



Draft Design and Monitoring Framework

Project Number: 39221
August 2007

Bhutan: Micro, Small, and Medium Enterprise Sector Development Program

A design and monitoring framework is an active document, progressively updated and revised as necessary, particularly following any changes in project design and implementation. In accordance with ADB's public communications policy (2005), it is disclosed before appraisal of the project or program. This draft framework may change during processing of the project or program, and the revised version will be disclosed as an appendix to the report and recommendation of the President.

Asian Development Bank

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Impact A vibrant and expanding MSME sector leading to accelerated private sector development for broad-based, sustainable economic growth</p>	<p>Increased broad-based private/MSME sector participation in economic activities, measured by:</p> <ul style="list-style-type: none"> (i) growth rate of MSME-oriented sectors (e.g. manufacturing sector growth up from 2.6% in 2005^a) (ii) total employment by sectors, including manufacturing, trade, hotels, and services as % of total labor force, from current 6.3% in 2005^b (iii) increase of MSME related (non-electricity) export sales (e.g. export sales of wood-related products from Nu340.6 million in 2005,^a export of vegetables and fruit from Nu600 million in 2005; export of processed food from Nu395 million in 2005) 	<p>RMA annual reports and other Government's private sector/MSME relevant statistics</p> <p>ADB program progress reports</p> <p>ADB review missions</p>	<p>Assumptions Political stability and Government commitment to carry out the reform agenda</p> <p>Favorable response from the private sector</p>
<p>Outcome Improved enabling environment for doing business and greater access to key resources</p>	<p>Increased number and growth of business registrations (e.g. 6428 and growth rate of 17% in 2005)</p> <p>Reduced days and procedures in setting up a new business (from 62 days and 10 procedures in 2006¹)</p> <p>Increased number of clients and share of total loan portfolio in the</p>	<p>Official copies of government's confirmation on the actions undertaken</p> <p>Official copies and publication of government strategies</p> <p>Program progress reports</p> <p>ADB review missions</p>	<p>Assumptions Continuous strong political to undertake reform agenda</p> <p>Risks Policy reforms not implemented or reversed</p> <p>Insufficient counterpart support to undertake and continue the reforms</p>

¹ Definition and calculation are referred to the *Doing Business* of the World Bank. 2006.

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	<p>MSME-oriented sector by financial institutions, particularly BDFC (e.g. 764 clients and 20% of total loan portfolios to the manufacturing sector for all financial institutions in 2005)</p> <p>Number of private sector businesses assisted by the cost-sharing facility (after its establishment in 2008)</p>		
<p>Outputs</p> <p>1. Established a coordinated policy, strategy, and institutional framework for MSME development</p>	<p>Established an MSME unit to facilitate coordination between different ministries and other relevant stakeholders, including the private sector</p> <p>Prepared and adopted long-term policy and strategy (i.e. White Paper) for MSME development</p>	<p>Official copies of government's confirmation on the actions undertaken</p> <p>Official copies and publication of government strategies</p> <p>Program progress reports</p> <p>ADB review missions</p>	<p>Assumptions</p> <p>Adequate resources and budget support available to carry out all the activities</p> <p>Strong Government's commitment to pursue the reform agenda</p> <p>Good coordination and implementation support among involved Government agencies and stakeholders</p> <p>Qualified consulting services provided to assist the project implementation</p> <p>Risks</p> <p>Loss and/or lack of qualified staff, including counterpart staff</p> <p>Expected results not fully met due to lack of understanding, consensus, or political will</p>
<p>2. Enhanced business laws and regulations</p>	<p>Developed RIA methodology, policy, and guidelines</p> <p>Piloted RIA on two selected draft business laws (Business Registration Act and Industries and Investment Act)</p> <p>Reduced time involved in</p>	<p>Official copies of government's confirmation on the undertaken actions</p> <p>Official publication of government strategies</p> <p>Official copies of laws and regulations</p> <p>Program progress reports</p>	

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	<p>business formalization process from 62 days to 30 or even closer to international best practice</p> <p>Established OSS units at the RTIOs with approved and adopted action plans and performance benchmarks</p>	<p>ADB review missions</p>	
<p>3. Increased access to market-based finance</p>	<p>Approved and adopted BDFC's 5-year business plan aiming at providing suitable financial services to MSMEs</p> <p>Improved MSME lending practice at BDFC by increasing the share of total loan portfolio allocated in the MSME-oriented sector, and reducing its NPL (e.g. up from 5% of total loans distributed in the trade sector and reducing its NPL from 15% in 2005; increasing from 16% of total loan portfolio distributed in the manufacturing sector and further reducing its NPL from 4% in 2005)</p> <p>Established a central registry for secured transaction at RMA</p>	<p>Official copies of BDFC's board decision</p> <p>BDFC's financial statement</p> <p>Official copies of Government/RMA reports</p> <p>Program progress reports</p> <p>ADB review missions</p>	
<p>4. Strengthened business support infrastructure</p>	<p>Established cost sharing facility to promote quality business development services</p> <p>Draft Standard Act submitted to the National Assembly</p> <p>Prepared draft plan for testing, establishment of standards and product certification</p>	<p>Official copies of government's confirmation on the undertaken actions</p> <p>Official copies of acts, laws and regulations</p> <p>Program progress reports</p> <p>ADB review missions</p>	

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Activities with Milestones</p> <p>1. Establish a policy, strategy, and institutional framework for MSME development</p> <p>1.1. MTI to establish a specialized MSME unit to facilitate coordination between different ministries and other involved government agencies and preventatives from the private sector by November 2007</p> <p>1.2. MTI to prepare a draft long-term policy and strategy framework and program for MSME development (a White Paper on MSME development), with a revolving 3-year action plan, based on competitiveness study, supply chain and value added analyses, and consultation with the private sector and relevant stakeholders by May 2009</p> <p>1.3. Government to disseminate the White Paper on MSME development and discuss with all stakeholders in a proper forum to be set-up for the purpose by May 2009</p> <p>1.4. Government to adopt the MSME policy and strategy framework and development program with the 3-year action plan for MSME development by May 2009</p> <p>1.5. MSME unit to implement first year of the 3-year action plan for MSME development by November 2010</p> <p>1.6. Provide institutional capacity building to MSME unit to undertake the above mentioned actions, including conducting and as necessary synthesizing available competitiveness studies and cluster and supply chain analyses by November 2010</p> <p>2. Enhance business laws and regulations</p> <p>2.1. MTI to establish a RIA working group under MSME unit to undergo training and subsequently undertake pilot implementation of RIA by November 2007</p> <p>2.2. RIA working group to conduct pilot RIA exercises on the draft [Bhutan Enterprises Registration Act and/or Industries and Investment Act] legislation by May 2009</p> <p>2.3. MSME unit to submit recommendations for establishment of a RIA unit and RIA policy by May 2009</p> <p>2.4. MSME unit to review and revise, as needed, the draft legislation based on RIA recommendations by May 2009</p> <p>2.5. MTI to adopt the approved RIA policy and establish the RIA unit by November 2010</p> <p>2.6. Government to submit revised legislation to the National Assembly by November 2010</p> <p>2.7. Government to reduce overall time involved in business formalization process from 62 to 43 days, by November 2007; from 43 to 30 days by May 2009; from 30 days to close to international best practice by November 2010</p> <p>2.8. Government to establish an OSS working group, consisting of government officers from all relevant administrative levels by November 2007</p> <p>2.9. OSS working group to submit the action plan for introducing OSS units at the regional level, including introduction of OSS performance benchmarks by May 2009</p> <p>2.10. MTI to establish OSS units in the RTIOs at the regional level and approve the action plan proposed by the OSS working group to establish OSS units in the RTIOs by May 2009</p> <p>2.11. MSME unit to set up a website with complete information on the business formalization process and to disseminate brochures with detailed information about the license process and time and costs involved by November 2010</p> <p>2.12. MTI to commence review and consideration of establishment of performance benchmark and monitoring system for RTIOs by November 2007</p> <p>2.13. MTI to introduce performance benchmarks and monitoring system for enhancing RTIO performance by May 2009</p> <p>2.14. MTI to disseminate performance benchmarks to the public and RTIOs to implement performance benchmarks as set by MTI; establish complaints desk to obtain feedback from public users by November 2010</p> <p>2.15. MTI to monitor the performance of RTIOs through surveys and against performance benchmarks by November 2010</p>		<p>Inputs</p> <p>ADB (\$15 million)</p> <ul style="list-style-type: none"> • Program loan of \$6 million to support Government's reform agenda • Project loan of \$9 million to support: <ul style="list-style-type: none"> (i) credit assistance (\$5 million) (ii) cost sharing facility (\$1 million) (iii) program implementation and institutional capacity building (\$3 million) <p>Government (\$3 million)</p> <ul style="list-style-type: none"> • For Local counterpart support, office accommodation, communication and contingencies 	

Activities with Milestones	Inputs
2.16. Provide training and technical assistance to MSME unit and the RIA working group to implement the agreed reform agenda and pilot RIA on selected business laws by November 2010	
3. Increase access to market-based finance	
3.1. BDFC Board to approve and adopt the 5-year strategy and business plan, which includes an appropriate corporate governance structure, human resource strategy, and performance targets by November 2007	
3.2. BDFC to implement the strategy and business plan by May 2009	
3.3. BDFC to submit a review of program implementation and plan for taking corrective actions, as necessary by November 2010	
3.4. MSME unit to review existing credit/guarantee schemes and other incentives provided to MSMEs with respect to effectiveness by November 2007	
3.5. MSME unit to submit plan to rationalize incentives for MSMEs by May 2009	
3.6. In close consolidation with ADB, Government to rationalize incentives for MSMEs with increased government reliance on market based finance for MSME assistance by November 2010	
3.7. RMA to form a working group to commence a feasibility study of establishment of a central registry at RMA by November 2007	
3.8. Government, based on recommendations of the working group, to prepare plan to establish the central registry at RMA by May 2009	
3.9. RMA to establish the central registry, including drafting and issuing necessary legal amendments, including regulations and institutional structure by November 2010	
3.10. Provide technical support and advisory services to establish the central registry at RMA by November 2010	
4. Strengthen business support infrastructure	
4.1. MSME unit to assess BDS requirements by MSMEs and based on the recommendations of TA 4412 ^b to design a cost-sharing facility to meet identified needs by November 2007	
4.2. MSME unit to establish a CSF by May 2009	
4.3. MSME unit to start implementation of CSF by November 2010	
4.4. Establish a standard working group to determine quality control and product certification standards for key industries in the MSME sector by November 2007	
4.5. SQCA to submit the Standard Act to the National Assembly by May 2009	
4.6. Based on the recommendations of the standard working group, Government to prepare plan for testing, establishment of standards, and product certification by November 2010	
4.7. Provide institutional capacity building and technical support to MSME unit and SQCA to undertake the committed reform actions, including implementation of the CSF and establishment of product standards by November 2010	

ADB = Asian Development Bank, BDFC = Bhutan Development Finance Corporation, BDS = business development services, CSF = cost-sharing facility, GDP = gross domestic product, MSME = micro, small, and medium enterprise, MTI = Ministry of Trade and Industry, OSS = one-stop shops, RIA = Regulatory Impact Assessment, RMA = Royal Monetary Authority, RTIO = Regional Trade and Industry Offices, SQCA = Standards and Quality Control Authority.

^a The data is the most recent available in the Annual Report of Royal Monetary Authority 2005/6, published in January 2007.

^b ADB. 2004. *Technical Assistance to Bhutan for Small and Medium Enterprise Development* (TA 4412-BHU approved on 8 October 2004).