

MANAGEMENT RESPONSE ON THE COUNTRY ASSISTANCE PROGRAM EVALUATION FOR BHUTAN

On 3 June 2005, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

1. Management acknowledges the consultative approach adopted by the Operations Evaluation Department (OED) in the preparation of the Bhutan Country Assistance Program Evaluation (CAPE). The CAPE was prepared by OED a few months ahead of the submission of the Bhutan Country Strategy and Program (CSP) by the South Asia Regional Department (SARD) for Board consideration. The frequent interaction between SARD and OED was helpful in refining the draft CAPE and provided some advance guidance on the scope of the CAPE recommendations to the Bhutan Country Team. Thus, the process has been mutually reinforcing and beneficial for OED's preparation of CAPE and for the Country Team's development of the CSP.
2. Management concurs with several important lessons learned and recommendations for future strategy as detailed in the CAPE. For example, regarding CAPE's recommendation of increased assistance to Bhutan, it is noted that under the performance-based allocation (PBA) and the ADF IX framework, Bhutan's average annual allocation for the period 2005-2008 has already been increased to \$32 million per annum. This will allow ADB to design and implement a few but large, high priority Government projects which maximize development impact while minimizing transactions costs, both for the Government and ADB.
3. Management endorses the CAPE's recommendation on sharper sectoral focus and greater selectivity. Consistent with the recommendations, the Program for 2006-2008 has been developed to reflect this recommendation, with full commitment of the Government. The proposed CSP is primarily anchored in the Government's National Poverty Reduction Strategy (NPRS), and supports Government's priorities listed therein. As such, ADB's proposed strategic focus will help alleviate poverty and contribute towards the achievement of the Millennium Development Goals. Furthermore, the CSP is being prepared with greater coordination with Bhutan's development partners. Though the opportunities for cofinancing are limited given the Government's choice of sector demarcation among donors and its preference between the use of grant and loan funds, development cooperation with strategic development partner is being demonstrated in several key areas of ADB intervention. For example, the World Bank would use the findings of ADB's feasibility study for Urban Municipal Development in its designated area in the capital city of Thimpu. On the expiry of the SNV (Netherlands Development Organization)-financed consultant working on microcredit, ADB will support the placement of the consultant to carry forward the policy and capacity building work at the Bhutan Development Finance Corporation. Similarly, Japan International Cooperation Agency (JICA) plans to support ADB's capacity building assistance to the Department of Roads, and United Nations Development Programme (UNDP) plans to build on ADB's work

on the Bhutan Living Standards Survey to develop a Gewog profile information system.

4. With respect to the CAPE's recommendation of preparing the next CSP under a managing for development results framework, Management is pleased to inform that the new CSP being prepared is indeed going to be results-based with associated targets and indicators for each of the sectors covered under the CSP.

5. The Government's NPRS acknowledges that the private sector would be the engine of growth, and under the new CSP, ADB would provide assistance for a sustained and level-playing field enabling environment for private sector development. Consistent with the CAPE's recommendation, the new CSP plans to provide assistance for deepening ADB's assistance for financial sector competitiveness and private sector development. As a direct result of recent consultations with the Government, the new CSP indeed plans to cover these areas with emphasis on enhancing financial sector competitiveness, greater access for micro enterprises to formal credit and marketing mechanisms. Once the private sector demonstrates its strength as the engine of growth, Management may consider provision of direct assistance for the private sector.

6. Regarding the CAPE recommendation of establishing a Resident Mission in Bhutan, given Bhutan's strong portfolio performance (as acknowledged in the CAPE), the availability of electronic communication facilities with development partners in Bhutan, and the increasing frequency of interaction among them, Management presently does not see this as an area of high priority. During the mid-term review of the CSP 2006-2010, Management may revisit this topic.

7. While Management appreciates the comprehensive analytical work in the preparation of the CAPE, it wishes to reiterate that a single CAPE, covering a time span of over two decades during which ADB as well as Government's development policies and priorities were evolving, is not the best way of judging ADB's performance with respect to Country Strategy. As the CAPE acknowledges that ADB's Poverty Reduction Strategy had not yet been enunciated, and therefore to employ the methodology on the number of projects having poverty intervention as its principal objective is misleading. Management is hopeful that in the future, more frequent evaluations of Country Assistance Programs would be conducted by OED.