

BHUTAN RURAL LIVELIHOODS PROJECT

TECHNICAL ASSESSMENT for PROGRAM FOR RESULTS LENDING

Introduction

The proposed Bhutan Rural Livelihoods Project (BRLP) is potentially suited to the new Program For Results (P4R) lending approach developed by the World Bank. This “program-based” lending instrument differs from conventional Investment Lending (IL) in that it focuses Bank support on sector programs rather than projects, and emphasizes disbursement on the basis of results rather than expenditures. It also provides a vehicle for strengthening institutional weaknesses that constrain effective implementation of the relevant sector or sub-sector program.

The proposed BRLP is a multi-faceted rural development project, which aims to reduce poverty and food insecurity in rural areas through support for activities that increase incomes from agriculture, livestock, forestry and non-farm employment. It also includes provision for investment in rural roads as a means to improve the “connectivity” of isolated rural areas and in other physical infrastructure such as irrigation. The Ministry of Agriculture and Forestry (MoAF) has proposed that this project should target poor rural households in southern Bhutan, in marginalized areas where rural development initiatives have been limited thus far. Project implementation is scheduled for 2013-2017, and the project budget is \$12 million.

Current development of the Renewable Natural Resource (RNR) sector is based on the RNR Sector program in Bhutan’s 10th Five Year Plan (2008-2013). This is a broad-based program, with 29 separate sub-programs that address all aspects of RNR sector development, with the underlying objective to reduce rural poverty. Total planned expenditure is 3.63 billion Ngu, equivalent to approximately \$80 million. Its specific objectives are to:

- Enhance sustainable rural livelihoods
- Conserve and promote sustainable utilization of forest and water resources
- Promote sustainable utilization of arable agriculture and pasture land resources
- Enhance food security

The proposed BRLP will contribute to 15-20 of the sub-programs in the RNR sector program, depending on the range of activities included in project design. In the context of P4R, it is thus deemed better to link BRLP project design and implementation to the overall RNR sector program, rather than some combination of its component sub-programs. This approach is also justified in that the objectives of the BRLP and the RNR sector program are fully consistent, as is the multi-faceted approach to rural development and poverty reduction.

The ensuing note outlines the basis for conducting a technical analysis of the RNR sector program, which is required as a precursor for project implementation using the P4R approach. The objective of the note is to identify the issues that will need to be addressed in the technical analysis, to outline the approach to analysis, and to specify the conclusions and recommendations that need to be developed. Where relevant, the concept note draws on the results of a recent RNR sector review¹.

¹ The Agriculture Sector in Bhutan: Issues, Institutions and Policies. FAO. May 2011.

Note that implementation of the proposed project (2013-2018) will span implementation of both the current (10th) and future (11th) Five Year Plans. As preparation of the 11th FYP has yet to start, the assumption is that the underlying objective of the pending RNR Sector program will remain the same (rural poverty reduction), although its sub-programs will inevitably change in nature and focus. Any recommendations on institutional support for the RNR Sector program will thus apply to both FYP's.

2. Strategic Relevance and Technical Soundness

2.1 Strategic Relevance

Recent sector analysis implemented for the Bank (*op cit*) confirms that the objectives and activities of the RNR sector program are consistent with its aim to reduce poverty and improve food security in rural areas. The 29 sub-programs being implemented encompass: improved road access for rural communities; measures to promote crop, livestock and forestry production; sustainable land and pasture management; market development and the commercialization of agriculture; research and extension to improve technology development and transfer; and institutional strengthening within the MoAF.

Given Bhutan's mountainous terrain, sparse population and the associated difficulty of raising productivity and output among predominantly subsistence farmers; these objectives will not be achieved without substantial investment by government and the donor community. Moreover, while progress has been made towards these objectives in many districts, this progress has been limited in the more marginalized and isolated areas in southern Bhutan that will be the focus of the BRLP. The project will thus provide essential resources to support poverty reduction.

The technical analysis will use detailed gewog level information on rural poverty and food insecurity in southern Bhutan, developed by the Bank's recent analysis of "Small Area Estimation of Poverty in Rural Bhutan", to show the high levels of poverty, limited development and difficult living conditions of rural households in these areas relative to other rural areas in Bhutan.

2.2 Technical Soundness

The objectives and activities of the RNR sector program adequately reflect both in-country and international experience. Bhutan has a well-developed process for strategic planning, and the objectives and design of the program are based on wide consultation at national and local level. A rigorous mid-term review is implemented as the basis for restructuring and refocusing program activities, as required, and this review also informs preparation of the subsequent FYP.

As in most developing countries, institutional weaknesses limit the capacity of the RNR Sector program to achieve its objectives. The recent review of sector issues (*op cit*) concludes that a weak capacity for technology development and transfer is the most serious of these institutional weaknesses, followed by the limited capacity of the public and private institutions involved in the marketing of agricultural commodities and farm inputs. It also appears that there are weaknesses related to program implementation.

The extent to which these constraints limit the success of the RNR Sector program will be a focus of the technical analysis, together with recommendations on the requirements for institutional strengthening.

2.3 Institutional Arrangements

Responsibility for implementation of the RNR sector program lies with the MoAF, with responsibility for sub-program implementation allocated to the ministry's various departments and agencies. The technical analysis will thus require an assessment of the institutional capacity of the MoAF, both collectively and by department/agency, to implement the RNR Sector program. This analysis will include an assessment of:

- Staff numbers and skills
- Administrative structures and procedures
- Budget resources (internal and external)
- Monitoring, evaluation and reporting procedures

Where these institutional arrangements are found to be inadequate, the technical analysis will develop recommendations as to how they can be strengthened.

3. Expenditure Framework

3.1 Program Budget Evaluation

A conventional public expenditure analysis² will be used to assess the RNR Sector Program budget for its consistency with program objectives and its feasibility and sustainability in the context of Bhutan's overall fiscal situation. This will include analysis of the level and sources of finance, the level of budget allocations to various sub-programs and the level and timing of expenditures and disbursements.

As Bhutan has recently initiated a medium-term expenditure framework (MTEF), the analysis will begin with an assessment of the RNR Sector's progress towards adoption of this framework. Three-year rolling budgets will be used as the basis for analysis, where they exist. If the MTEF has yet to be implemented, analysis will be based on actual and programmed expenditures for the 2008-2013 period of the current five-year plan. The constraints and weaknesses identified will inform preparation and design of the 11th RNR Sector program for 2014-2018.

3.2 Economic Analysis

Economic analysis will be qualitative rather than quantitative, beginning with an assessment of the rationale for government intervention; and the appropriateness of the combination of regulation, finance and direct provision employed by the program and its component activities. An assessment of the efficiency gains to be made from P4R support will then be made, relative to the counterfactual of continued program implementation without project support. This will be based on the perceived impact on poverty reduction in the areas proposed for project intervention.

Particular emphasis will be given to the gains from institutional support under the proposed project in the areas of:

- Technology development and transfer through the research and extension system

² Evaluating Public Spending: A Methodological Framework for Public Expenditure Reviews. Sanjay Prazdhan. World Bank Discussion Paper No. 323 February 1996.

- Strengthening of the existing capacity for project implementation/delivery, monitoring and evaluation, and procurement and financial management.

3. Results Framework

A results framework for project implementation will be developed based on the projected outputs, outcomes and goals of the RNR sector program. As not all of the RNR sector sub-programs are relevant to the proposed project, the outputs and outcomes selected will be those most relevant to project activities.

3.1 *Monitoring and Evaluation Capacity*

An assessment will be made of: the institutions responsible for RNR sector program monitoring and evaluation (M&E) at all levels (central, district, local) to review their experience and capacity for M&E, the types of indicators used, the way relevant information is collected and reported, and the quality of the resultant information. Where inadequacies are identified, recommendations will be made as to how the project can strengthen these institutional roles and activities.

3.2 *Disbursement Linked Indicators (DLIs)*

The analysis will define and develop the indicators to be used as the basis for disbursement. Two sets of indicators should be considered: (i) “Milestone” DLIs that capture progress towards the achievement of RNR Sector program objectives, and (ii) “Signal” DLIs that measure and incentivize progress towards institutional strengthening of RNR Sector program performance.

The choice, definition and development of these DLIs will be guided by the following factors:

- The need for appropriate “milestone” DLIs to measure progress with investment in physical infrastructure such as roads, irrigation canals, local marketing centres, rural water supply systems etc. Possibilities include the award of contracts for construction and progress towards completion of construction.
- For soft investment in community activities, possible DLIs include the establishment of community groups, training of these groups and indicators of group activity.
- “Signal” DLIs should capture the progress made by measures to address both institutional weaknesses in RNR Sector Program design (eg technology development and transfer) and institutional weaknesses in RNR Sector program implementation. Possibilities for the former include the conception and initiation of relevant research programs, and the establishment of pilot programs and/or training programs to promote technology transfer. The signal DLIs relevant to program implementation will depend on the institutional weaknesses identified during the technical analysis.
- The design and content of baseline surveys to provide an effective benchmark for applying these DLIs.
- The ability to measure, monitor and verify selected DLIs.
- The ability to use these DLIs to “scale” disbursements according to progress made, or to use them as the basis for “stepwise” disbursement.
- The capacity to match the timing of disbursements with the expected timetable for program implementation.

- The need for advances (up to 20% of specified activities) for particular forms of program activity.

The number of DLIs chosen should be sufficient to capture key milestones, without creating a burden for program implementation.

A protocol will also be prepared and agreed with the RGoB to verify the selected DLIs. For each DLI, this protocol should specify: the definition of the DLI and how it will be measured; the basis for determining the extent to which progress, as measured by the DLI, has been achieved; a clear timetable for DLI achievement; and the sources of data for measurement of the DLI. The protocol should also specify the entity responsible for verifying achievement of the DLI, with due consideration of whether or not this entity should be a credible third party.

4. Systems Assessments

The assessment of procurement, financial management and other fiduciary aspects of the program, as well as the management of environmental and social impacts will follow the same principles and procedures as that for Investment Lending (IL). The focus will be on relevant “program” issues, however, rather than the project itself.

Following conventional IL procedures, the assessment will thus include: (i) a qualitative review of the existing arrangements under the program, (ii) a performance assessment of these arrangements, (iii) identification of areas in which the implementing entities could improve procedures and performance, including a proposed action plan, as necessary, and (iv) inputs to the risk assessment of the operation.

If the assessment identifies weaknesses in these procedures, the technical assessment will need to consider the following options:

- A recommendation to finance the operation with another lending instrument, or not to proceed with the operation in the event that the weaknesses are severe;
- Recommendations on how to address these weaknesses, and the basis for financing this support (Bank, government, other sources); plus the basis for implementing and monitoring this activity (DLIs, preparation of an operations manual etc).

5. Risk Assessment Framework

Finally, the technical analysis will include an assessment of the major risks to the RNR Sector program’s achieving its stated results, the specification of appropriate mitigation measures and the basis for monitoring these risks. As for the Systems Assessment, the Risk Assessment will be similar in approach to that for an IL, but it will focus on the full RNR Sector Program. This analysis would be implemented with RGoB input, and would include their agreement on the risk mitigation measures specified in the Risk Framework.

The analysis would be implemented during project preparation, based on review of the following program level risks:

- Program related risks – technical soundness, financial and economic risks; fiduciary, environmental and social risks; performance risks;
- Institutional risks – institutional arrangements, capacity and governance risks;

- Country-level risks – the country’s politics and governance, societal, and security issues, economic management issues that may affect the program’s ability to achieve the expected results;
- Stakeholder risks – the direct and indirect stakeholders who might affect the program’s ability to achieve results.

Together with the RGoB, each risk category would be rated based on the likelihood and potential impact of relevant risk events. An overall risk rating will then be assigned based on these separate ratings. Key risk mitigation measures would then be developed with RGoB, to be carried out during project preparation and implementation. To be effective, these risk mitigation measures should be few, specific and time-bound.