms – on rural infrastructure; the availability of voluntary labour for infrastructure development; the capacity of the Agricultural Marketing Services; and the quality and availability of inputs, especially planting materials. The programme will seek to attenuate the impact of peak climate events by rigorously applying run-off management on roads and irrigation conveyance systems, as prescribed in EFRC procedures. In addition, resources will be allocated to ensure that initial maintenance, which may include corrections to the initial construction, is adequately funded in the first few years following construction or upgrading.

32. Labour availability for infrastructure development will be secured by planning the most labour-intensive work items for winter, when there is little or no labour strain. Road investment will be planned to cover two successive winters and planning techniques have been developed to ensure that unfinished work is not unduly damaged during the intervening monsoon season.

33. Implementation of marketing and enterprise support activities will rely principally on Agricultural Marketing Services. The risk of inadequate staffing and capacity of the service will be mitigated by ensuring that it draws on knowledge and experience from other institutions and projects, especially the SNV/UNDP-supported Rural Enterprise Development Programme, and that inter-agency coordination with the Ministry of Trade and Industry is achieved.

34. The risk associated with the quality and availability of inputs will be addressed in a number of ways. For crop production, the programme will support seed potato multiplication by groups of farmers as an income-generating opportunity. Seed production for other crops (including niche cash crops) will be promoted in line with the methodologies applied by the national seed company to ensure availability of good quality seeds at the right time. No problems are expected with regard to the supply of fertilizers and other agro-chemicals, which are imported under a liberal trade system. However, excessive usage of these inputs is not part of the technical recommendations and will be discouraged. As an alternative, the programme will vigorously promote organic cropping technologies.

## **I. Environmental Impact**

35. The programme will adopt an environmentally sensitive approach to the activities proposed under each component. It will especially address potential aspects of environmental fragility that may be associated with some technical proposals. Support for crop production will seek to increase productivity of staple crops in appropriate areas and introduce techniques that can boost production. Proposed livestock activities are likely to have positive impacts on the environment because they seek to replace current 'natural' grazing practices with on-farm production and better use of existing fodder resources. Extension officers will be trained to disseminate environmentally friendly crop and livestock management techniques that correspond to the concerns of beneficiary communities. Infrastructure development will adopt the technical specifications of EFRC in a systematic process that incorporates environmental issues, assesses impact and considers mitigating actions at every stage of the development process, from the initial assessment of transportation needs to the detailed design of individual construction items. The environmental screening and scoping note for the programme assigns a Category B classification for environmental impact.

## J. Innovative Features

36. Two important innovations are included in the programme's implementation structure. First, the programme is the only poverty reduction operation in Bhutan to introduce geographical targeting at the local level – some *geogs* will be explicitly excluded from receiving additional infrastructural investment from the programme. In addition, for the first time in Bhutan, a gender focal point will be established in each *dzongkhag* administration to oversee the gender implications of programme implementation. In terms of its technical features, the programme will adopt two approaches that are novel in the programme area: (i) the mandatory application of EFRC for infrastructure development; and (ii) the introduction of relay farmers and village animal health workers as the interface between isolated village communities and extension services. In addition, support for savings mobilization by BDFC will be provided once BDFC has obtained its national licence as a deposit-taker.

### PART III – LEGAL INSTRUMENTS AND AUTHORITY

37. A financing agreement between the Kingdom of Bhutan and IFAD constitutes the legal instrument for extending the proposed financial assistance to the recipient. A summary of the important supplementary assurances included in the negotiated financing agreement is attached as an annex.

38. The Kingdom of Bhutan is empowered under its laws to borrow from IFAD.

39. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD.

### PART IV – RECOMMENDATION

40. I recommend that the Executive Board approve the proposed financial assistance in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the Kingdom of Bhutan in various currencies in an amount equivalent to nine million two hundred and fifty thousand special drawing rights (SDR 9 250 000) to mature on or prior to 15 April 2045 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

RESOLVED FURTHER: that the Fund shall provide a grant to the Kingdom of Bhutan in various currencies in an amount equivalent to seventy thousand special drawing rights (SDR 70 000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Lennart Båge  
President

**SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES  
INCLUDED IN THE NEGOTIATED FINANCING AGREEMENT**

(Financing negotiations concluded on 7 April 2005)

1. Through the Ministry of Finance, the Government will open and thereafter maintain in a bank proposed by the Government and acceptable to IFAD an account denominated in Bhutanese ngultrum for programme operations (the programme account). The programme facilitation officer (PFOR) will be fully authorized to operate the programme account.
2. The Government will ensure that the benefits of the grant from the SNV Netherlands Development Organisation (SNV) are made available to the programme in accordance with the annual work plans and budgets (AWP/Bs).
3. The programme facilitation office (PFO) will establish, as soon as practicable but in no event later than 90 days following the effective date, and thereafter maintain an appropriate information management system to enable it to continuously monitor the programme.
4. Within 90 days following the effective date, the Government will designate the Office of the Auditor-General of the Government or will appoint, with the prior approval of IFAD, other independent auditors to audit the consolidated financial statements of the programme.
5. **Pest management practices.** (a) As part of maintaining sound environmental practices as required by Section 7.15 of IFAD's General Conditions for Agricultural Development Financing (General Conditions), the programme parties will maintain appropriate pest management practices under the programme. To that end, the Government will ensure that pesticides procured under the programme do not include any pesticide either proscribed by the International Code of Conduct on the Distribution and Use of Pesticides of the Food and Agriculture Organization of the United Nations, as amended from time to time, or listed in Tables 1 (Extremely Hazardous) and 2 (Highly Hazardous) of the World Health Organization's Recommended Classification of Pesticides by Hazard and Classification 1996-1997, as amended from time to time.  
  
(b) When recommending chemicals for use by beneficiary farmers, programme staff will recommend the least hazardous, and, whenever possible, integrated pest management principles will be applied. Moreover, the programme will accord special attention to educating farmers in the safe use, handling and storage of agrochemicals so as to minimize acute and/or chronic toxic effects.
6. **Monitoring.** The programme's monitoring and evaluation system will be impact-oriented and include, inter alia, a gender-disaggregated analytical baseline and information system and a set of indicators to measure progress and impact in attaining the programme's objectives. Moreover, the system will effectively monitor the indicators required by IFAD under its Results Impact Management System, which indicators will be communicated by IFAD to the Government. To that end, the PFO will coordinate information received from the programme parties and ensure that gender-disaggregated indicators are generated as part of the programme's overall monitoring system. The following information will be included in the programme's monitoring system:
  - (i) road- and track-building and maintenance;
  - (ii) food, livestock and economic crop production;
  - (iii) household income or proxy indicators related to increased food self-sufficiency and discretionary expenditure;

- (iv) graduation out of poverty;
- (v) income of women participating in programme-supported activities.

Physical, environmental, financial, institutional and socio-economic aspects of programme implementation and benefits will be included in all reports to be provided by IFAD in accordance with the terms of the financing agreement.

7. **Road-user committee.** As a condition for power-tiller track and road construction under the rural infrastructure development component, the Government will ensure that prior to approval and financing of such a road, the affected/beneficiary community(ies) establish a road-user committee, the by-laws of which will indicate, among other things, precise arrangements and responsibilities for maintaining the road, including cost- and burden-sharing with the communities.

8. **Insurance of programme personnel.** The Government will insure programme personnel against health and accident risks to the extent consistent with its customary practice in respect of its national civil service.

9. **Gender focus.** (a) Although the “feminization” of agriculture is occurring at an increasing pace, fewer opportunities for education and training place women at a disadvantage both socially and economically. Thus, in order to achieve the objective of social development, women will be especially targeted under the programme. This particularly applies to the rural financial services component under which, inter alia, extension support and technical training will be focused on poorest households and women to act as social collateral. On-farm trials and demonstrations will be conducted on the land of poor households and women; this could provide the initial investment for increased production and greater creditworthiness. Moreover, in general terms, women are likely to represent a rapidly increasing proportion of the immediate target group due to the numbers of them involved in agricultural activities.

(b) The Government will ensure that village committees are encouraged to nominate women farmers to the positions of relay farmers and/or village animal health workers under the extension support subcomponent of the on-farm production component.

10. **Land reallocation.** Where programme activities affect the supply and/or quality of available land in a village, land will be reallocated as part of the programme’s planning process in a participatory manner involving the entire community.

11. **Demonstrations.** At least 50% of demonstrations under the on-farm production component will be conducted on landholdings that are located at a distance from the administrative centres and main villages of *geogs*.

12. **Farm road construction guidelines.** As soon as practicable but in any case within the 180 days following the effective date, the lead programme agency will update its farm-road construction guidelines in line with environment-friendly road construction methodology and the most up-to-date methods for quality assurance.

13. **Rural buildings maintenance.** As a condition for the renovation of rural buildings under the programme, the beneficiary community will enter into an agreement with the Block (*geog*) Administration with respect to community management and maintenance of the renovated facility.

14. **Suspension.** (a) IFAD may suspend, in whole or in part, the right of the Government to request withdrawals from the loan account and/or the grant account in accordance with Section 12.01 of the General Conditions upon the occurrence of any of the events set forth therein or any of the events set forth below:

ANNEX

- (i) On or after the effective date, the SNV grant agreement has failed to enter into full force and effect by the date(s) specified therein or a later date or dates established by SNV for that purpose; substitute funds are not available to the Government on terms and conditions acceptable to IFAD; and IFAD has determined that such lack of funds has had or is likely to have a material adverse effect on the programme.
- (ii) The right of the Government to withdraw the proceeds of the SNV grant has been suspended, cancelled or terminated, in whole or in part; substitute funds are not available to the Government on terms and conditions acceptable to IFAD; and IFAD has determined that such unavailability/lack of funds has had or is likely to have a material adverse effect on the programme.
- (iii) The credit by-laws or any provision thereof has been waived, suspended, terminated, amended or otherwise modified without the prior consent of IFAD, and IFAD has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the rural financial services component.
- (iv) The programme implementation manual or any provision thereof has been waived, suspended terminated, amended or modified without the prior consent of IFAD, and IFAD has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the programme.
- (v) Any competent authority has taken action for the dissolution of the BDFC or the suspension of its operations, or any action/proceeding has been initiated for the distribution of any BDFC assets among its creditors, which action, in the reasonable opinion of IFAD, may adversely affect the implementation of the programme.

(b) IFAD will suspend, in whole or in part, the right of the Government to request withdrawals from the loan account and/or grant account if the audit required by the financing agreement has not been satisfactorily concluded within 12 months following the end of the fiscal year.

15. **Conditions precedent to withdrawals.** (a) No withdrawals will be made in respect of expenditures under the programme from the loan or grant until the AWP/B for the first programme year has been submitted to and approved by IFAD.

(b) No withdrawals will be made in respect of expenditures under the incremental credit expenditure category until such time as:

- (i) the credit by-laws have been approved by IFAD in draft form; a copy of the credit by-laws adopted by the programme steering committee (PSC), substantially in the form so approved and certified as true and complete by a competent officer of the Government, has been delivered to IFAD; and
- (ii) the BDFC subsidiary agreement approved by IFAD has been duly entered into between the Government and the BDFC; a copy thereof, certified as true and complete by a competent officer of the Government, has been delivered to IFAD; the signature and performance thereof by the Government and the BDFC have been duly authorized or ratified by all necessary corporate, administrative and governmental action; and all conditions precedent to the effectiveness thereof have been fulfilled.

ANNEX

(c) No withdrawals will be made in respect of expenditures under the civil works expenditure category in any individual programme district until the district transport master plan (DTMP) for such programme district has been prepared by the respective district administration and approved by the lead programme agency and the Ministry of Works and Human Settlement, **except** with respect to expenditures related to the preparation of such DTMP and for buildings and irrigation development.

16. The following are specified as conditions precedent to the effectiveness of the financing agreement:

- (a) a PFOR has been duly appointed by the lead programme agency and approved by IFAD;
- (b) the PSC, programme coordinating committee and PFO have been duly established;
- (c) the district administration of each programme district have nominated one programme focal officer and one gender focal point;
- (d) the programme implementation manual has been approved by IFAD in draft form; a copy of the programme implementation manual adopted by the PSC, substantially in the form so approved and certified as true and complete by a competent officer of the lead programme agency, has been delivered to IFAD;
- (e) the Government has duly opened the special account, grant bank account and programme account;
- (f) the Government has made an initial budgetary allocation of counterpart funds available to the programme parties;
- (g) the financing agreement has been duly signed, and the signature and performance thereof by the Government have been duly authorized and ratified by all necessary administrative and governmental action; and
- (h) a favourable legal opinion, issued by the Director of the Office of Legal Affairs of the Government or other competent legal officer of the Government authorized to issue such opinions, in form and substance acceptable to IFAD, has been delivered by the Government to IFAD.

APPENDIX I

COUNTRY DATA

BHUTAN

<b>Land area (km<sup>2</sup> thousand) 2002 1/</b>	47	<b>GNI per capita (USD) 2002 1/</b>	600
<b>Total population (million) 2002 1/</b>	851	<b>GDP per capita growth (annual %) 2002 1/</b>	5
<b>Population density (people per km<sup>2</sup>) 2002 1/</b>	18	<b>Inflation, consumer prices (annual %) 2002 1/</b>	2
<b>Local currency</b>	Ngultrum (BTN)	<b>Exchange rate: USD 1 =</b>	BTN 45
<b>Social Indicators</b>		<b>Economic Indicators</b>	
Population (average annual population growth rate) 1996-2002 1/	2.9	GDP (USD million) 2002 1/	591 174 274
Crude birth rate (per thousand people) 2002 1/	35	Average annual rate of growth of GDP 1/ 1982-1992	7.0
Crude death rate (per thousand people) 2002 1/	9	1992-2002	7.0
Infant mortality rate (per thousand live births) 2002 1/	74	Sectoral distribution of GDP 2002 1/	
Life expectancy at birth (years) 2002 1/	63	% agriculture	34
Number of rural poor (million) (approximate)	n/a	% industry	37
Poor as % of total rural population	n/a	% manufacturing	8
Total labour force (million) 2002 1/	408	% services	29
Female labour force as % of total 2002 1/	40	Consumption 2002 1/	
<b>Education</b>		General government final consumption expenditure (as % of GDP)	21 a/
School enrolment, primary (% gross) 2002 1/	na	Household final consumption expenditure, etc. (as % of GDP)	52 a/
Adult illiteracy rate (% age 15 and above) 2002 1/	Na	Gross domestic savings (as % of GDP)	28 a/
<b>Nutrition</b>		<b>Balance of Payments (USD million)</b>	
Daily calorie supply per capita,	n/a	Merchandise exports 2002 1/	116 000
Malnutrition prevalence, height for age (% of children under 5) 2002 3/	40 a/	Merchandise imports 2002 1/	180 000
Malnutrition prevalence, weight for age (% of children under 5) 2002 3/	19 a/	Balance of merchandise trade	-64
<b>Health</b>		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 2002 1/	4 a/	before official transfers 2002 1/	21 627
Physicians (per thousand people) 1/	Na	after official transfers 2002 1/	35 422
Population using improved water sources (%) 2002 3/	62 a/	Foreign direct investment, net 2002 1/	300 000
Population with access to essential drugs (%) 1999 3/	80-94	<b>Government Finance</b>	
Population using adequate sanitation facilities (%) 2002 3/	70 a/	Overall budget deficit (including grants) (as % of GDP) 2002 1/	-6
<b>Agriculture and Food</b>		Total expenditure (% of GDP) 2002 1/	34
Food imports (% of merchandise imports) 2002 1/	18 a/	Total external debt (USD million) 2002 1/	376 900
Fertilizer consumption (hundreds of grams per ha of arable land) 2002 1/	0 a/	Present value of debt (as % of GNI) 2002 1/	65
Food production index (1989-91=100) 2002 1/	96	Total debt service (% of exports of goods and services) 2002 1/	5
Cereal yield (kg per ha) 2002 1/	1592	Lending interest rate (%) 2002 1/	na
<b>Land Use</b>		Deposit interest rate (%) 2002 1/	na
Arable land as % of land area 2002 1/	3 a/		
Forest area as % of total land area 2002 1/	64 a/		
Irrigated land as % of cropland 2002 1/	24 a/		

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* CD ROM 2004

2/ UNDP, *Human Development Report*, 2000

3/ UNDP, *Human Development Report*, 2004

**PREVIOUS IFAD FINANCING TO BHUTAN**

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Currency	Approved Loan/Grant Amount	Disbursement (as % of approved amount)
Small Farm Development and Irrigation Rehabilitation Project	IFAD	UNOPS	HC	04 Dec 80	18 May 81	31 Dec 89	G - I - 61 - BH	SDR	475 000	
Small Farm Development and Irrigation Rehabilitation Project	IFAD	UNOPS	HC	04 Dec 80	18 May 81	31 Dec 89	L - I - 50 - BH	SDR	5 450 000	69.4%
Tashigang and Mongar Area Development Project	IFAD	World Bank: IDA	HC	05 Dec 85	03 Mar 87	31 Mar 93	L - I - 178 - BH	SDR	4 450 000	57.4%
Punakha-Wangdi Phodrang Valley Development Project	IFAD	UNOPS	HC	15 Sep 88	01 Jun 89	30 Jun 97	L - I - 223 - BH	SDR	2 000 000	97.6%
First Eastern Zone Agricultural Project	IFAD	UNOPS	HC	14 Apr 92	23 Oct 92	30 Jun 99	L - I - 299 - BH	SDR	2 900 000	91.7%
Second Eastern Zone Agricultural Project	IFAD	UNOPS	HC	08 Sep 99	17 May 00	31 Dec 08	L - I - 512 - BT	SDR	6 950 000	73%

## LOGICAL FRAMEWORK

Narrative Summary	Performance Indicators	Means of Verification	Assumptions
<p><b>Goal</b> To enhance the livelihoods of the rural poor in the programme area</p>	<ul style="list-style-type: none"> <li>• Household assets ownership index improved (based on additional assets)</li> <li>• Incidence of child malnutrition (boys/girls) reduced</li> <li>• Household food security enhanced</li> </ul>	<ul style="list-style-type: none"> <li>• Periodical national surveys</li> <li>• National plan preparation exercise</li> </ul>	
<p><b>Purpose</b> To achieve total factor productivity and income growth, and improve access to economic and social services</p>	<ul style="list-style-type: none"> <li>• Total number of households receiving programme services (direct, by sex of household head)</li> <li>• Per capita grain availability increased by 10% by 2010</li> <li>• Per capita income increased by USD 150-200 by 2012</li> <li>• Produce trade in programme area doubles in value</li> <li>• Enterprise start-ups increased</li> </ul>	<ul style="list-style-type: none"> <li>• Benchmark, mid-term &amp; completion assessments</li> <li>• Programme progress &amp; supervision reports</li> <li>• M&amp;E system</li> <li>• MOA (AMS) surveys</li> </ul>	<ul style="list-style-type: none"> <li>• Price / demand remain elastic</li> <li>• No major natural calamities</li> <li>• No major trade policy changes in partner countries</li> <li>• Market investigations and adaptive research successful</li> </ul>
<p><b>Outputs</b> <b>1. On-Farm Production</b> Crop and livestock production increased</p>	<ul style="list-style-type: none"> <li>• 5 000 farmers trained (person/times, disaggregated by sex)</li> <li>• 200 pilot crop activities implemented</li> <li>• 4 150 food crop demonstrations conducted</li> <li>• Crop support institutions strengthened</li> <li>• Special medicinal pilot programme set up</li> <li>• 100 Village Animal Health Workers set up &amp; supported</li> <li>• 2 600 farmers trained in market-focused livestock production (person/times, disaggregated by sex)</li> <li>• 400 livestock farmers / herders / producers trained (person/times, disaggregated by sex)</li> <li>• 2 200 demonstrations conducted</li> <li>• Cross-breeding programme implemented with bull and A.I. service</li> </ul>	<ul style="list-style-type: none"> <li>• Programme progress &amp; supervision reports</li> <li>• M&amp;E system</li> </ul>	<ul style="list-style-type: none"> <li>• Training &amp; demonstration effective in producing technology shifts and occupation of promising niches</li> </ul>

<p><b>2. Marketing &amp; Enterprise Promotion</b> Produce marketing made more beneficiary and market focused. Income generation activities and small enterprises supported</p>	<ul style="list-style-type: none"> <li>• 12 market sheds constructed / rehabilitated</li> <li>• 76 collection points established</li> <li>• 90 modular produce store built</li> <li>• 2 250 farmers trained (person/times, disaggregated by sex)</li> <li>• Market Information Service established</li> <li>• Agricultural Marketing Service (AMS) supported</li> <li>• Training of 4 AMS/PPD staff in dealing with emerging issues related to WTO access &amp; regional trade environment</li> <li>• <i>Dzongkhag</i> marketing officers trained (person/times)</li> <li>• 34 events of godfather entrepreneurs conducted</li> <li>• 72 “modules” of Rural Enterprise Parks established</li> <li>• BOF resources disbursed effectively</li> </ul>	<ul style="list-style-type: none"> <li>• Programme progress &amp; supervision reports</li> <li>• M&amp;E system</li> <li>• AMS periodic reports</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Geogs</i> obtain means to effectively manage marketing infrastructure provided</li> <li>• Marketing programme effective</li> <li>• Grant-funded activities implemented</li> </ul>
<p><b>3. Rural Financial Services</b> Poverty and gender sensitive rural financial services provided by BDFC</p>	<ul style="list-style-type: none"> <li>• New loans extended doubled over 4-year period (by sex &amp; by type of borrower)</li> <li>• Value of gross loan portfolio (loans outstanding – loans written off) (disaggregated by sex)</li> <li>• BDFC staff in the programme area trained in rural financial service delivery</li> </ul>	<ul style="list-style-type: none"> <li>• BDFC periodic reports</li> <li>• Programme supervision reports</li> </ul>	<ul style="list-style-type: none"> <li>• Profitable operations in programme <i>dzongkhags</i> achieved</li> </ul>
<p><b>4. Infrastructure Development</b> Access infrastructure significantly improved. Irrigation development supported</p>	<ul style="list-style-type: none"> <li>• 150 km of farm roads built or upgraded</li> <li>• 240 km of power-tiller tracks built</li> <li>• 100 km of main conveyance for irrigation upgraded, repaired or built</li> <li>• O&amp;M manual developed &amp; system operations</li> </ul>	<ul style="list-style-type: none"> <li>• Programme progress &amp; supervision reports</li> <li>• M&amp;E system</li> </ul>	<ul style="list-style-type: none"> <li>• District Transport Master Plans established and implemented</li> </ul>
<p><b>5. Support to Decentralization &amp; Programme Management</b> Decentralized institutions and management supported</p>	<ul style="list-style-type: none"> <li>• Decentralized departments at <i>Dzongkhag</i> level strengthened</li> <li>• Programme Facilitation Office (PFO) established &amp; supported with 2 short-term TAs for management planning and M&amp;E</li> <li>• PFO M&amp;E system firmly established &amp; delivery of RIMS outputs</li> <li>• Participatory poverty and gender sensitive <i>Geog</i> Planning implemented</li> <li>• <i>Geog</i> Plans effectively taken forward into <i>Dzongkhag</i> &amp; national plans</li> <li>• Special funds successfully disbursed</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Dzongkhag</i> &amp; PFO annual reports</li> <li>• Programme progress &amp; supervision reports</li> <li>• Mid-term &amp; completion reviews</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation of decentralization policy continued</li> <li>• Lessons from SEZAP management procedures absorbed</li> <li>• PRA efforts continued</li> <li>• Grant-funded TA available</li> </ul>

### Activities by Components

- 1.1 Support to Renewal Natural Resource extension system
- 1.2 Promote soil & water conservation
- 1.3 Implement non-forest timber product programme
- 1.4 Implement horticulture programme
- 1.5 Strengthening animal breeding services
- 1.6 Conduct pilot activities, demonstration & studies
- 1.7 Implement training programme for beneficiaries & livestock staff
- 2.1 Construct support infrastructure for marketing & trade
- 2.2 Set up & run the Marketing Information Service
- 2.3 Support quality control
- 2.4 Mobilise & fund AMS
- 2.5 Establish, backstop & fund *dzongkhag* marketing officers
- 2.6 Identify, backstop & fund “godfather” entrepreneurs
- 2.7 Build Rural Enterprise Parks

- 2.8 Implement training for beneficiaries
- 3.1 Establish revolving fund with BDFC
- 3.2 Train BDFC staff & beneficiaries
- 4.1 Finalise District Transport Master Plans and prepare for the 10<sup>th</sup> National Five-Year Plan
- 4.2 Upgrade capabilities of local engineers
- 4.3 Build farm roads & power-tiller tracks
- 4.4 Arrange for and fund maintenance
- 4.5 Build or rehabilitate irrigation systems
- 5.1 Nominate planning focal points
- 5.2 Establish and run the Programme Facilitation Office
- 5.3 Train *dzongkhag* planning staff
- 5.4 Organise programme & local workshops
- 5.4 Allocate & run micro-initiative funds

### Bhutan AMEPP

#### Explanatory Note on USD 100 000 Grant

##### **Activities to be funded by the grant**

1. As indicated in the President's Report (paragraphs 19 & 22, Table 2, and Appendix IV), the USD 100,000 grant is earmarked for two components: Marketing & Enterprise Promotion (Component 2, USD 50,000), and Management (Component 5, USD 50,000).
2. The specific areas of support are:
  - (a) Capacity-building for the newly-established Agricultural Marketing Services of MOA and in relation to WTO access, including training, study tours, studies etc; and
  - (b) Short-term technical assistance for programme management that SNV is unable to fund due to resource constraint. They include TAs for management planning and M&E. Management support becomes important due to rotation of key senior project staff. The TA for M&E aims at strengthening the monitoring function of the Programme Facilitation Office (PFO) and putting it in proper relationship with the national / district requirements / capacity.

##### **Expected benefits**

3. The benefits of the grant-funded activities are expected as:
  - (a) A fully functional AMS with adequate staffing and capacity, including the operation of the proposed Market Information Service system;
  - (b) Strengthened capacity in MOA to deal with issues related to WTO access and the regional trade environment;
  - (c) A strengthened project M&E system that meets IFAD's evolving requirements and is integrated with national / local monitoring systems; and
  - (d) Strengthened management capacity for the project.

## PROGRAMME MANAGEMENT AND IMPLEMENTATION

1. This appendix outlines the programme management and implementation arrangement, especially the role of the PFO in programme implementation within a decentralized decision making framework. The SEZAP has been instrumental in successfully completing a participatory planning effort as a preparation for the 9th Plan. The new programme provides the opportunity to take the participatory planning commenced under SEZAP further.

### A. SEZAP Implementation Structure

2. At national level, a PSC meets once annually – usually towards the end of the fiscal year. It consists of MOA (or the Secretary) as Chairman and senior representatives of the Ministry of Finance (Division of Aid and Development Management, and Division of Budget Administration), Ministry of Home Affairs, and the Planning Commission. In addition, the Directorate of Agriculture and of Livestock, as well as the Planning and Policy Division and the Administration and Finance Division of MOA, are also represented. Significantly, the chairman of the Project Coordination Committee (see below) is also a member. Finally, important partners outside the RGOB, such as BDFC and SNV are also members of the PSC. The PFO assumes the secretariat of the PSC. UNOPS has regularly attended the meetings.

3. At regional level, a PCC was created to ensure smooth decision processes at the local level within the overall guidelines set out by the PSC. Membership of the PCC includes the District Head (*Dzongdag*), the RNR coordinator, and the Planning officer of each of the participating *dzongkhags*. Other members are 6 *gups* (elected geog leaders), all members of the national assembly. Key implementing agencies are also represented, including the 3 state farms, and the RNR-Research Centre of Wengkhar. The regional manager(s) of BDFC, Food Corporation of Bhutan, the Agricultural Machinery Company and Druk Seed also attend the meetings. The chair rotates among the *Dzongdas*. PFO assumes the secretariat. The committee meets once or twice annually, and the meetings last for 2 days. The PCC has two essential functions: (a) to review and approve the Annual Work Plan and Budget (AWPB) for the coming year before it is passed on to the central level for inclusion in the national budgets; and (b) to monitor programme progress and resolve matters that cannot be resolved at lower levels or by PFO.

4. The PFO was established to smoothen day-to-day implementation of the programmes under the immediate supervision of the PCC and in direct support of the *dzongkhag* administrations, which are the focal institutions for programme implementation. The PFO has maintained a stable and efficient structure consisting of 4 sections, respectively for administration, finance, M&E, and engineering.

5. A recent and apparently successful innovation is known as the "focal person concept". PFO has identified five areas where the dialogue between *dzongkhags* and PFO needed a sharper focus, in order to avoid inefficient programme planning and implementation. Henceforward, participating *dzongkhags* and other institutions have one person to address on any specific matter arising. The five focal persons deal with community-based natural resource management, Local Development Initiative, RNR-support, infrastructure and programme management. The technical assistance provided by SNV is now linked to these focal persons on a one-to-one basis. The process has been solidified under what is known as the Component Operating Framework, which defines objectives, strategy, scope and status of individual component implementation. It guides each focal person in its responsibilities which are coordination, planning, monitoring and the provision of support to *dzongkhag* implementers for the component assigned.

APPENDIX IV

6. The process of deriving the AWPB can be summarized as follows:

- The *geogs* present their proposals, duly approved by the respective *geog* Development Committees (GYTs), to the *dzongkhag*; the *geogs* base themselves almost exclusively on what is actually written into the 9<sup>th</sup> Plan, usually presenting an investment volume that represents about 18% of the total planned investment during the plan period.
- At the *dzongkhag* level, the *dzongkhag* Development Committee (DYT) considers and usually endorses the *geog* plans; the *dzongkhag* plan proposal is therefore the sum total of the *geog* plans augmented with specific *dzongkhag* items.
- As the 9<sup>th</sup> Plan puts forward investment plans that are much higher than the available budgets, there is a need to reduce the *dzongkhag* annual plan proposals to more realistic levels. This duty befalls the annual AWPB meeting which is organised by the RNR-RC and the PFO. This meeting deliberates on the RNR-parts of the programme and allocates the approved investment to RGOB and SEZAP budgets in accordance with the programme documentation. The meeting lasts for 3 days and comprises the following members: all RNR sector heads and the planning officers of the *dzongkhags*, a selection of *gups*, representatives of MOA, as well as the regional directors of key bodies. The meeting usually takes place in October or November.
- The final budget proposal for RNR in the six *dzongkhags* is then put before the PCC for review and endorsement.
- It is then forwarded to MOA where further refinements and adjustments are occasionally made.
- The final stage prior to transmission to MOF is the approval by the PSC.

**B. The PFO and Decentralized and Participatory Implementation**

7. The issue of working with, not on behalf of, the beneficiaries is very important. Given the requirements of participatory project implementation under such an approach, what is then the most appropriate role of the PFO and, indeed, the *dzongkhag* planning officers who will receive more power under the new arrangements? This role can be summarized in four action verbs: coordinate, plan, monitor and report.

8. **To Coordinate.** The PFO will make sure that the technically specialized institutions will be enabled to work together towards achieving the common goal of the project, each in their own speciality. It also means making sure that these technical partners obtain the project resources in a timely fashion to be effective in achieving the annual and overall targets set in their sector.

9. **To Plan.** From the bottom up the PFO will assist the *dzongkhags* to gather the *geog development plans*, the *dzongkhag* and eventual project AWPB, using the procedure developed for SEZAP.

10. **To Monitor.** The recently developed M&E procedures under SEZAP represent a good starting point in achieving the monitoring objectives. There may, however, be a need to improve the accessibility of the presentation, to refine the monitoring objectives and to simplify the sets of indicators used.

11. **To report.** Preparing good reports is the only way to achieve communications between the project and the outside world. Effective monitoring is a pre-condition to good reporting.

12. Field execution work will need to be done by the specialized institutions, inside and outside of Government, in accordance with their technical specifications and qualifications. In this, the role of the PFO is to ensure that these outside agencies operate in a coordinated way and to verify that the

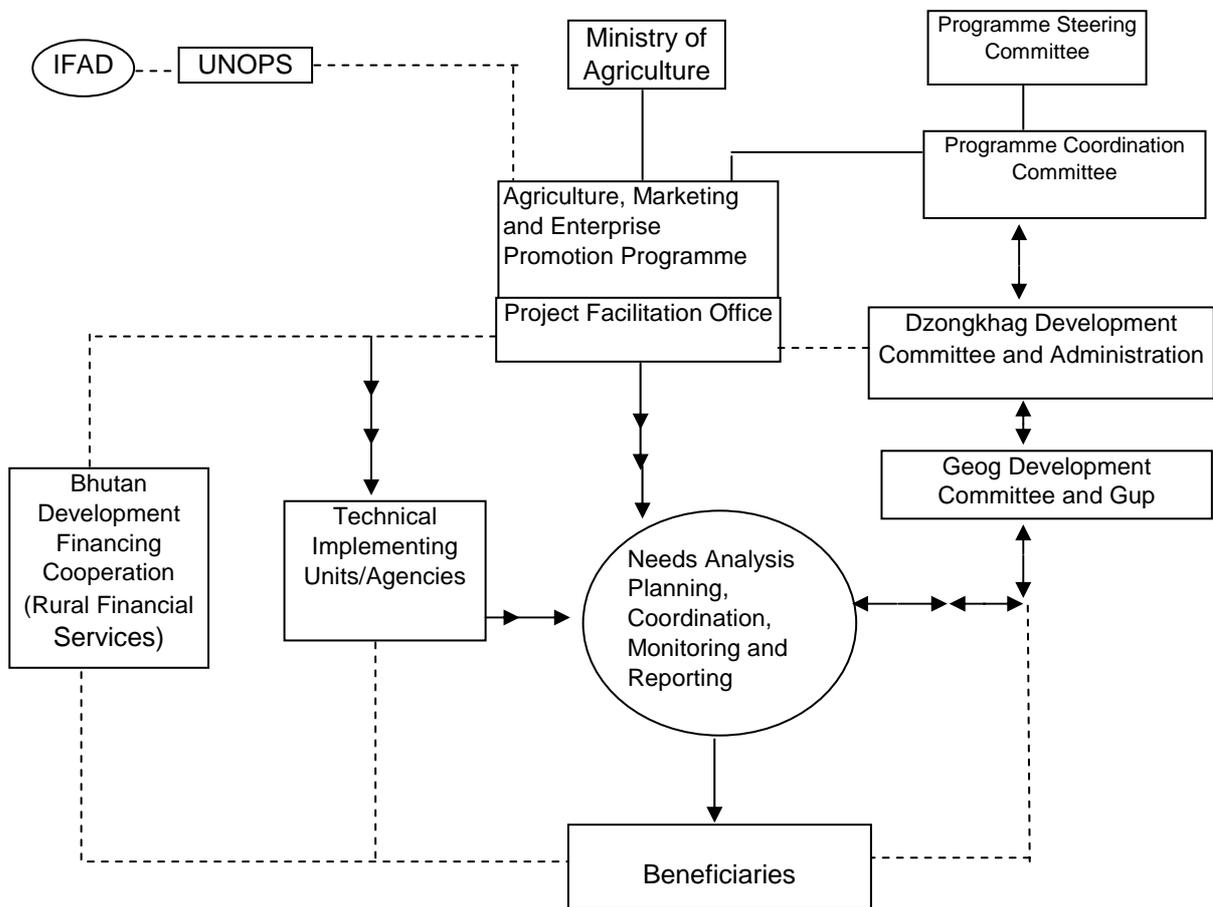
work they perform achieves the agreed purposes and is of the agreed quality. The latter, again, is the function of monitoring. However, given the low technical levels in the *dzongkhags* it is necessary to provide technical support in a number of key areas, in particular in engineering activities such as detailed design. PFO is correct in maintaining a nucleus of good-level technical support staff. In addition, the PFO will also ensure that participating institutions will have access to adequate funding in timely fashion to accomplish their agreed programmes of work.

### C. Implementation structure

13. The SEZAP PFO, based in Khangma and described above, has proved to be a very effective implementation tool. The structure needs will be maintained for the purpose of facilitating the implementation of the new programme. The new structure of focal persons for each technical sector and also for M&E, with correspondent focal point(s) in the *dzongkhags*, is a very promising innovation that will be further tested during the closing year of SEZAP. The implementation of the new programme starts from the premise that this structure will continue to prove effective.

14. Each *dzongkhag* will therefore nominate correspondents to the PFO focal persons. In addition, it will be necessary to make the following changes in the staffing: (a) nomination of an overall programme coordinator, answerable directly to the *Dzongdag* and nomination of one monitoring officer; and (b) nomination of one Gender Focal Point, who will be offered appropriate entry-training and support.

ORGANIGRAMME



Notes:

- Lines of authority/answerability
- Lines of liaison/technical communication
- > Lines of operational activity