

DEVELOPMENT EFFECTIVENESS COMMITTEE OF THE BOARD

Chair's Summary of the Committee's Discussion on 15 September 2010

Country Assistance Program Evaluation—Bhutan (DOC.IN.180-10)

1. Director General, IED highlighted that ADB's assistance in Bhutan has been well-focused, consistent with the core areas of Strategy 2020, and aligned with the government's priorities. Although ADB's program has been successful, more attention is required to improve implementation and sustainability, particularly, of transport projects. IED has noted and supports the government's request for ADB's in-country presence.

2. Director General, SARD mentioned that Bhutan is on the right track in achieving most of the targets of the Millennium Development Goals (MDG), as MDG indicators have been generally achieved for malnutrition and hunger, water supply and sanitation, and education including gender parity. The only area that needs more effort to achieve MDG goals relates to maternal mortality. Bhutan is also a model of regional cooperation and integration (RCI) activities, where ADB is actively engaged, particularly in realizing the real economic value of the country's hydropower resources.

Aid coordination

3. DEC Chair viewed that a comparison of per capita contribution among donors could help in assessing the extent of coordination that could be expected, since in cases where there are several donors providing only small contributions, coordination may turn out to be time-consuming with enormous transactions costs. Staff, IED clarified that there was little ADB coordination with some of the largest donors in Bhutan despite their engagement in assistance activities related to ADB's programs. DEC members noted IED's proposal for better coordination. Director General, IED further suggested that in-country presence of ADB could strengthen donor coordination.

4. DEC members noted ADB's limited use of cofinancing arrangements. Staff, IED clarified that many donors' preferred to engage directly with the government, while some had actually reduced their assistance.

Measuring development effectiveness

5. DEC expressed disappointment on the non-availability of baseline data that could help in measuring outcomes and impact of ADB's program in Bhutan. Staff, SAEN explained that for rural electrification, surveys on willingness-to-pay and other economic information were conducted prior to the start of the projects. However, the government, which owned the raw data, did not retain the data. ADB has since been in constant dialogue with the government on the importance of maintaining baseline data. Staff, SAOC also mentioned that technical assistance targeting improving data collection and maintenance had also been provided. Director General, IED mentioned that, in the absence of baseline data, IED is adopting other approaches such as measuring impact through rigorous impact evaluations. One such study on Bhutan's rural electrification would present findings that could give a better picture of the outcomes and impact of electrification.

Project implementation delays

6. DEC expressed concern on delays in project start-ups that may have also caused cost overruns. Staff, IED noted that cost-overruns and implementation delays have mainly resulted from project design problems, low capacity of domestic contractors, and land acquisition issues. DEC Chair expressed the view that differences between ADB and national procurement guidelines could have been resolved earlier to help address the problem of implementation delays.

7. Director General, SARD emphasized the feedback from the government that TAs have contributed to capacity building and knowledge transfer to Bhutan. He acknowledged the difficulties in supervising TAs, and mentioned that ADB is taking measures to address these through spring-cleaning, streamlining, and narrowing and sharpening the focus of TAs. He felt that in-country presence of ADB in Bhutan could improve portfolio management and TA implementation performance, including supervision of consultants. Staff, SATC explained that project start-up delays have been below ADB average, and were usually caused by the long period required of about 12 months to select consultants for detailed designs. SARD had requested applying a single-source selection method to a transport project in Bhutan in 2009 that saved 12 months for consultant selection. DEC members noted that single-source selection may be justified in certain cases, but not by the consideration that application of that method could save time.

ADB's in-country presence

8. DEC concurred with IED's recommendation for a resident mission (RM) in Bhutan, but inquired about the general conditions mandating a resident presence/field office in a DMC. DEC emphasized the importance of assessing the costs against the benefits, taking into consideration the size of the portfolio and achieving development effectiveness. Some DEC members suggested exploring similar issues within the context of ADB's RM policy and noted that an update of the RM Policy would be useful. Management believes that some issues mentioned earlier on implementation delays, supervision of consultants, and donor coordination could be addressed by setting up a field office in Bhutan.

Sector focus

9. DEC members noted ADB's limited success in finance and private sector development. Relevant expertise in these sectors would be necessary. One DEC member inquired on how engagement in export-oriented agriculture/horticulture, support to domestic construction industry, and promotion of industrial development could be prioritized as these sectors are not included in the core areas of operations identified under Strategy 2020. Staff, IED explained that the CAPE was referring to the need for coordinating ongoing ADB assistance for SME development with private sector-based employment generation initiatives of the Government. The effectiveness of ongoing ADB assistance to the financial sector is likely to be higher than that of previous assistance due to Government commitment to less state intervention and a more commercial orientation of the sector. Director General, SARD also mentioned capacity and resource issues that need to be addressed within ADB in order to support its assistance to the finance sector.

Sustainability

10. There had been recurring sustainability issues, particularly, operations and maintenance, which Staff, IED noted were not only due to capacity but also financial resource constraints. To

address this issue IED has proposed that ADB should engage in systematic policy dialogue on adequate budget provisions or self-financing mechanisms. Staff, SATC described the policy dialogue for operations and maintenance of transport projects that would ensure that all requirements for proper maintenance are included in the budget. She noted that TAs would also play an important role in effectively implementing road maintenance.

Sector Assistance Program Evaluation—Bhutan: Energy Sector (DOC.IN.192-10)

11. Under the sector assistance program evaluation (SAPE) for the Bhutan's energy sector, IED recommended that for electrification of remote areas, ADB should consider feasible and sustainable life cycle least-cost alternatives to grid extensions, such as off-grid renewable sources.

12. In terms of knowledge transfer, one DEC member suggested that ADB should share the lessons learned from successful energy projects with neighboring countries that have similar natural environment. Another DEC member noted that economic benefits from rural electrification were below expectations, and poor households had not benefited much from network expansion as compared to better-off households. He also inquired about the cost-effectiveness of small hydropower projects and the practicality of developing other renewable energy sources.

13. Director General, IED explained that the SAPE recommends renewable energy in the context of very remote areas, where extending a grid could be prohibitively expensive. The IED staff also mentioned that developing non hydro forms of renewable energy subject to their economic viability can reduce Bhutan's dependency on hydropower for electricity supply.

14. Some DEC members noted certain issues pertaining to resettlement and safeguards, particularly the detailed and cumbersome compliance guidelines. These members observed that guidelines are not customized to suit country conditions and the nature of projects and subprojects.

Conclusions

15. DEC noted that Bhutan's economy had an average annual growth rate of 8.9% for the period 2000-2008, and per capita income increased from \$752 in 2000 to \$1,978 in 2008. Poverty levels came down from 36.3% of total population in 2000 to 23.2% in 2007.

16. DEC also noted that ADB's net resource transfers had financed about 5% of Bhutan's annual investment expenditure of about \$180 million in 2000-2009. Bhutan has been a successful case of development partnership between ADB and a member country.

17. DEC noted that energy has been one of the most dynamic sectors contributing to economic growth in Bhutan. Rural electrification has been a major development agenda of the government, and substantial progress has been made. However, DEC noted that providing connections, including off-grid solutions, to remote households and to isolated households in remote areas was becoming costly. Some rationalization in location of habitations may be considered.

18. DEC emphasized more focus on baseline information and continuous monitoring of data to implement the results framework.

19. Implementation delays should be reduced through better quality of project preparatory technical assistance, firmer alignment and designs, expeditious recruitment of consultants, and application of project readiness filters.

20. Operation and maintenance was a critical issue and ADB was encouraged to engage the authorities on the need to pay greater attention to operation and maintenance.

21. DEC encouraged staff to improve development partner coordination, improve quality of technical assistance through better monitoring of consultants and close coordination by staff, and aligning safeguard policies to national laws and practices.

Ashok K. Lahiri
Chair, DEC