

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: SAGF/SARD

TA No., Country and Name TA 4412-BHU : Small and Medium Enterprise Development		Amount Approved: \$300,000	
		Revised Amount: \$300,000	
Executing Agency Ministry of Trade and Industry	Source of Funding Government of Denmark	Amount Undisbursed: \$5,089.93	Amount Utilized: \$294,910.07
TA Approval Date: 8 Oct 2004	TA Signing Date: 8 Mar 2005	Fielding of First Consultants: 1 Aug 2005	TA Completion Date Original: 30 Apr 2005 Actual: 30 Apr 2007 Account Closing Date Original: 30 Apr 2005 Actual: 30 Nov 2007
Description			
<p>Bhutan's economy depends on a narrow base for economic growth. Since the 1980s, economic growth has averaged about 7% yearly, and depended heavily on the hydropower sector and its auxiliary sectors. But given the relatively insignificant contribution of the hydropower sector to employment generation and the decline in traditional sectors like agriculture, which absorb more than 40% of the labor force, broadening the economic base, especially through private sector development, has become a priority for Bhutan, starting with its Ninth Five-Year Plan 2002–2007 (9th FYP). An estimated 50,000 of youth were graduating and 20,000 others were immigrating to the urban areas, which is a total of 70,000 entering the labor market by the end of 2007, adding urgency to the need to promote the development of the private sector.</p> <p>The private sector in Bhutan is small, with sizable numbers of micro, small, and medium-sized enterprises (MSME) and there are market deficiencies that make MSME operations difficult. These MSMEs are faced with various constraints on growth, and remain largely underdeveloped. The constraints that were identified through the technical assistance (TA) are: (i) lack of entrepreneurial talent, basic skills, modern technology, research and development, and capital; (ii) restricted access to financing; (iii) absence of clear-cut government policies for the MSME sector; (iv) poor physical infrastructure and high transportation costs; and (v) poor information about market opportunities and requirement. Consequently, to assist in the development and growth of the MSME sector in Bhutan: (i) Government support could be effectively leveraged to pursue an integrated MSME development program coordinated at the highest levels and enunciated in an MSME policy and framework, (ii) an enabling environment had to be created for MSMEs to grow and flourish, and (iii) measures had to be taken to promote the growth of the targeted business support services.</p> <p>The TA was designed to support the Government in helping realize the vast potential and significant role of MSMEs in national development and in achieving the 9th FYP objective of annual gross domestic product growth of 7%–9%. The 9th FYP centered on the establishment of a legislative framework for industrial development, including the drafting and passage of laws to support industrial policy, transfer of technology, and foreign direct investment.</p>			
Expected Impact, Outcome, and Outputs			
<p>The TA was expected to help promote the development of the SME sector in order to foster private sector development aimed at broadbasing, and accelerating economic growth, generate employment, and reduce poverty. The planned outcome was a focused and sustainable framework for MSME promotion. During the TA implementation, MSME and private sector development was confirmed as one of the highest strategic priorities in the 9th FYP and Asian Development Bank's (ADB) Country Strategy and Program (2006–2010). The Government requested ADB to assist in drafting a sector development program for MSMEs, and such a program, including recommended policy reforms, investment measures, and necessary capacity building for business development in Bhutan, became part of the TA outcome. The TA was therefore highly relevant to the Government's development strategy and ADB's country assistance program.</p> <p>The TA outputs were: (i) a full sector assessment to identify the key constraints on MSME development, (ii) a diagnostic analysis and a time-bound action plan tailored to the needs of Bhutan; and (iii) a comprehensive framework and strategy for MSME promotion including business development services and improvements in MSME access to credit in the medium and long term. An integrated policy, legal, regulatory, and institutional framework was to be developed together with recommended measures to improve MSME financing and the bankability of MSME projects.</p>			
Delivery of Inputs and Conduct of Activities			
<p>The design of the TA and the terms of reference for the consultants supported the TA objectives and scope. Nine person-months of international and 3 person-months of national consulting services were required. The GFA Consulting Group of Germany was awarded the contract. The consulting team, consisting of four international consultants and one national consultant, provided timely and satisfactory assistance as required for the TA. The performance of the consultants is rated satisfactory.</p>			

A consultative approach was taken to the implementation of the TA. All stakeholders, including key government agencies and relevant financial institutions, as well as other development partners, were regularly consulted. In addition, two stakeholder workshops were held to discuss MSME development issues and get feedback from stakeholders, a study tour was made to Viet Nam and Thailand by the group of government officers responsible for SME policy formulation and representatives from financial organizations and the private sector in October 2005 to learn and adopt successful country experiences, and two tripartite meetings were organized in October 2005 and March 2006 to disseminate the findings of the consultants. The Executing Agency (EA), the Ministry of Trade and Industry—renamed the Ministry of Economic Affairs in October 2007—gave effective support to the consultants. ADB closely monitored and reviewed the TA implementation through missions and tripartite meetings. The performance of ADB and EA is rated satisfactory.

The TA was originally scheduled to be completed on 30 April 2005. But because of a significant delay in the signing of the TA Letter Agreement to allow the Government to fully consult and agree with all stakeholders on the finalization of the Micro, Small, and Medium Enterprises Sector Development Program (MSMESDP), the GFA Consulting Group was hired only in July 2005. The TA completion date was therefore moved to December 2005. The completion date was later postponed once again to April 2006 to allow time for feedback from the second tripartite meeting to be incorporated in the proposed action plan and program design. A third and final extension was sought and obtained to ensure the consistency of the recommendations in the final report and the action plan for MSME development with the results of the related project preparatory TA 4837-BHU: Preparing the SME/Microenterprise Development Program: Financing Component. The TA was finally completed in April 2007.

Evaluation of Outputs and Achievement of Outcome

The TA delivered satisfactory outputs as indicated in the design and monitoring framework. Beyond the originally planned outcome, it also provided useful inputs for the preparation of the MSMESDP grant, which was approved in 2007.

The consultants submitted reports and efficiently conducted their activities as scheduled, including an MSME survey, two workshops, a study tour, and several consultations with stakeholders and development partners, meeting expectations. The quality of their work was satisfactory. Although TA completion was delayed, the TA is considered to have effectively delivered its intended outcome of preparing an assessment and a roadmap of SME development. The TA was instrumental in the design and preparation of the MSMESDP.

Overall Assessment and Rating

The TA is rated successful, on the basis of relevance, effectiveness, and efficiency of execution. With ADB's grant support (\$15 million), the sustainability of the TA outcome is considered most likely.

Major Lessons

ADB's assistance traditionally concentrated on the development of infrastructure, such as roads, power, and rural electrification in Bhutan. But after the Government confirmed the strategic importance of the private and MSME sector development in the country's development plan, the TA launched a first-time endeavor and introduced innovative approaches to addressing the issues and constraints on MSME development in Bhutan. With the Government's effective support and efficient inputs from the consultants, the MSMESDP was drafted on time and approved in 2007 as the first comprehensive sector development program for the private sector in the country. As the TA showed, TA design that is highly relevant to the Government's and ADB's country development strategy elicits strong commitment and ownership from the Government, which in turn can be vital to the success of project implementation, effectiveness, and sustainability.

Recommendations and Follow-Up Actions

The TA introduced innovative measures to promote the development of a vibrant MSME sector—a relatively new focus of ADB assistance in Bhutan. Close monitoring and timely assistance, as necessary, should be provided to ensure the smooth implementation of the recommendations of the TA. In addition, as the limited capacity of both the Government and the private sector is a key constraint on MSME development, future ADB assistance and review missions should closely monitor the development efforts and determine whether there is any additional need to further strengthen the capacity of the relevant parties and stakeholders to sustain the long-term impact of the MSMESDP.