

Evaluation Approach Country Assistance Program Evaluation for Bhutan

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I. INTRODUCTION

1. The current country strategy and program (CSP) of the Asian Development Bank (ADB) for Bhutan covers the period 2006–2010. The midterm review of the current CSP was done in July 2009. The preparation of the next country partnership strategy (CPS) is expected to commence in 2011 and its discussion by the ADB Board of Directors is expected to be held in 2012. The purpose of the proposed CAPE (the CAPE) would be to provide evaluation lessons and recommendations for the formulation of the next CPS in particular and ADB operations in the country in general. The first CAPE was circulated in 2005, covering ADB assistance for 1983–2003. The proposed CAPE will evaluate subsequent and on-going ADB assistance to Bhutan, and assess operations and relevant issues not covered by the previous CAPE.

II. BACKGROUND

A. Country Context

2. Situated in the remote eastern Himalayas, Bhutan is a mountainous and landlocked country. With an estimated population of about 671,000 and a total area of 47,000 square kilometers, the low density of population and its spread over mountainous terrain raises the costs of economic activity, and of providing infrastructure and social services. As Bhutan emerged from isolation in the early 1960s, the country has witnessed considerable growth, diversification, and modernization, with major improvements in social indicators, communications, governance, and the standard of living.

3. **Sources of growth.** Economic growth averaged around 7% a year from the 1970s until the 1990s, and further expanded to around 9% on average during 2000–2007. The result has been a rise in per capita gross domestic product (GDP) from over \$200 in the 1980s to an average of over \$1,000 during 1998 to 2008. Growth was mainly achieved through hydropower investments, improvements in infrastructure and a diversification of the country's economic base. The energy, transport, construction, manufacturing and mining sectors have recorded the highest growth rates in recent years. In the mid-1980s agriculture contributed about one half of the country's GDP, while services represented 30% and industry 20%. By 2008, the contribution of the secondary sector (mainly hydropower) had risen to 42% of GDP, and that of the services sector to about 40% of GDP, whereas the primary sector (mostly agriculture) declined to 19%. Hydropower generation is the main driver of the economy, accounting for about half of domestic revenues and about 20% of GDP. Most of Bhutan's hydropower is exported to India, which is also Bhutan's largest trading and bilateral development partner. Bhutan's power generation potential is estimated at 23,760 MW, with only 1,488 MW developed as of end 2007. The Government plans to add 10,000 MW of capacity by 2020. Most of this capacity is expected to

be financed either under an "intergovernmental model" involving 30% grant and 70% loan financing from the Indian government, or under joint ventures with partners from both countries. ADB is supporting the development of the Dagachhu hydropower development, a joint venture between Druk Green Power Corporation of Bhutan and the Tata Power Company in India, which is to serve as a model for future public private partnerships in the sector.

4. At the end of FY2008, Bhutan's current account balance showed a surplus equivalent to 3.9% of GDP, but is expected to show a deficit of 10.1 at the end of FY2009. The current account balance is expected to worsen over the next few years due to a deteriorating trade balance and increased interest payments. Bhutan's current account deficit is mainly financed through electricity exports to India, capital transfers from India, inflows of aid, and foreign direct investment. As of May 2009, the country's foreign currency reserves were sufficient to cover 17.8 months of imports. The skewed composition of reserves which consist mainly of convertible currencies—less than 10% have been in Indian Rupees—, is a concern given the demand for rupee financing. The ratio of total external debt to GDP was 55% at the end of FY2009 a decline from 77% of GDP during FY2006. While the ratio is still high, it needs to be considered that most of this debt is owed to India, and serviced automatically by hydropower receipts. Monetary policy has aimed at maintaining parity between the Ngultrum and the Indian Rupee. Although this has limited the scope for independent monetary policy, it has also facilitated macro-economic stability and trade with India, which accounts for about 95% of Bhutan's exports and 74% of its imports. However, such arrangements have implications for third country trade. Like India, Bhutan has not been severely affected by the global economic crisis, despite some temporary declines in its tourist and steel industries. The government countered negative impact of the crisis on businesses by reducing penalties on late payments of electricity bills, deferral of loan repayments, and a waiver of import duties on raw materials. See Appendix 1, Table A1.2 for country economic indicators.

5. **Poverty reduction and social development.** Starting from a virtual absence of economic infrastructure and social services in the early 1960s, significant progress has been made in delivering basic services—the result of which is most clearly reflected in steady progress to achieve the Millennium Development Goals (MDGs). Bhutan's progress in reducing poverty from 36.3% in 2000 to 23.2% in 2007 keeps the country on track to achieve the income poverty MDG.

6. In terms of the non-income MDGs, Bhutan is on track to reduce hunger; the level of malnutrition among children under 5 years old has already been halved. Bhutan has rapidly increased its gross and net enrollment for primary education and has improved its primary school completion rates, with the aim of achieving universal primary education MDG before 2015. Gender equality has been substantially achieved in primary and secondary schools, and the gap in female access to tertiary training is steadily being closed. However, overall adult female literacy remained very low at 38.7% (compared to 65% for adult male) in 2005. Infant mortality declined from 68 in 2000 to 56 per 1,000 live births in 2007, while child immunization rates rose from 85% in 2000 to 90% in 2007. Maternal mortality was a third of what it was in 1990, but it continues to be very high at 255 per 100,000 live births. Available data indicate good progress made with regard to MDGs for water supply and sanitation, although not all new installations have been properly maintained and are functional. Bhutan continues to maintain a high level of forest cover, and it reserves 29% of the total land area as a protected area for biodiversity conservation. See Appendix 1, Table A1.1 for country poverty and social indicators.

7. **Government's development strategies.** Since the 1960s, Bhutan embarked on an extensive development strategy that has been articulated in ten Five-Year Plans. The First and

Second Five- Year Development Plans (FY1962–1971) concentrated on the construction of roads and the creation of a technical and administrative framework for governance while the Third and Fourth Five-Year Development Plans (FY1972–1981) incorporated sector developments directed towards agriculture, forestry, electricity, mining and public health. At the time when Bhutan joined ADB in 1982, the Fifth Plan (FY1982–1987) focused on increasing economic growth, decentralization, and distributing benefits from economic progress. The Sixth Plan (FY1988–1992) focused on the diversification of the economy largely based on the exploitation of the country's natural resources. The commissioning of the Chhukha hydropower plant (336 megawatts) in 1986 marked the beginning of this diversification and provided a means by which to increase exports of surplus energy to India, and thereby provide increased revenue to the government. The Seventh Plan (FY1993–1997) aimed at strengthening the development administration.

8. The Eight Plan (FY1998–2002) supported the collective pursuit of Gross National Happiness, a philosophy on achieving balanced spiritual and material advancement through sustainable socioeconomic development, conservation and sustainable use of the environment, promotion of culture, and good governance. Based on the review of the implementation of the Eight Plan, only about 39% of the targets under the plan were achieved on the average. The reasons cited are as follows: (i) procedural delays in finalizing projects; (ii) delay in receiving funds; (iii) lack of adequate and qualified human resources; (iv) lack of long-term master plans, particularly in sectors such as education, roads, and civil aviation; and (v) lack of intersectoral coordination.

9. *Bhutan 2020: A Vision for Peace, Prosperity and Happiness*, released in 2000, is a strategy which sets out the national goals, broad targets and overall policy principles for the next 20 years. To operationalize the concept of Gross National Happiness (GNH), the government prepared the 2004 National Poverty Reduction Strategy (NPRS) supporting the Ninth Five-Year Development Plan (2002-2007). It contains concrete objectives and operational strategies, including improving the quality of life and income, especially for the poor; promoting private sector growth and employment; strengthening governance, particularly at the local level; and promoting culture and environmental conservation. The 10th Five-Year Plan, which took effect in September 2008, has been adopted as a government Poverty Reduction Strategy Paper. It reaffirms the continued validity of the GNH concept. The overall objective of the Plan is to reduce the poverty headcount rate from 23.2% in 2007 to 15% by the end of the Plan period. The plan targets annual growth rates in excess of 8%, and emphasizes the need to vitalize the economy through investments in hydropower, tourism, manufacturing, and information and communication technology (ICT); balance regional development and manage the rapid pace of urbanization; synergize integrated rural-urban development through greater connectivity and commercialization of agriculture; invest in human capital; and ensure good governance.

10. **Continuing development challenges.** These include the country's increasing economic dependence on electricity exports to India to generate revenues;¹ a narrow economic base; lack of private sector development; infrastructure gaps and reductions in the availability of grant funding from donors to pay for development and infrastructure investments; the high cost nature of infrastructure investments due to country conditions; rising unemployment, particularly of young people, which coincides with sizable imports of skilled and unskilled labour from India; and lack of rural employment opportunities resulting in rural-urban migration which puts pressure on existing infrastructure and could lead to social problems in the future. The

¹ At a capacity of 1488 MW, the hydropower sector currently accounts for about 20% of GDP, 50% of gross exports and domestic revenues. There are plans to expand capacity to 10,000 MW by 2020.

Government is well aware of these issues. It has hired the international management consulting firm McKinsey to advise on how to create employment opportunities outside the hydropower sector for an additional 75,000 persons over the five years. Tourism, the construction industry, export-oriented agriculture and horticulture (e.g. organic farming), rural cottage industries and ICT have been identified as industries in which sustainable employment can be achieved based on competitiveness, employment generation capacity, and existing growth trajectory. This will involve addressing underlying structural constraints involving policy and regulatory changes, but also new investments and substantial advisory services. Other impediments to broader-based economic development outside the power sector include lack of transport, human capacity, and access to finance.² At the same time, the government's role in the economy has to change from operator to one of a facilitator for private sector engagement. Recent political reforms have introduced decentralization, and increased public interest in good governance, participation, and strengthening the quality and coverage of public services, and safeguards issues. The government also intends to strengthen the efficiency and effectiveness of public services delivery, starting with health care services. The Government also seeks to reduce disparities in income levels between rural and urban areas. In 2007, 98% of the poor in Bhutan lived in rural Bhutan and incidence of rural poverty was about 31% as compared to only 1.7% in urban areas. It aims to significantly expand access to health care, education, and electricity, and improve road connectivity in rural areas to decrease poverty and facilitate the attainment of non-income MDGs.

B. ADB's Assistance to Bhutan

11. **ADB country strategies and programs.** The 2000 country operational strategy (COS) focused on supporting poverty reduction in Bhutan by promoting economic growth and social inclusiveness. The Government's social welfare policies over the last decade or so had resulted in relatively widespread social well-being. Thus, the main thrust of poverty reduction efforts under the COS was to enable the Government's commitment to be realized under the strategic theme of "improving the quality of life for all." Poverty reduction objectives were to be operationalized through ADB interventions, which help (i) improve the policy setting for private sector development and enhance the efficiency of financial intermediation; (ii) reduce physical infrastructure constraints; (iii) develop the domestic skills' base; (iv) improve the urban environment; and (v) support the sustainable provision of quality social services.

12. In 2001, a country-specific poverty reduction strategy was adopted to guide future ADB operations in Bhutan. The result of that strategy was the Poverty Reduction Partnership Agreement between the Government and ADB, which (i) set out a long-term vision of poverty reduction, (ii) defined immediate and medium-term goals, (iii) determined concrete short-term actions, and (iv) established monitoring and evaluation arrangements to effectively guide the allocation of ADB's resources and future interventions.

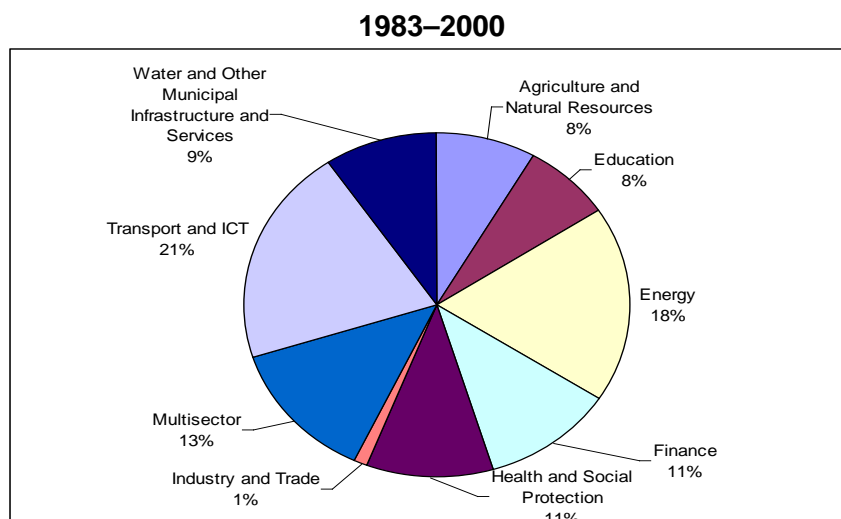
13. After the COS and CAP for the period 2001–2003 were prepared for Bhutan in 2000, ADB instituted a procedure that combined the COSs and CAPs for each developing member country (DMC) into the country strategy and program (CSP). For Bhutan, CSP updates (CSPUs) were prepared for 2001, 2002, 2003, and 2004. A full CSP was prepared in 2005 covering 2006–2010.

² Lack of access to finance, which is still being perceived as the major impediment for smaller private enterprises according to a recent investment climate survey conducted by the International Finance Corporation, despite considerable assistance for financial sector development from ADB.

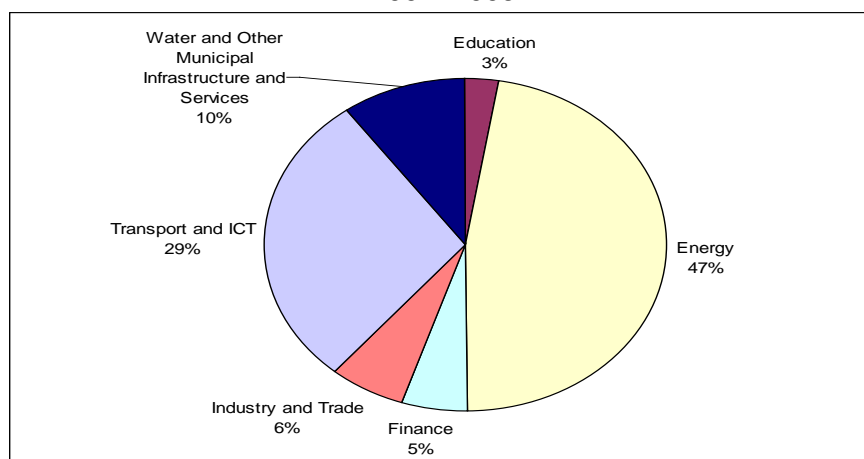
14. The 2005 CSP has two strategic thrusts: (i) assistance for programs and projects in four core sectors, i.e. transport, power (including rural electrification and renewable energy), urban infrastructure development, and financial and private sector development; and (ii) capacity development in operation sectors and for the overall development management. Recent CSPUs have adapted ADB's operations in Bhutan to the decentralized approach taken by the Government under its Ninth and Tenth Five-Year Plans, and required that ADB intensify its dialogue with stakeholders both at national and local levels in setting project priorities and the policy reform agenda. Appendix 2, Table A2.1 provides more detail on the thrust of the various country strategy documents. Reflecting its good performance in the top 5% of eligible DMCs, Bhutan's Asian Development Fund (ADF) grant allocation has amounted to about \$20 million per annum over the last 4 years. ADF loan allocations have also increased from \$8.7 million per annum during the 2000 COS period to \$16.7 million during the current CPS.

15. **Portfolio of assistance.** During the 2000 and 2005 country strategies, 9 projects have been approved, comprising ADF and OCR loans in the total amount of \$161.3 million and ADF grants totaling \$83.8 million. The energy sector received the largest share or one-half of the total amount of ADB's financial assistance (47%), followed by transport and ICT (29%), finance and industry (11%) and water and other municipal infrastructure services (10%). Figure 1 shows the significant shift in the sectoral allocation of ADB financial assistance to Bhutan since the 2000 CPS compared to earlier ADB assistance, which was characterized by a much larger sectoral coverage that included the social and agricultural sectors. See Appendix 3, Table A3.1 for a list of loans approved in Bhutan from 1995 to November 2009.

Figure 1: Comparative Sector Distribution of ADB OCR/ADF Loans and ADF Grants to Bhutan by Amount



2001–2009

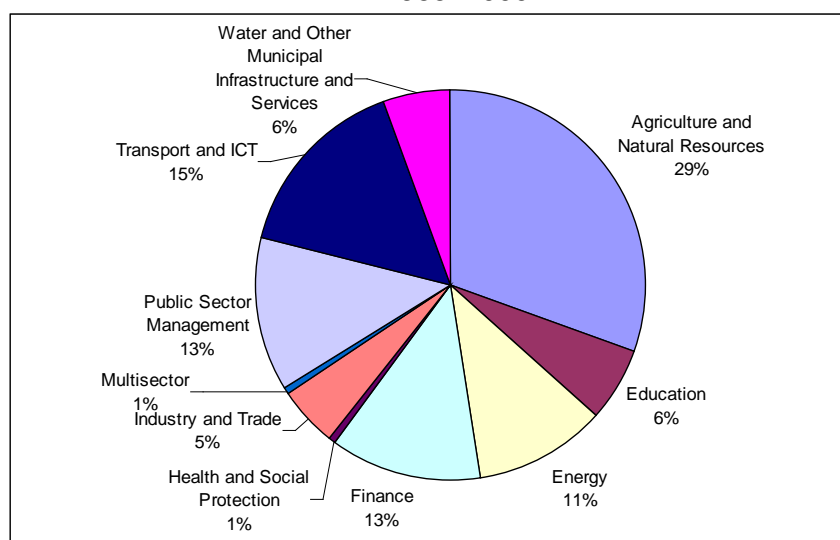


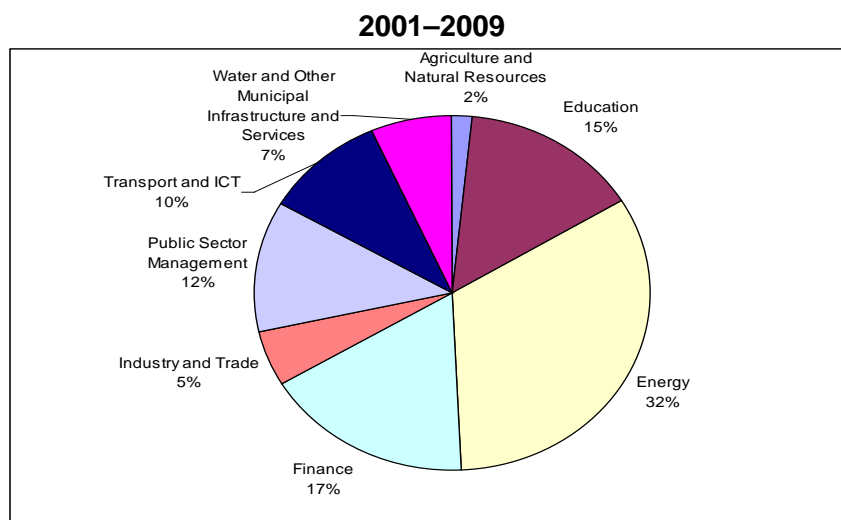
Source of basic data: ADB databases on loan, TA, grant, and equity approvals as of 13 Nov 2009.

16. A similar—although less pronounced—change in sectoral allocation was seen in the TA portfolio as a result of the 2000 and 2005 strategies. The sectors that have received the biggest share of TA funds since 2001 were energy (32%), and finance and industry (22%) (see Figure 2). However, in view of limited government capacity overall, a substantial share (12%) of TA was provided to strengthen public sector management. It is noteworthy that relative TA allocations for the transport and urban infrastructure sectors stayed below relative financial assistance allocations for these sectors. Since 2001, TA projects totaling \$20.4 million were approved, with \$13.8 million for ADTA projects and \$6.6 million for PPTA projects. Appendix 3, Table A3.2 contains a list of all TA projects approved from 1995 to November 2009.

Figure 2: Comparative Sector Distribution of ADB TA projects to Bhutan by Amount

1983–2000





Source of basic data: ADB databases on loan, TA, grant, and equity approvals as of 13 Nov 2009.

17. **Implementation of ADB assistance.** As of 31 October 2009, the five loan projects that were ongoing during the preparation of the 2005 CAPE were closed (implementation completed). Four of the closed loan projects have PCRs; one was rated highly successful and three were rated successful. Another seven loan or grant-financed projects were approved from 2005 to November 2009, all of which are at various stages of implementation. In addition, ADB approved 17 ADTA projects since the CAPE was prepared, and completed another 9 ADTA and 3 PPTA projects. Seven of the ADTA projects have TCRs, which rate six as successful and one as highly successful.

18. **Aid coordination.** Bhutan has received substantial financial assistance from India to construct hydropower plants and roads. The World Bank financed investments in agriculture, education, and health sectors, mainly on IDA terms. Other large donors have included Japan, DANIDA, Netherlands, Switzerland, and UNDP. Aid is coordinated through biannual roundtable meetings organized by the Gross National Happiness Commission and informal meetings organized by various donors present in the country.

C. Key Findings of the 2005 CAPE

19. The 2005 CAPE assessed the performance of ADB's COSs and country assistance programs (CAPs) for Bhutan for the period 1983 to 2003. Although the CAPE rated projects with regard to relevance, effectiveness, efficiency, sustainability, socioeconomic impact, and institutional development impact, it did not rate ADB strategic positioning, additionality, and performance, nor did it provide an overall rating for ADB's country assistance.

20. The CAPE found that formal country strategies did not play a major role in guiding ADB's operations in Bhutan. In fact, for the first decade of operations there was no country strategy. Nevertheless, ADB operations shared a common set of priority areas including institutional capacity building, private sector development, physical and social infrastructure development, environmental protection, and human resource development. The lending and nonlending programs during the CAPE period were dominated by social infrastructure, energy, agriculture and natural resources, and finance. The lending program was assessed as responsive/relevant to the Government's development priorities during the period. However, although the program was relatively balanced, it did not support the strategic objective of supporting private sector

development through nontraditional activities designed to diversify the economic base of the country and diversify its exports.

21. One of the strengths of ADB's operations in Bhutan had been its consistency with evolving Government development strategies, which had strengthened Government ownership, contributed to generally good portfolio performance, and to positive on-the-ground results. Lending and nonlending programs were geared toward assisting the Government in meeting its priority development objectives to strengthen infrastructure, improve the quality of social services, ensure good governance, promote private sector development, generate employment, and preserve and promote Bhutan's culture and environment.

22. Another identified strength of ADB's assistance program was the sustainability of many of ADB's interventions. Successful sector interventions were found to be associated with recurrent assistance, while those that performed poorly, such as in the industry sector, were associated with intermittent and sporadic interventions. The effectiveness of ADB's projects in the energy sector had been largely due to continuous support over the last 20 years. Assistance for rural electrification, institutional and capacity development, and the establishment of a policy and legal framework to restructure the sector was implemented in a sequenced manner, building on earlier interventions. In addition, ADB was found to have played a pioneering role in the financial and energy sectors, and in rural electrification. It provided essential support for strengthening the related policy, legal, regulatory and institutional frameworks.

23. The following issues were identified for some ADB interventions: (i) lack ownership of ADB TA by some government agencies; (ii) insufficient sensitivity of some project designs to cultural and religious beliefs; (iii) lack of flexibility in project designs; (iv) inadequate integration of projects with one another when there was potential for complementarities; (v) inadequate coordination with development partners; (vi) a narrow view of capacity development focused on short-term skills training, rather than broader institutional capacity development; and (vii) project implementation delays resulting from lack of sufficient preparatory time and resources, inadequate local budget allocations, shortage of skilled local staff, frequent changes of project staff, weak procurement and contracting capabilities, insufficient delegation of authority, weak monitoring and coordination, and delays in consultant recruitment.

24. The CAPE made the following recommendations:

- (i) increasing ADB's assistance to Bhutan within the Performance Based Allocation (PBA) Framework, consistent with ADB's policy of rewarding good performing policies;
- (ii) determining sectoral focus during the CSP process in partnership with the Government taking into account the programs of other donors; the number of sectors should be limited to those where ADB can be expected to remain engaged over a long period;
- (iii) increasing ADB's efforts to mobilize cofinancing and developing partnerships with other donors, particularly in areas directly related to the Millennium Development Goals;
- (iv) enhancing portfolio monitoring through the use of measurable performance indicators, regular joint project reviews with the Government, and the establishment of a Resident Mission;
- (v) establishing CSP targets and indicators for each sector to improve evaluability of the CSP;

- (vi) expanding ADB interventions to strengthen regulation and competition in the financial sector to achieve optimal results from future projects based on lines of credit; and
- (vii) promoting private sector development including through direct support and assistance for the development of suitable advisory services, sustainable financial intermediation channels, and an enabling policy environment for informal enterprises and small formal sector enterprises.

25. ADB Management agreed with most of the CAPE recommendations – e.g., increasing annual fund allocations to Bhutan under PBA and the ADF IX framework; having a shaper sectoral focus; enhancing cooperation with other development partners to increase program synergies; preparing the 2006–2010 CPS under a results-based framework; and deepening ADB assistance for strengthening financial sector competitiveness and private sector development. However, ADB Management argued that the establishment of a Resident Mission was not a high priority for ADB considering Bhutan's strong portfolio performance, the availability of electronic communication facilities with development partners in Bhutan, and the increasing frequency of interaction among them.³

III. THE PROPOSED COUNTRY ASSISTANCE PROGRAM EVALUATION

A. Objective and Scope of the CAPE

26. The CAPE will assess the performance of ADB's completed and ongoing operations in Bhutan to derive lessons to guide future ADB strategy and operations in this country. The CAPE will update the 2005 evaluation of ADB's assistance to Bhutan and assess to what extent CAPE lessons and recommendations have been reflected in ADB's subsequent country strategy and programs. Coverage of the proposed second-generation CAPE will overlap with the previous CAPE by a period of a few years to validate end-of-period assessments and to provide continuity with the previous evaluation. The CAPE will review the last two country strategies, as well as most projects approved after 1998. The evaluation findings are expected to provide inputs to the formulation and implementation of a new country partnership strategy for the Bhutan.

B. Methodology and Data

27. The preparation of the CAPE will follow ADB's *Guidelines for the Preparation of Country Assistance Program Evaluation Reports*, reflecting updates that are made during 2009/first quarter 2010. The current performance assessment methodology combines assessments of the relevance, effectiveness, efficiency, sustainability, and impact of sector operations, with assessments of ADB's country positioning and strategy, the contributions of ADB programs to development results, and ADB performance. The CSP results framework will provide basis for assessing performance in terms of program delivery and initial results. The assessment of sector operations will focus on sectors in which ADB has been most active, i.e., energy, transport, urban development, and finance and industry. Whenever possible, the CAPE will seek to use a results framework to assess ADB's contributions to the achievement of sector outcomes and development results. Figure A4.1 shows the evaluation framework.

³ The issue was further discussed as part of the SES on Resident Mission Policy and Operations. The World Bank on the other hand has recently established a representative office in Bhutan.

28. It is currently proposed that the overall CAPE rating will comprise ratings for ADB's country and sector positioning (accounting for 10% of the overall rating), relevance (10%), effectiveness (20%), efficiency (15%), sustainability (15%), sector impacts and contributions to development results (20%), and ADB performance (10%). Performance scores for the two key sectors of ADB operations (i.e. energy and transport) will be weighted with a factor of 2, whereas the urban development and finance/industry sectors will be weighted with a factor of 1 each. ADB assistance for skills development will be assessed together with SME-related projects under finance/industry assistance. The final rating methodology will be based on the revised CAPE guidelines.

29. The approach for the proposed CAPE will differ from the one used for the 2005 CAPE in the following aspects: (i) it will assess the performance of ADB's operations in key sectors, assess the strategic positioning of ADB, its performance, additionality and contributions to development results, and provide an overall rating for ADB's assistance to Bhutan; (ii) assess the alignment of ADB's assistance strategies with Strategy 2020; and (iii) use the CPS results framework (see Appendix 2, Table A2.2) for the evaluation of assistance outputs and outcomes.

30. The evaluation will be based on perception surveys, interviews with government officials and other stakeholders, review of project documents, (self) evaluations, and feedback obtained from relevant ADB staff, field visits to project sites, which are sometimes included to crosscheck information obtained from project files and government reports, focus groups discussions with project beneficiaries, and stakeholder surveys. The CAPE will utilize findings from available PPERs and PCRs, assessments of key sectors and an ongoing IED impact assessment of ADB's rural electrification assistance. The CAPE will be prepared in consultation with the South Asia Department to facilitate a meaningful coordination of the CAPE and CPS processes.

31. The CAPE process will involve interactions between the CAPE team and ADB operations staff in the respective sectors, and also with the CPS team, government staff, executing agencies, and other stakeholders. CAPE findings will be discussed and disseminated internally and externally through in-house and in-country workshops prior to finalization of the evaluation report and ADB's external evaluation website.

C. Evaluation Issues

32. Appendix 4 contains general evaluation questions, which the proposed CAPE will seek to answer. It is expected that the CAPE will address the following issues at greater depth:

- (i) issues that were identified in the previous CAPE and other evaluations (see para. 23) including among others country ownership and implementation delays,⁴ and the implementation of CAPE recommendations (see para. 24), in particular the need for an in-country presence, and the utilization and usefulness of the CPS results framework for country program design, monitoring, and evaluation purposes;
- (ii) the incorporation of private sector development concerns across ADB sector strategies and programs, with special emphasis on the effectiveness of ADB assistance for improving the environment for private sector and SME development, financial sector reforms, and vocational training. The development

⁴ Project disbursement rates that have been substantially below ADB levels for the last 3 years (see Appendix 5), in part because of implementation delays in the road and urban infrastructure sectors.

- of a vibrant private sector is crucial for broadening the country's economic base and job creation;
- (iii) the effectiveness of ADB assistance for capacity development not only for sector agencies, but also for public sector management, with special emphasis on challenges arising from decentralization, political reforms, and the increasing complexity of economic management issues (see para. 10);
- (iv) resource efficiencies for investments in rural feeder roads and electrification projects, taking into consideration their socioeconomic impact. Similar projects are in the pipeline;
- (v) ADB country efforts in pursuit of Paris Declaration objectives; and
- (vi) the role and nature of ADB's assistance in light of the rapidly changing country context.

D. Limitations

33. Even in a small country like Bhutan, formal attribution of ADB assistance is extremely difficult in a CAPE because of the multiplicity of factors that affect development outcomes and impacts at the country level. Therefore, the assessment of program results will focus on determining whether the ADB has made a contribution to key results or outcomes that is both plausible and meaningful, and identifying the main drivers of the outcomes, taking into consideration the role played by ADB in the development of the various sectors. In addition, the CAPE will attempt to assess any additionality provided by ADB.

34. Considering the lack of available baseline studies, limited resources for undertaking the CAPE, and the nature of ADB projects in the country, the direct socio-economic impact of ADB assistance in most sectors will be mainly assessed using qualitative methods. The use of rigorous impact evaluation will be limited to ADB's rural electrification projects.

E. Implementation Arrangements and Resource Requirements

35. The CAPE team will be led and managed by a Principal Evaluation Specialist (the team leader), supported by two senior evaluation specialists, one evaluation specialist and one national evaluation officer from IED. Envisaged total inputs levels are six person-months for the team leader, three person-months for the national officer, and two and 1.5 person-months, respectively, for the senior evaluation specialists, and 0.5 person-months for the principal and environmental evaluation specialists, respectively. In addition, two background studies are already underway – (i) a rigorous impact evaluation of ADB assistance to rural electrification, for which initial findings are expected within June 2010; and a (ii) performance evaluation of first financial sector program.

36. Five international consultants with expertise in the development impact evaluation, financial, road, and urban sector development, respectively, and domestic consultants will support the IED team. Envisaged input levels are a total 5 person-months for the international experts and 2 person-months for domestic consultants. Detailed terms of reference for IED staff and consultants are provided in Appendix 6.

37. A tentative time schedule for the CAPE is presented below. The schedule is subject to mission approvals, IED's staffing situation, the availability of suitable consultants, and the timely availability of findings from the impact evaluation studies.

Task	Timing
Desk Review	November-January 2010 (completed)
Reconnaissance Mission to Bhutan	II December 2009 (completed)
Approval of Evaluation Approach Paper	III January 2010
Independent Evaluation Missions (IEMs)	II February and III April 2010
Presentation of Preliminary IEM Findings to SARD	II May 2010
Submission of Draft CAPE to Peer Review/IED Internal Review	III May 2010
Submission of Draft CAPE for Interdepartmental/Government Review	I June 2010
In-country Workshop	III June 2010
DG-level Meeting	IV June 2010
Submission of Draft to Editor	I July 2010
Submission for DG Approval	IV July 2010

SOCIOECONOMIC INDICATORS

Table A1.1: Poverty and Social Indicators

Indicators	1990	2000	Latest Year	
A. Population Indicators				
1. Total Population (million)	548.8	561.2	686.8	(2008)
2. Annual Population Growth Rate (% change)	1.0	2.9	1.6	(2008)
B. Social Indicators				
1. Total Fertility Rate (births/woman)	5.7	3.7	2.7	(2007)
2. Maternal Mortality Rate (per 100,000 live births)	1,600.0	420.0	440.0	(2005)
3. Infant Mortality Rate (below 1 year/1,000 live births)	90.9	68.4	56.2	(2007)
4. Life Expectancy at Birth (years)	53.1	61.7	66.2	(2008)
a. Female	54.7	63.4	68.2	(2008)
b. Male	51.6	60.0	64.4	(2008)
5. Adult Literacy (%)	—	41.1	52.8	(2005)
a. Female	—	—	38.7	(2005)
b. Male	—	—	65.0	(2005)
6. Primary School Gross Enrollment (%)	55.3	78.2	111.0	(2008)
7. Secondary School Gross Enrollment (%)	21.3	(1994) 41.7	56.4	(2008)
8. Child Malnutrition (% below age 5)	38.0	(1989) 19.0	—	
9. Population with Access to Safe Water (%) ^a	45.0	78.0	90.9	(2007)
10. Population with Access to Sanitation (%) ^a	67.0	88.0	96.4	(2007)
11. Public Education Expenditure (% of GDP)	—	—	5.7	(2007)
12. Human Development Index	—	0.49	0.62	(2007)
13. Human Development Index Rank ^b	—	140.0	132.0	(2007)
14. Gender-Related Development Index	—	—	0.60	(2007)
15. Gender-Related Development Index Rank ^b	—	—	113.0	(2007)
C. Poverty Indicators				
1. Poverty Incidence (% of population)	—	36.3	23.2	(2007)
a. Urban	—	—	1.7	(2007)
b. Rural	—	—	30.9	(2007)
2. Poverty Gap (%)	—	8.6	6.1	(2007)
3. Poverty Severity Index (%)	—	3.1	2.3	(2007)
3. Income Inequality (Gini Index)	—	—	46.8	(2007)
4. Human Poverty Index (HPI-1)	—	—	33.7	(2007)
5. Human Poverty Index Rank ^b	—	—	102.0	(2007)

— = not available, GDP = gross domestic product.

^a Data provided by the Government based on installed facilities

^b Rank for various years is not strictly comparable.

Sources: Asian Development Bank Poverty and Development Indicators Database; Royal Government of Bhutan *Midway to Millennium Development Goals Report* (Nov. 2008); World Bank World Development Indicators (WDI) Database; UNESCO *Global Education Digest 2009*, UNDP *Human Development Reports* (2002, 2009).

Table A1.2: Country Economic Indicators

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	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
A. Income and Growth										
1. GDP per Capita (\$, current) ^a	696.4	751.8	804.6	889.8	1,019.5	1,137.7	1,302.1	1301.1	1,891.1	1,978.0
2. GDP Growth (% , in constant prices)	7.7	7.2	6.8	10.9	7.2	6.8	6.5	6.3	21.4	6.6
a. Agriculture	1.5	4.6	5.0	2.7	2.2	1.8	0.4	1.9	0.4	23.0
b. Industry	15.4	7.4	10.2	17.7	7.7	4.1	2.9	8.0	51.4	-
c. Services	6.4	7.4	4.6	7.1	9.3	11.2	15.1	8.2	6.4	-
B. Saving and Investment (% of GDP, current)										
1. Gross Domestic Capital Formation	39.7	47.3	59.2	59.2	56.8	62.0	51.2	46.9	38.9	39.4
2. Gross National Saving	12.2	33.0	50.0	47.7	44.3	43.1	38.0	50.8	44.3	-
C. Money and Inflation (annual change)										
1. Consumer Price Index	6.8	4.0	3.4	2.5	2.6	4.2	5.3	5.0	5.2	8.4
2. Total Liquidity (M2)	31.4	16.1	7.6	28.5	(0.2)	19.9	11.9	32.9	2.2	2.3
D. Government Finance (% of GDP)										
1. Total Revenue	20.8	22.8	21.7	19.3	16.3	15.7	16.8	17.4	19.6	21.4
2. Total Expenditure	41.3	41.4	46.6	37.0	33.7	30.3	35.1	33.0	29.4	34.1
3. Budgetary Surplus/(Deficit)	(20.5)	(18.6)	(24.9)	(17.7)	(17.4)	(14.6)	(18.3)	(15.6)	(9.8)	(12.7)
4. Overall Budgetary Surplus (Deficit) incl. grants and net lending	(1.7)	(3.8)	(10.6)	(4.6)	(9.8)	1.8	(6.6)	(0.8)	0.6	0.7
E. Balance of Payments										
1. Merchandise Trade Balance (% of GDP, current)	(14.1)	(15.8)	(18.0)	(18.3)	(14.8)	(14.7)	(30.1)	(13.8)	3.7	(5.8)
2. Current Account Balance (% of GDP)	2.2	5.4	(8.8)	(14.9)	(21.8)	(17.0)	(28.4)	(4.2)	11.7	3.9
3. Merchandise Export (\$) Growth (annual % change)	11.9	(7.5)	8.2	9.7	13.0	33.6	37.7	64.9	48.4	-
4. Merchandise Import (\$) Growth (annual % change)	16.8	7.4	3.6	11.8	15.4	60.7	(8.6)	11.7	14.4	-
F. External Payments Indicators										
1. Gross Official Reserves (including gold, \$ million)	292.3	317.6	323.4	354.9	366.6	398.6	467.4	545.3	699.0	764.8
Months of current year's imports of goods										
2. External Debt Service (% of exports of goods and services)	10.9	3.9	4.7	4.9	6.8	6.8	11.9	7.6	3.6	17.9
3. Total External Debt (% of GDP)	40.5	41.4	54.4	61.6	73.6	81.8	82.2	84.3	77.3	61.1
G. Memorandum Items										
1. GDP (current prices, Ngultrum, bn)	17.62	20.11	22.89	26.42	29.39	32.32	36.46	40.45	51.52	57.8
2. Exchange Rate (Ngultrum/\$, ave.)	43.06	44.94	47.19	48.61	46.58	45.32	44.1	45.31	41.35	43.51
3. Population (thousand)	587.6	595.3	603.0	610.8	618.8	626.8	635.0	646.9	658.9	671.1

^a Computed from per capita GDP in Ngultrum divided by the average exchange rate for the period.

Sources: ADB Key Indicators, Royal Monetary Authority Annual Report 2007/8, UN National Accounts Main Aggregates Database.

Appendix 1

ADB COUNTRY STRATEGIES AND PROGRAMS IN BHUTAN 2000–2008

Table A2.1: Major Thrusts of ADB Country Strategies and Programs in Bhutan

Major Thrusts and Priorities	Country Strategies, Programs, Updates and Business Plans			
	2000 COS	2001, 2002, 2003, 2004 CSPUs	2005 CSP	2006, 2007, 2008 COBPs
Overall Thrusts	<ul style="list-style-type: none"> The 2000 COS for Bhutan recognized the overarching objective of poverty reduction in the strategic theme of improving the quality of life for all. ADB's strategy was to assist the Government in the process of structural transformation and role transition and, at the same time, to support the Government's traditional commitment to its social programs and to socio-economic equity. The strategy focused on: (i) strengthening the capacity of government agencies for economic management, governance and development administration; (ii) improving physical and social infrastructure; (iii) promoting private sector development; (iv) improving the efficiency of public service and cost recovery; and (v) environmental protection. ADB's concern for poverty reduction was to be addressed through the income and employment generation impact of private-sector-led development, brought about by an improved policy setting and more efficient financial intermediation. Specifically, ADB interventions aimed to: (i) reduce physical infrastructure 	<ul style="list-style-type: none"> The overall thrusts of the CSP Updates that were released from 2001 to 2004 were consistent with the COS 2000. Although the strategic focus remained the same, the design and implementation of projects had to take into account the nature and distribution of poverty based on a poverty assessment study prepared by the Government (with ADB assistance) in 2001. The CSPUs also emphasized the consistency of the 2000 COS with the Ninth Five-Year Plan (which was launched in 2002) for strengthening infrastructure, improving the quality of social services, ensuring good governance, promoting private sector growth, employment generation, and preserving and promoting Bhutan's culture and environment. The lending and nonlending programs were geared to assist the Government in meeting its priority development objectives by continued and follow-on interventions for the development of road infrastructure, rural electrification, and promotion of the private sector. 	<ul style="list-style-type: none"> Poverty reduction through economic diversification is the overarching goal of the 2005 CSP. The CSP has two strategic thrusts (i) assistance for programs and projects in core sectors, and (ii) capacity development both in the operation sectors as well as for the overall management of the development process. ADB will provide a range of lending and nonlending assistance to the Government to address binding constraints to poverty reduction. These include isolation, a narrow economic base, an under-developed private sector, underserved urban areas, and the limited reach of basic economic infrastructure and financial services. ADB would focus its assistance in four areas: (i) transport; (ii) power, including rural electrification; (iii) urban development; and (iv) financial and private sector development. 	<ul style="list-style-type: none"> No material changes in the strategic thrusts and focus areas as stated in the 2005 CSP.

	<p>constraints; (ii) develop the domestic skills base; (iii) improve the urban environment; and (iv) support sustainable provision of quality social services.</p> <ul style="list-style-type: none"> • It was envisaged that ADB's program would be limited to five sectors: (i) energy; (ii) road transport; (iii) finance; (iv) human resources (education and health); and (v) urban development. 			
A. Sector Priorities				
1. Energy	<ul style="list-style-type: none"> • Strategy was to provide further assistance to expand rural electrification if satisfactory progress was made with respect to the financial viability of Department of Power • Investment focus was on expanding transmission and distribution • Policy focus was to support policy and legal framework for private sector participation in hydropower development 	<ul style="list-style-type: none"> • No material changes from 2000 COS 	<ul style="list-style-type: none"> • Promoting sector efficiency and assist in the expansion of the rural electrification network. • ADB will continue to provide assistance for rural electrification and second generation reforms in the power sector, including fostering public-private partnerships in the sector and cluster capacity-building assistance covering the DOE (policy planning), Bhutan Power Corporation (transmission, distribution, and supply), Bhutan Electricity Authority (regulation). 	<ul style="list-style-type: none"> • No significant changes since the adoption of the 2005 CSP.
2. Transport	<ul style="list-style-type: none"> • Medium-term strategy to focus on maintenance of existing (main) roads rather on construction of new ones • Investment focus was improvement of road network and access to market as well as promotion of regional transport network • Policy and institutional focus were: (i) capacity building of private sector contractors; (ii) sustainable budget provision to 	<ul style="list-style-type: none"> • No material changes from 2000 COS 	<ul style="list-style-type: none"> • ADB's strategic objectives for the road subsector are to (i) continue to enhance the main road network; (ii) ensure adequate maintenance of the existing road network; (iii) improve rural accessibility; (iv) strengthen sector institutions; (v) promote private sector participation; (vi) improve road technology and productivity; and (vii) support subregional linkages. 	<ul style="list-style-type: none"> • No significant changes since the adoption of the 2005 CSP.

	maintain existing roads; and (iii) institutional development for technical capacity on road maintenance			
3. Finance	<ul style="list-style-type: none"> • Strategic objectives were to strengthen the efficiency of financial intermediation and to broaden access to investment funds so as to support the development of private sector activity. • Specific interventions were to support Government's efforts in (i) rationalization and strengthening of banking and financial institutions (ii) liberalization of foreign trade, exchange, and investment regulations; (iii) liberalization of interest rates; and (iv) preparation of transparent legislation and regulatory procedures 	<ul style="list-style-type: none"> • No material changes from 2000 COS 	<ul style="list-style-type: none"> • Provide assistance to strengthen the institutional capacity of key nonbank financial institutions (including Royal Insurance Corporation of Bhutan and National Pension and Provident Fund), strengthen Royal Monetary Authority's banking supervision and insurance regulation functions, and improve legal and regulatory framework for the nonbank financial sector. • Provide assistance to improve policy, and institutional and market-access to sustainable microcredit through a sector development program loan 	<ul style="list-style-type: none"> • No significant changes since the adoption of the 2005 CSP.
4. Urban Development	<ul style="list-style-type: none"> • Strategic objectives were to develop the managerial capacity, policy setting, and physical needs of urbanization (especially in Thimphu and Phuentsholing), and to support the articulation of a sustainable housing policy. • Possible investment to support the implementation of housing policy and urban development plans 	<ul style="list-style-type: none"> • Assistance for urban housing development, which was originally planned for 2004, was deferred to 2006 (but subsequently dropped from the pipeline). 	<ul style="list-style-type: none"> • ADB support for urban development will include targeted provision of municipal services for the nonserved urban poor, follow-on improvements of urban infrastructure facilities such as expansion of the sites and services provided to support small businesses, SMEs, and other sources of employment for the poor in urban areas. • Geographically, ADB strategy for urban development will continue to focus on the development of Thimphu and Phuentsholing, and possibly three regional towns. 	<ul style="list-style-type: none"> • No significant changes since the adoption of the 2005 CSP.
5. Education	<ul style="list-style-type: none"> • Strategic objectives were to develop the country's skills base to provide Bhutanese labor with more productive job opportunities, to enhance 	<ul style="list-style-type: none"> • No material changes from 2000 COS 	<ul style="list-style-type: none"> • No support envisaged 	<ul style="list-style-type: none"> • No support planned

	private sector development, and to stimulate gross domestic product growth.			
6. Health	<ul style="list-style-type: none"> • Strategic objective was to place the long-term financing of the health sector on a sustainable footing, as a means of (i) allowing the wider provision of health services, and (ii) promoting an improvement in the quality of health services. • Investment focus was policy-based lending to pursue the necessary policy and institutional development for the establishment of the Health trust Fund 	<ul style="list-style-type: none"> • No material changes from 2000 COS 	<ul style="list-style-type: none"> • No support envisaged 	<ul style="list-style-type: none"> • No support planned
B. Thematic Priorities				
1. Private Sector Development	<ul style="list-style-type: none"> • Promote private sector investment by: (i) supporting an improved policy setting and more efficient financial intermediation; (ii) improving road transport and expanding power transmission and distribution; and (iii) strengthening vocational, technical, and basic skills. 	<ul style="list-style-type: none"> • CSPU 2003 - To stimulate private sector investment and facilitate employment generation, a new program for small and medium enterprise development is included in the assistance program. 	<ul style="list-style-type: none"> • Focus on improving the enabling and regulatory environment for private sector development by providing assistance for improving the efficiency of financial institutions (bank and nonbank), strengthening the regulatory regime governing the operations of financial institutions, improve the enabling environment for SMEs, providing assistance to extend the reach of micro-finance services in the rural areas, and fostering public-private participation in the development of Bhutan's energy sector resources. • Efforts to build capacity will also include the skills, knowledge and managerial base of the private sector, and organizations that act on its behalf. 	<ul style="list-style-type: none"> • No significant changes since the adoption of the 2005 CSP.
2. Environment	<ul style="list-style-type: none"> • Continue to monitor environmental progress in 	<ul style="list-style-type: none"> • No material changes from 2000 COS 	<ul style="list-style-type: none"> • Assist the Government to steadily improve the regulatory 	

	Bhutan, particularly in those forces that are causing a rise in environmental stress, and to ensure that its own interventions are environmentally sustainable.		<p>basis for environmental management. ADB will assist the National Environment Commission to draw up guidelines, and devise suitable institutional arrangements for implementing the Environment Assessment Act, 2000.</p> <ul style="list-style-type: none"> • Complement the core environmental support of the other development partners by mainstreaming development initiatives into public sector operations 	
3. Governance	<ul style="list-style-type: none"> • Continue to build on past initiatives on a needs basis, but particularly for promoting further strengthening of public sector resource management and aid coordination, by (i) working in close contact with the other aid agencies in these fields; (ii) further enhancement of the sector capacity for project implementation; and (iii) further improvement in economic statistics, notably in prices, national income accounts, and elected demographic issues. • Support for government initiatives in decentralizing decision making and planning to the district level. 	<ul style="list-style-type: none"> • No material changes from 2000 COS 	<ul style="list-style-type: none"> • ADB assistance in this area is expected to be focused in the areas of the economic infrastructure, energy, urban development, and private sector-cum-financial sector development. 	<ul style="list-style-type: none"> • No significant changes since the adoption of the 2005 CSP.
4. Gender	<ul style="list-style-type: none"> • Overall gender strategy was to ensure that the fruits of economic growth and modernization are spread equally between men and women. • Approaches were to (i) pay special attention to gender considerations in all ADB projects in Bhutan; (ii) put emphasis on helping poor women; and (iii) promote new knowledge on gender in 	<ul style="list-style-type: none"> • No changes from 2000 COS 	<ul style="list-style-type: none"> • Assist the Government in addressing gender-related issues by helping to expand livelihood opportunities for women, both directly in ADB-assisted projects, and indirectly through improvements in the policy, regulatory and institutional setting. Through policy dialogue and advocacy efforts, ADB will support implementation of the Gender 	<ul style="list-style-type: none"> • No significant changes since the adoption of the 2005 CSP.

	Bhutan.		<p>Plan of Action and the inclusive development efforts of the National Commission for Women and Children.</p> <ul style="list-style-type: none"> • ADB public sector loans will ensure that women have equal opportunity to participate in design and implementation, and that the special interests and requirements of girls and women are adequately addressed. 	
5. Regional Cooperation	<ul style="list-style-type: none"> • Promote greater subregional cooperation as a means for capitalizing on intrasubregional complementarity and deriving extra subregional benefits. • Major areas for subregional cooperation were energy, multimodal transport and communications, trade and investment facilitation and promotion, tourism, and natural resources utilization and environment. 	<ul style="list-style-type: none"> • No changes from 2000 COS 	<ul style="list-style-type: none"> • Through regional cooperation initiatives, ADB will assist Bhutan establish better road and border-trade connections with neighboring countries, and promote cooperation in energy, trade and investment facilitation, tourism, and communications. 	<ul style="list-style-type: none"> • No significant changes since the adoption of the 2005 CSP.

ADB = Asian Development Bank; COBP = country operational business plan; COS = country operational strategy; CSP = country strategy and program; CSPU = CSP update; NGO = nongovernment organizations; SOE = state-owned enterprises.

Sources: ADB country operational strategies, country strategy and programs and updates, country operational business plans.

Table A2.2: Matrix of Country Strategy and Program Results Framework (FY2005–FY2009)

Gov't. Long-Term Development Goals	Gov't. Long-Term Development Goals ^a		Asian Development Bank Strategic Focus		ADB and Development Partner(s) Interventions to Support Outcome(s)
	Strategic Goals ^b	Key Constraints ^c	Intermediate Outcomes ^d	Intermediate Indicators ^e	
Pillar I: Broad-based Economic Growth					
Increase annual growth rate of 6.5% in 2002 to 8% in the medium term, and halve of rural poverty from 31% in 2005 to 16% in the medium term	Achieve gross national happiness by focusing on (i) economic growth and development, (ii) preservation and promotion of cultural heritage, (iii) sustainable use of environment, and (iv) good governance	Isolation; Narrow Economic Base; Shallow Financial sector; underdeveloped private sector; high cost structure due to poor and inadequate road infrastructure; compounded by weaknesses in Bhutan's human, scientific, organizational, institutional, and resource capabilities.	Reduce isolation by increasing road connectivity, diversifying rural economy, increasing returns to human resource development, and reducing depletion of forest cover by rural electrification; Extend economic life, safer user of the road system, and higher quality development of the main road network; Increase competition in the provision and maintenance of the domestic power system, and more diverse uses of power in rural areas for lighting and income generation; Improve human resource development, and organizational development and legal and regulatory framework development in the public sector organizations responsible for	Transport costs lowered (by more than 5%) and isolation reduced (i.e. number of villages with no access to main national road network) in rural Bhutan due to an increase in national road network from 14,777 kilometers (km) in 2005 to 1,700 by 2010 and feeder roads from 161 km to 300 km by 2010; Improved time savings and reduced vehicle maintenance costs resulting from an increase in the amount of maintained paved roads from 70% in 2005 to 92% in 2010; Backlog of deferred maintenance under DOR reduced from 30% in 2005 to 8% in 2010; Increase in the annual routine maintenance and resurfacing budget by 26% in 2010 over the prevailing amount in 2005; Human resource development and improved planning and regulatory capabilities for the organizations involved in road quality and road safety;	Road Network-II Project Rural Electrification and Renewable Energy Project Lending and nonlending support, harmonized with other development partners, for example, World Bank assistance for rural roads; Netherland's assistance for feeder roads; Government of India's assistance for roads; bridges, and other infrastructure facilities

Gov't. Long-Term Development Goals	Gov't. Long-Term Development Goals ^a		Asian Development Bank Strategic Focus		ADB and Development Partner(s) Interventions to Support Outcome(s)
	Strategic Goals ^b	Key Constraints ^c	Intermediate Outcomes ^d	Intermediate Indicators ^e	
			transport, and power sector development	Guidelines for road quality established and implemented. Clear evidence of active road asset management reflected in 10 th FYP. Evidence of rural income diversification, use of lighting for schooling, and increased access to electrified home equipment as a result of the share of the population with access to electricity rising from 42% in 2005 to 60% in 2010, and operating losses declining from 16% to 14% over the same period; Energy regulatory agency established and strengthened through institutional and regulatory reform; Crops subsidies rationalized by 2010, and tariffs reflective of cost recovery by 2015; Enabling regulations prepared for public-private partnerships in the power sector; Improved access to social services; establishment of microenterprises in rural areas; increased opportunities for women due to time savings and improvement in health and education indicators	

Gov't. Long-Term Development Goals	Gov't. Long-Term Development Goals ^a		Asian Development Bank Strategic Focus		ADB and Development Partner(s) Interventions to Support Outcome(s)
	Strategic Goals ^b	Key Constraints ^c	Intermediate Outcomes ^d	Intermediate Indicators ^e	
				based on rapid assessments and surveys of project assisted regions; Steady improvement in vocational skills capabilities as measured by an increasing number of graduates from vocational training institutes; Improved capacity to plan for skills requirements as a result of labor force surveys and preparation of a national human resource development plan	
Diversify sources of growth	Make private sector the engine of growth; increase reliance on sectors other than hydropower for employment creation	Nonresponsive financial sector; lack of skilled labor; cumbersome government procedures; limited employment opportunities for educated youth; little access to credit for SMEs; tourism sector constrained by Government policy; public sector capacity to play an indirect enabling role for private sector; and financial market development limited by lack of experience, gaps in the regulatory framework, extensive public involvement in providing financial services and other private goods, and limited interaction between the public and private sectors	Increase competition in the financial sector; streamline of Government industrial license procedures; increase the share of credit to SMEs; gradually liberalize the tourism sector; improve access to microcredit, increase diversity of nonbank financial institutions, and effectiveness of NBFI regulation.	Increased numbers of SME business proposals and projects financed by the banking system; Regulatory framework for NBFIs is revised and strengthened; Through training and hands-on experience, the Bank of Bhutan is able to more regularly and effectively supervise the NBFIs; Share of private sector in GDP increases from 34% in 2005 to 44% by 2010; Credit to the private sector rises from 20% in 2005 to 30% of total financial assets by 2010; Interest rate spreads decline by 200 basis points by 2010; Number of listed companies on the BSE rises by 25% by	Financial Sector Program Project-II, SME and Microcredit Development Project, Lending and nonlending support harmonized with other development partners

Gov't. Long-Term Development Goals	Gov't. Long-Term Development Goals ^a		Asian Development Bank Strategic Focus		ADB and Development Partner(s) Interventions to Support Outcome(s)
	Strategic Goals ^b	Key Constraints ^c	Intermediate Outcomes ^d	Intermediate Indicators ^e	
				2010. Improvement in human resource development, policies, and sector strategies provide the Government with greater capabilities to foster sustained private sector development; More frequent consultation between the public and private sectors serves to enhance the understanding and capacity of both; With improvements in enabling sector policy, tourism visitor arrivals reach target of 15,000 by 2010.	
Pillar II: Inclusive Social Development					
Expand urban infrastructure network to cover the urban poor	Provide basic infrastructure facilities such as water and sanitation to the unserved urban poor in Thimphu and Pheuntsholing. Provide basic infrastructure facilities in three other towns to support healthy and productive urban habitats.	Inadequate infrastructure facilities and weak municipal governance, policy and organizational capacity	Provide access to safe water, sewerage and sanitation, and other basic infrastructure facilities to the poorer and unserved segments of the urban population. Provide municipal infrastructure improvements to improve the overall quality of healthy urban habitats. Increase autonomy of the two largest municipalities and increase capacity to	Increase in the share of urban households with access to safe drinking water from 35% in 2005 to 50% by 2010; Urbanization to increase from 25% in 2005 to 30% by 2010; Access to safe and affordable housing increases from 50% in 2005 to 60% by 2010; Provision of electricity to expanded urban population to rise from 42% in 2005 to 60% by 2010 and to 80% by 2015; Increase in provision of safe sanitation to urban population from 20% in	Urban Infrastructure Development (I and II) Projects Lending and nonlending support harmonized with other development partners, for example, the World Bank's proposed urban infrastructure-II project

Gov't. Long-Term Development Goals	Gov't. Long-Term Development Goals ^a		Asian Development Bank Strategic Focus		ADB and Development Partner(s) Interventions to Support Outcome(s)
	Strategic Goals ^b	Key Constraints ^c	Intermediate Outcomes ^d	Intermediate Indicators ^e	
			plan, operate, finance and maintain essential urban services on a sustainable basis.	2005 to 50% by 2010; Increase in solid waste collected and disposed from 30% in 2005 to 40% by 2010; Improvement in basic health indicators of the urban population in the two main cities from baseline surveys to 3 years beyond CSP completion; Increased use of cost-recovery mechanisms to finance urban development; Completion of the land-pooling exercise to underpin rational urban planning; Preparation of an urban development master plan and revision of key laws affecting housing and urban development; Increased cadre of trained officers in municipalities of the two main cities, with the resources, regulatory authority, and competence to plan and oversee provision of basic urban services; By 2010, an additional 10% of the urban population will have access to safe and affordable housing, and 18% to electricity connections	

Gov't. Long-Term Development Goals	Gov't. Long-Term Development Goals ^a		Asian Development Bank Strategic Focus		ADB and Development Partner(s) Interventions to Support Outcome(s)
	Strategic Goals ^b	Key Constraints ^c	Intermediate Outcomes ^d	Intermediate Indicators ^e	
Pillar III: Good Governance					
Build capacity	Supplement capacity development in line ministries and in areas relating to economic management and planning, poverty monitoring, and environment.	Inadequate capacity to implement second generation reforms in the energy sector; Inadequate capacity for public resource management; oversight, including external debt management; and public sector audit; and financial oversight; transformation of National Environment Strategy into an operational document, Need of market-oriented labor laws	<p>Support institutional development; improved operation of the labor market will lead to greater participation of labor force in the private sector, and greater foreign direct investment leading to a reduced in unemployment and poverty.</p> <p>Support performance audits to guide agency and ministry management to improve value-for-money in public service delivery.</p> <p>Increase accountability in public spending to steady improve effectiveness and efficiency in public outlays.</p> <p>Support the Department of Roads to manage all aspects of road construction and associated policy framework, including a framework for public-private partnerships.</p>	<p>Enhanced government capacity, as a result of training, hands-on development of sector plans, strategies, and regulations; and improved organizational structures and operations directed at fostering progress in the identified areas</p> <ul style="list-style-type: none">Guidelines for new labor laws issued and presented to ParliamentPerformance Audits Issued for a small number of key agencies or departmentsPublic accounts committee scrutinizes the accounts, requires informed explanations from public officials, and releases information on public spending plans to the publicDevelopment of a policy framework by DOR for public-private partnership in the roads sector;Implementation of the NES action plan by EA/IA of ADB-assisted operations;Establishment of improved regulatory framework governing pensions and leasing, and enhanced rules for operation of the stock	<p>Technical assistance for Department of Roads, Department of Energy, National Environment Commission, Department of Aid and Debt Management, Bureau of Statistics; Follow-on assistance to assist in preparing guidelines for implementing the new labor laws</p> <p>Assistance to Auditor General's Office for developing performance audits</p> <p>Assistance to the newly created Public Accounts' Committee of the Parliament</p> <p>Harmonized with nonlending support of other development partners</p>

Gov't. Long-Term Development Goals	Gov't. Long-Term Development Goals ^a		Asian Development Bank Strategic Focus		ADB and Development Partner(s) Interventions to Support Outcome(s)
	Strategic Goals ^b	Key Constraints ^c	Intermediate Outcomes ^d	Intermediate Indicators ^e	
			<p>Support development of deeper and more robust nonbank financial institutions.</p> <p>Steadily improve the environmental sustainability of public and private investment in line with long-term sustainability strategies and targets set under Vision 2020.</p> <p>Support sustainable management of external debt.</p>	<p>exchange</p> <ul style="list-style-type: none"> • Implementation of the NES action plan by EA/IA of ADB-assisted operations; • Support the implementation of the Environmental Assessment Act, 2000 by the National Environment Commission • Greater use of debt models in decision making, and a gradual increase in the number of staff using analytical tools to forecast macro outcomes and to assess debt sustainability 	
Implementation Mechanisms to Deliver Results					
Improve development effectiveness by, among others, facilitating development of a robust monitoring and evaluation system; Improve development effectiveness, amongst others, by facilitating the development of a robust monitoring and evaluation system	Strengthen M&E systems including support for Poverty Monitoring Assessment System (PMAS)	Inadequate capacity to undertake M&E related to impact of development projects	Develop standardized M&E system focusing on assessment of development impact instead of the existing focus on reporting development expenditures	<ul style="list-style-type: none"> • Department of Planning's M&E capabilities including PMAS strengthened; • More than 50 persons trained in M&E across core government departments; • At least five EA/IAs adopting and using a more results-based M&E framework for ADB-assisted operations <p>ADB's annual portfolio review to incorporate a results perspective and Government introduces a results-orientation in aid</p>	<p>Follow-on advisory TA, Strengthening the National Statistical System Phase II is ongoing.</p> <p>Support for Living Standards Measurement Survey to assess poverty conditions.</p> <p>Capacity building support harmonized with work of development partners, for example, UNDP's support for developing a national M&E system, and World Bank's assistance for strengthening poverty monitoring assessment.</p>

Gov't. Long-Term Development Goals	Gov't. Long-Term Development Goals ^a		Asian Development Bank Strategic Focus		ADB and Development Partner(s) Interventions to Support Outcome(s)
	Strategic Goals ^b	Key Constraints ^c	Intermediate Outcomes ^d	Intermediate Indicators ^e	
				coordination in those sectors in which ADB plays a role among the development partners.	

ADB = Asian Development Bank, BSE = Bhutan Stock Exchange, CSP = country strategy and program, DOR = Department of Roads, EA = executing agency, FYP = Five-Year Plan, Gov't = government, IA = implementing agency, M&E = monitoring and evaluation, NBFIs = nonbanking financial institutions, NES = National Environment Strategy, PMAS = Poverty Reduction Monitoring and Assessment System, SME = small and medium enterprise, TA = technical assistance, UNDP = United Nations Development Programme.

^a Selected components of national agenda that overlap with ADB's strategic priorities in Bhutan.

^b Strategic goals of the PRSP, 2020 Vision and Ninth Plan.

^c As identified in the Royal Government of Bhutan. 2004. *Poverty Reduction Strategy Paper*. Thimphu; Royal Government of Bhutan. 2004. *Medium Term Expenditure Framework*. Thimphu; Planning Commission, Royal Government of Bhutan. 1999. *Bhutan 2020: A Vision for Peace, Prosperity and Happiness*. Thimphu; and Planning Commission, Royal Government of Bhutan. 2002. *The Ninth Plan (2002-2007)*. Thimphu, to achieve the strategic goals.

^d Achievement of these outcomes is the combined responsibility of the Government and its development partners, including ADB, civil society, private sector, and other development aid agencies.

^e Indicators to track success of implementation toward expected outcomes. Baselines, targets, and indicators for monitoring progress have been identified and will be updated regularly.

Sources: Royal Government of Bhutan. 2004. *Poverty Reduction Strategy Paper*. Thimphu; Royal Government of Bhutan. 2004. *Medium Term Expenditure Framework*. Thimphu; Planning Commission, Royal Government of Bhutan. 1999. *Bhutan 2020: A Vision for Peace, Prosperity and Happiness*. Thimphu; and Planning Commission, Royal Government of Bhutan. 2002. *The Ninth Plan (2002-2007)*. Thimphu.

**ADB LOANS, ADF-FUNDED GRANTS, AND TECHNICAL ASSISTANCE TO BHUTAN,
1998–2009**

Table A3.1: Loans and ADF-Funded Grants

Sector	Loan/ Grant No.	Project Name	Fund Type	Amount (\$ million)	Date Approved	Date Closed	PCR Rating	IED Rating
I. ADF AND OCR LOANS								
A. Education								
		Technical Education and Vocational Skills Training						
	L1830	Basic Skills Development	ADF	7.0	21-Jun-01	27-Aug-08		
B. Energy								
		Electricity Transmission and Distribution						
	L1712	Sustainable Rural Electrification	ADF	10.0	25-Nov-99	12-Jan-06	S	S
	L2009	Rural Electrification and Network Expansion	ADF	9.4	30-Sep-03	19-Dec-06	HS	
		Renewable Energy						
	L2463	Green Power Development	OCR	51.0	29-Oct-08	Ongoing		
	L2464	Green Power Development	ADF	29.0	29-Oct-08	Ongoing		
C. Finance								
		Finance Sector Development						
	L2279	Financial Sector Development Program-Program Loan	ADF	11.0	07-Dec-06	Ongoing		
	L2280	Financial Sector Development Program-Project Loan	ADF	2.0	07-Dec-06	Ongoing		
D. Health and Social Protection								
		Health Systems						
	L1762	Health Care Reform Program	ADF	10.0	21-Sep-00	27-Sep-02	S	
E. Transport and ICT								
		Road Transport						
	L1763	Road Improvement	ADF	9.6	03-Oct-00	08-Aug-06	S	S
	L2187	Road Network	ADF	27.3	30-Sep-05	Ongoing		
F. Water and Other Municipal Infrastructure and Services								
		Urban Sector Development						
	L1625	Urban Infrastructure Improvement	ADF	5.7	30-Jul-98	30-Jun-05	S	
	L2258	Urban Infrastructure Development	ADF	24.6	27-Sep-06	Ongoing		
		Sub-Total ADF & OCR Loans		196.6				
II. ADF-FUNDED GRANTS								
A. Energy								
		Renewable Energy						
	G0119	Green Power Development	ADF	25.3	29-Oct-08	Ongoing		
	G0119	Green Power Development	ACEF	25.3	29-Oct-08	Ongoing		

Sector	Loan/ Grant No.	Project Name	Fund Type	Amount (\$ million)	Date Approved	Date Closed	PCR Rating	IED Rating
B. Industry and Trade								
	SME Development							
	G0088	Micro, Small, and Medium-Sized Enterprise Sector Development (Program)	ADF	6.0	21-Nov-07	Ongoing		
	G0089	Micro, Small, and Medium-Sized Enterprise Sector Development (Project)	ADF	9.0	21-Nov-07	Ongoing		
C. Transport and ICT								
	ICT							
	G0098	South Asia Subregional Economic Cooperation Information Highway	ADF	4.7	17-Dec-07	Ongoing		
	Road Transport							
	G0174	Road Network Project II	ADF	38.8	10-Nov-09	Ongoing		
		Sub-Total ADF Grants		83.7				
		TOTAL LOANS AND ADF GRANTS		280.3				

Source: ADB Loan, TA, and Grant Databases.

Table A3.2. Technical Assistance Grants

Sector	TA / Grant No.	Project Name	Type	Total	Date Approved	Date Closed	PCR Rating	IED Rating
I. TECHNICAL ASSISTANCE GRANTS FROM TASf, JSf, AND OTHER SOURCES								
A. Agriculture and Natural Resources								
	Land-Based Natural Resources Management							
	4120	Strengthening Environmental Sector Capacity	AD	150,000	27-May-03	15-Apr-05		
	4636	Capacity Building to Implement Environmental Assessment Procedures	AD	200,000	22-Aug-05	31-Oct-06	S	
B. Education								
	Technical Education and Vocational Skills Training							
	3340	Basic Skills Development	PP	450,000	14-Dec-99	30-Apr-01		
	3525	Institutional Development of the National Technical Training Authority	AD	300,000	27-Oct-00	31-Oct-01	S	
C. Energy								
	Electricity Transmission and Distribution							
	3307	Corporatization of Division of Power	AD	600,000	25-Nov-99	31-Mar-02	HS	S
	3825	Rural Electrification and Network Expansion	PP	700,000	21-Dec-01	14-Sep-04		
	4188	Capacity Building of the Bhutan Electricity Authority	AD	400,000	30-Sep-03	21-Jun-07	S	
	4189	Establishing the Druk Hydropower Corporation	AD	500,000	30-Sep-03	29-May-06	S	
	4766	Accelerated Rural Electrification	AD	700,000	28-Feb-06			

Sector	TA / Grant No.	Project Name	Type	Total	Date Approved	Date Closed	PCR Rating	IED Rating
Energy Sector Development								
	3112	Policy and Legal Framework for Power Sector Development	AD	500,000	08-Dec-98	31-Mar-01	S	PS
	4599	Capacity Building for the Bhutan Power Corporation	AD	400,000	16-Jun-05	25-Jul-07	HS	
	4916	Bhutan Power Development	PP	1,600,000	29-Jan-07			
Renewable Energy								
	7157	Promotion of Clean Power Export Development	AD	1,488,000	29-Oct-08			
	7318	Rural Renewable Energy Development	PP	900,000	27-Jul-09			
D. Finance								
Banking Systems								
	3212	Strengthening the Banking Supervision Function of the Royal Monetary Authority	AD	600,000	30-Jun-99	31-Aug-01	S	
	3910	Institutional Development of the Bhutan Development Finance Corporation	AD	200,000	27-Aug-02	Aug-03	S	
	4386	Strengthening of the Payment and Settlement System	AD	275,000	07-Sep-04	24-Mar-09		
	4386	Strengthening of the Payment and Settlement System (Supplementary)	AD	300,000	15-Dec-05	25-Mar-09		
	4386	Strengthening of the Payment and Settlement System (Supplementary)	AD	30,000	13-Aug-07	26-Mar-09		
	7084	Strengthening of the Credit Information Bureau	AD	350,000	27-May-08			
Finance Sector Development								
	3687	Financial Sector Review	AD	300,000	23-Jul-01	22-Feb-05	S	
	4615	Financial Sector/Nonbank Financial Institutions Reform Program	PP	500,000	17-Jul-05	31-Jul-08		
	4871	Capacity Building of the Department of Aid and Debt Management's Debt Management Unit	AD	200,000	20-Nov-06	31-Jul-08		
	4885	Institutionalizing Skills and Capacity Development	AD	250,000	07-Dec-06			
Insurance and Contractual Savings								
	3111	Upgrading the Royal Insurance Corporation of Bhutan, Restructuring the Government Employees Provident Fund and Introducing a Pension Scheme	AD	500,000	07-Dec-98	12-Aug-04	S	
	3796	Institutional Development of the National Pension and Provident Fund Bureau	AD	300,000	12-Dec-01	16-Nov-04	S	
Microfinance								
	4837	SME/Microenterprise Development Program: Financing Component	PP	500,000	11-Sep-06			
Money and Capital Markets								
	3905	Strengthening the Capacity of the Royal Monetary Authority and Royal Securities Exchange of Bhutan	AD	334,000	23-Aug-02	12-Feb-05	S	

Sector	TA / Grant No.	Project Name	Type	Total	Date Approved	Date Closed	PCR Rating	IED Rating
E. Health and Social Protection								
	Health Finance							
	3186	Health Care Financing and Reform Program	PP	150,000	16-Apr-99	29-Feb-04		
F. Industry and Trade								
	Large and Medium Industries							
	4019	Industrial Estate and Dry Port Development	PP	700,000	06-Dec-02	31-Jan-05		
	Small and Medium Enterprise Development							
	4412	Small and Medium Enterprise Development	AD	300,000	08-Oct-04	30-Nov-07	S	
G. Public Sector Management								
	Economic and Public Affairs Management							
	3156	Capacity Building of the Construction Development Board	AD	400,000	08-Jan-99	31-Aug-00	GS	
	3443	Poverty Assessment and Analysis	AD	100,000	19-May-00	Incomplete		
	3669	Strengthening the National Statistical System	AD	600,000	07-Jun-01	31-Dec-04	S	
	3790	Institutional Development of the Department of Employment and Labor	AD	200,000	07-Dec-01	31-Oct-03	HS	
	4424	Strengthening the National Statistical System Phase 2	AD	250,000	05-Nov-04	31-Jul-07	S	
	4914	Capacity Development for the Department of Labour	AD	300,000	16-Jan-07			
	Public Expenditure and Fiscal Management							
	3513	Public Sector Resource Management	AD	300,000	06-Oct-00	31-Dec-04	S	
	3596	Project Appraisal and Portfolio Management for Financial Institutions	AD	400,000	19-Dec-00	31-Jul-04	PS	
	3893	Strengthening the Debt Management Capacity of the Department of Aid and Debt Management	AD	116,000	04-Jul-02	16-Nov-04		
	4398	Strengthening the Debt Management Capacity of the Department of Aid and Debt Management	AD	225,000	28-Sep-04	29-Nov-07	S	
	7032	Strengthening Public Financial Management	AD	750,000	14-Dec-07			
H. Transport and ICT								
	Road Transport							
	3107	Road Transport Network Development	PP	650,000	03-Dec-98	15-Mar-01		
	3470	Road Planning and Management Strengthening	AD	954,000	20-Jul-00	Dec-03	GS	
	4138	Road Network Expansion	PP	500,000	02-Jul-03	15-Jun-06		
	4658	Capacity Building in Road Safety and Road Asset Management	AD	300,000	30-Sep-05			
	7128	Road Network II	PP	650,000	10-Sep-08			
	7374	Capacity Building of the Department of Roads	AD	100,000	10-Nov-09			

Sector	TA / Grant No.	Project Name	Type	Total	Date Approved	Date Closed	PCR Rating	IED Rating
I. Water and Other Municipal Infrastructure and Services								
Slum Upgrading and Housing								
	4042	Housing Sector Reform	AD	500,000	18-Dec-02	13-Oct-04	S	
Urban Sector Development								
	3022	Capacity Building in the Urban Sector	AD	500,000	02-Jun-98	14-Mar-00	GS	
	4533	Urban Infrastructure Development	PP	600,000	23-Dec-04	28-Mar-07		
	4844	Capacity Building in Urban Infrastructure Planning and Management	AD	250,000	27-Sep-06			
Sub-total TAs from TASF, JSF and Other Sources				23,322,000				
II. JFPR-FUNDED TECHNICAL ASSISTANCE GRANTS								
A. EDUCATION								
Technical Education and Vocational Skills Training								
	9093	Rural Electricians Training Program		1,000,000	25-May-06			
	9103	Rural Skills Development		1,990,000	15-Jan-07			
B. TRANSPORT AND ICT								
Road Transport								
	9069	Improving the Well-Being of Road Workers		500,000	09-Aug-05			
Sub-total JFPR-Funded Grants				3,490,000				
TOTAL				26,812,000				

AD = advisory, JFPR = Japan Fund for Poverty Reduction, JSF = Japan Special Fund, GS = generally successful, HS = highly successful, PP = project preparatory, PS = partly successful, TA = technical assistance.
Source: ADB Loan, TA, and Grant Databases.

EVALUATION QUESTIONS AND FRAMEWORK

1. The CAPE will seek answers to the following broad questions:

a. General assessment of ADB's country strategies and operations

(i) Positioning of ADB's assistance strategies and programs

a) Alignment. How well have ADB country and sector strategies in Bhutan addressed evolving development needs and have they been consistent with Government development strategies and ADB corporate objectives.

b) Selectivity. Have ADB operations focused on the right kind of (sub)sectors, geographic areas, and counterpart organizations, considering potential development impact, Government priorities and reform initiatives, ADB's capacity and comparative advantage, the activities of other development partners, and ADB corporate objectives.

c) Sequencing and continuity. Have ADB operations within and among sectors been properly sequenced taking into consideration national development strategies, the Government's reform agenda and process, and capacity constraints. Has there been sufficient continuity in ADB's country assistance to maximize development effectiveness of operations.

(ii) ADB's contribution to development results

a) Impact of ADB assistance on sustainable economic and social development. To what extent has ADB contributed to the country's macroeconomic balance, sustainable economic growth, poverty reduction, social development, environmental sustainability, achievement of MDGs, as well as drivers of change, in particular good governance and capacity development, private sector development, and gender equity.

b) Value addition. Did ADB spearhead any new discussions on or approaches to development challenges in Bhutan. What has been ADB's role compared to that of other development partners. Has ADB achieved additionality through resource mobilization, risk mitigation, policy dialogue, support for project design and implementation, and the provision of knowledge and advisory services.

(iii) ADB performance

a) Relationship management. Has ADB responded adequately, flexibly, and timely to changing and newly emerging country needs and Government demand for ADB assistance. How have contentious issues been handled and problems resolved. Have there been adequate consultations with other relevant stakeholders. Has the lack of continuous in-country presence affected ADB operations. Was there a suitable division of labor, and were there effective coordination arrangements with other development partners.

b) Application of ADB policies, systems, business processes and lending instruments. Have ADB policies, systems, lending instruments,

and assistance modalities been appropriate for country conditions. How has ADB applied its policies on safeguards within its Bhutan operations.

c) Resource management. Has the level of applied ADB financial and human resources been adequate for the design and implementation of the Bhutan country strategies and programs. Were available resources efficiently utilized. What has been the quality of staff and consultant resources. Have operational synergies been realized.

d) Portfolio management. Was the portfolio managed effectively. Were disbursement problems adequately dealt with. Have causes of poor performance been sufficiently analyzed and the findings been taken on board.

e) Work Quality. What has been the quality of ADB's economic and sector work in Bhutan and how were resulting findings fed into the design of country strategies and programs. How well has ADB been equipped to handle policy dialogue on pertinent development issues. What were the scope, quality, and follow-up of diagnostic work and other analytical activities. How good was quality at entry and did it matter.

b. Performance of ADB assistance at the sector-level

- (i) **Relevance.** Have ADB's sector operations:
 - focused on critical impediments to sector development
 - been based on ADB country and sector strategies
 - been aligned government sector priorities
 - supported essential sector policy and institutional reforms of the government
 - adequately considered conditions in the country
 - properly assessed and considered the implementation capacity of executing and implementing agencies during project processing and implementation
 - actively considered the potential for private sector involvement
 - actively considered the potential for gender mainstreaming
 - adequately addressed potential project risks
 - been aligned with international best practices and standards.
- (ii) **Effectiveness.** Has ADB's sector assistance achieved meaningful outputs and outcomes. Have there been any common factors affecting the performance of ADB projects.
- (iii) **Efficiency.** Have ADB sector operations
 - achieved an adequate ratio of outputs and outcomes to resource levels
 - been formulated and implemented in a cost-effective and efficient manner.
- (iv) **Sustainability.** What is the likelihood of sustaining achieved outputs and outcomes considering the conduciveness of fiscal, political, and environmental conditions, government/stakeholder commitment, financial capacity to address recurrent costs, institutional support, technical resilience, and resilience to exogenous effects.
- (v) **(Likely) Sector Impact.** How have ADB sector operations contributed to long-term sector development in Bhutan. Have ADB's interventions achieved a level of critical mass to enhance combined impact. To what extent has ADB assistance helped strengthen national institutional

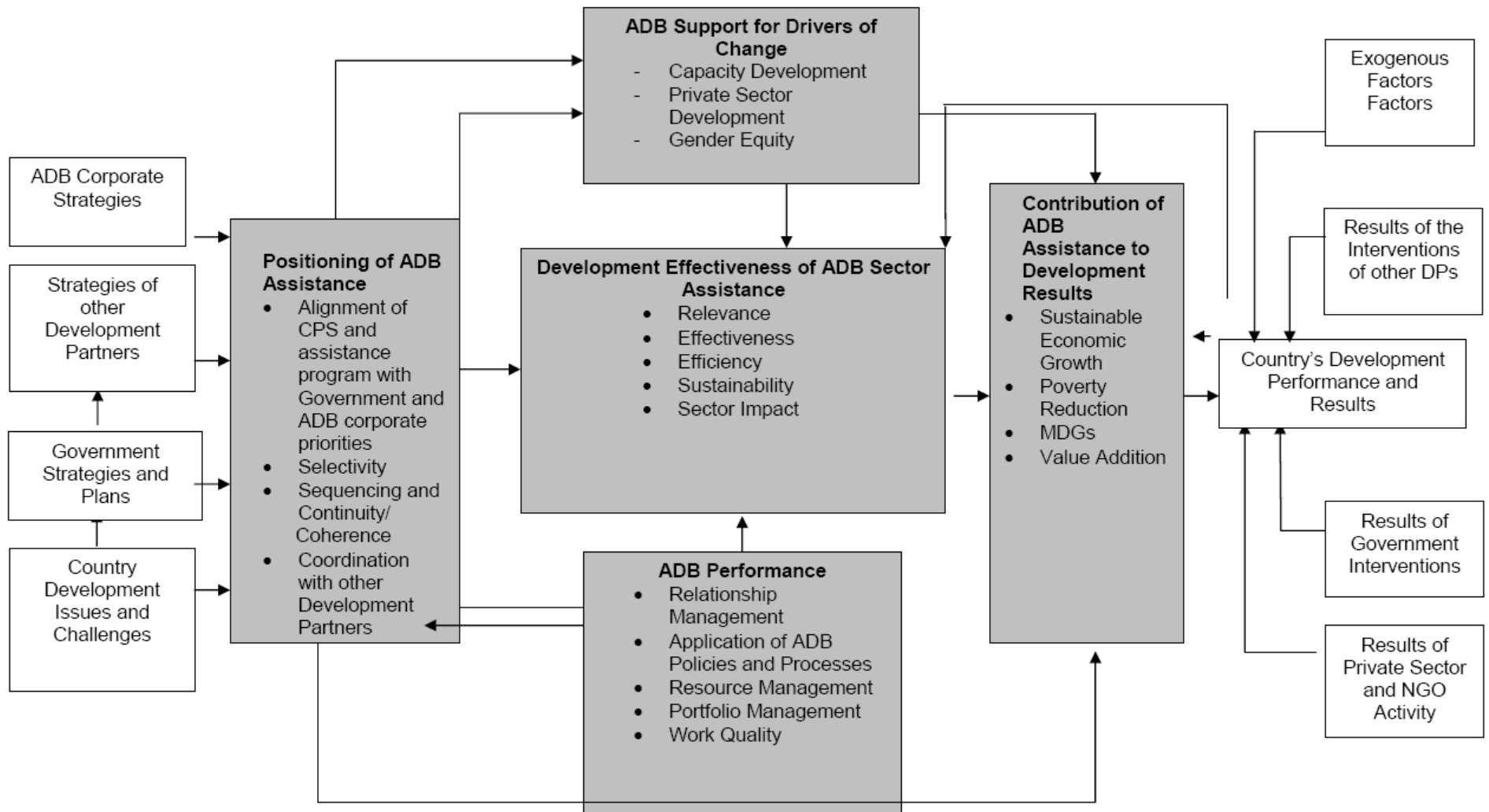
capacity for formulation of sector policies and the management of sector programs and investments.

c. Recommendations for future strategy and operations

- (i) What lessons can be derived from the past experience for the next CPS in terms of ADB's strategic positioning. Should ADB maintain its strategic focus or widen assistance to other sectors, geographic areas, and agencies. Should any areas of assistance be discontinued or phased out.
- (ii) Can the development effectiveness of ADB's assistance in Bhutan be improved, if so, how. How can the objectives of the Paris Declaration be operationalized in ADB's future operations in Bhutan. What lessons can be derived for ADB's project preparation and implementation in Bhutan. How can capacity building efforts be strengthened. How can ADB enhance its support for private sector development.

2. The following evaluation framework (see Figure A3.1), which is based on elements of the ADB's *Guidelines for the Preparation of Country Assistance Program Evaluation Reports* will guide the CAPE approach.

Figure A4.1: Evaluation Framework¹



¹ Shaded areas to be assessed by CAPE

LOAN DISBURSEMENT RATIOS FOR ALL ADB COUNTRIES AND FOR BHUTAN

Item	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Project loans										
Total Loan Balance	30,500	33,343	25,831	20,203	27,186	48,227	33,895	57,717	54,723	129,640
Disbursements during period	1,962	6,695	7,336	4,710	6,999	12,453	4,599	4,761	4,269	29,405
Disbursement Ratio Bhutan	6.43%	20.08%	28.40%	23.31%	25.74%	25.82%	13.57%	8.25%	7.80%	22.68%
ADB average	18.3%	19.4%	16.3%	17.1%	14.2%	14.6%	16.5%	17.4%	20.3%	
All loans										
Total Loan Balance	42,014	39,739	31,995	20,203	27,186	48,227	33,895	68,958	62,229	137,000
Disbursements during period	6,861	6,695	13,853	4,710	6,999	12,453	4,599	8,904	4,269	29,405
Disbursement Ratio Bhutan	16.33%	16.85%	43.30%	23.31%	25.74%	25.82%	13.57%	12.91%	6.86%	21.46%
ADB average	20.5%	20.5%	22.2%	20.2%	17.7%	20.7%	20.7%	17.7%	29.5%	

Note: 2009 figures up to 31 October 2009 only.

Source: ADB loan and grant financial information services.

TERMS OF REFERENCE

A. ADB Staff

1. CAPE Team Leader (6 person-months of inputs)

1. The CAPE team leader will:

- (i) Review relevant background documentation on the country;
- (ii) Review alignment of ADB country strategies with Government development strategies and priorities for external assistance and assess the level of Government ownership of ADB country strategies through interviews with relevant Government and ADB officials;
- (iii) Assess whether ADB's country strategies for Bhutan were translated into effective operational (lending and non-lending) programs, and if so, how. If not, identify reasons;
- (iv) Review strategies and assistance programs of other development partners to assess whether and how ADB's country strategy and operational program complemented those of other development partners and were appropriately coordinated;
- (v) Assess whether selectivity, focus, continuity and sequencing of ADB programs in terms of sectors, geographic areas, counterpart institution and of project modalities/instruments were appropriate considering Government priorities, opportunities for reform, capacity of counterpart institutions, private sector opportunities, ADB's comparative advantage vis-à-vis other development partners, and effectiveness/impact considerations;
- (vi) Examine whether programs maximized potential for synergies between individual project interventions, for example between lending and non-lending interventions, or interventions in different sectors;
- (vii) Assess whether experience gained with individual projects was utilized in designing or implementing subsequent strategies and project interventions in the country;
- (viii) Obtain structured feedback from key Government and non-Government stakeholders on ADB's performance with regard to quality and responsiveness of strategy and program design and implementation, policy dialogue, knowledge transfer, and regional development and cooperation initiatives involving Bhutan;
- (ix) Obtain views from key informants and stakeholders on ADB's responsiveness to Bhutan's needs in terms of lending instruments and conditions, procurement and consultant recruitment policies and procedures, and safeguards and other policy requirements;
- (x) Assess whether ADB responded adequately, flexibly, and timely to changing and newly emerging country needs and Government demand for ADB assistance based on Government feedback;
- (xi) Assess how well ADB handled and resolved conflicts and contentious issues arising in conjunction with its operations in Bhutan;
- (xii) Analyze ADB's thematic work and assess whether these provided a comprehensive and accurate assessment of the situation in the country and was taken to a logical and practical conclusion that could be used for strategic planning;
- (xiii) Assess the development effectiveness of selected ADB assistance for strengthening private sector development;

- (xiv) Formulate lessons for future strategy for ADB operations;
- (xv) Consolidate findings of other relevant evaluation reports for the CAPE; and
- (xvi) Prepare CAPE report.

2. Senior Macroeconomic Evaluation Specialist (1.5 person-months)

2. This senior evaluation specialist will:

- (i) Assess relative sector contributions to economic growth since 1999;
- (ii) Identify and assess linkages between economic growth and poverty reduction at the national and district levels based on available data;
- (iii) Quantify the impact of hydropower investments on economic and social development;
- (iv) Assess linkages between sector outcomes/impacts of ADB sector assistance and development results;
- (v) Assess the importance of aid inflows for government capital/development and recurrent expenditures;
- (vi) Assess the development effectiveness of TA for public expenditure and fiscal management and the National Statistics Office;
- (vii) Assess the validity and application of project economic analysis for ADB road projects in Bhutan;
- (viii) Analyze ADB's economic work and assess whether these provided a comprehensive and accurate assessment of the situation in the country and was taken to a logical and practical conclusion that could be used for strategic planning; and
- (ix) Prepare a short write-up on above analysis and findings.

3. Senior Energy Sector Evaluation Specialist (2 person-months)

3. The senior energy sector evaluation specialist will:

- (i) Undertake a review of the Bhutan power sector during 1998–2008 period with special focus on following aspects;
 - a. Expanding network access to meet government's rural electrification targets
 - b. Cost recovery of power sector
 - c. Operational performance of sector entities
 - d. Attracting private sector investments to the sector
 - e. Impact of power exports in terms of foreign exchange revenues to the country and the cross subsidizing of domestic consumers;
- (ii) Identify the government's response to meeting key sector development challenges in terms of government's sector strategy and ADB's strategy in assisting the government in implementing the government strategy;
- (iv) Undertake assessments of ADB's energy sector assistance in terms of
 - a. Strategic Positioning Energy Sector Assistance Program
 - b. Contribution to development results
 - c. ADB's performance in designing and delivering the program; and
- (v) Undertake a detailed evaluation of the power sector loans and the advisory TA projects provided to Bhutan power sector in terms of relevance, efficiency, effectiveness, sector impacts and sustainability;
- (vi) Prepare a Technical Assistance Performance Evaluation (TAPE) of advisory technical assistance provided to Bhutan's energy sector;

- (vii) Prepare an Appendix for the CAPE on ADB's energy sector assistance in Bhutan evaluating its positioning, relevance, effectiveness, efficiency, and sustainability, as well as ADB's performance in project design and supervision; and
- (viii) Manage the international energy consultant.

4. Principal Evaluation Specialist (0.5 person-months)

4. The principal evaluation specialist will manage the preparation of a report by the international financial sector consultant on ADB's financial sector assistance in Bhutan evaluating its positioning, relevance, effectiveness, efficiency, and sustainability, as well as ADB's performance in project design and supervision.

5. Environmental Evaluation Specialist (0.5 person-months)

5. The environmental evaluation specialist will:

- (i) Identify potential environmental issues in the hydropower, road and urban infrastructure sectors in Bhutan and assess the Government's strategies, programs, and capacity for addressing them;
- (ii) Assess how environmental safeguards issues were addressed in ADB-financed projects in above sectors;
- (iii) Assess the adequacy of country systems for environmental safeguards;
- (iv) Obtain feedback from relevant government agencies and non-government stakeholders on how ADB can best contribute towards protecting the environment in Bhutan and benefit from global climate change initiatives; and
- (v) Prepare a short report on above findings.

6. National Officer (3 person-months)

6. The national officer will:

- (i) Source relevant ADB country strategy, program and project documents;
- (ii) Assist in mapping sector outputs and outcomes of ADB assistance;
- (iii) Obtain and summarize information on sector activities and outputs of other donors in Bhutan;
- (iv) Manage stakeholder formal surveys and analyze findings;
- (v) Assist in assessing the development effectiveness of finance, industry, and public sector management projects, and
- (v) Undertake other assignments related to the CAPE, as requested.

B. International Consultants**1. Power Sector Expert (0.5 person-months of inputs)**

7. A consultant with previous experience in the evaluation of energy projects will be recruited to:

- (i) Assess how the financial performance of the power sector has evolved since the corporatization of power sector with the setting up of BPC in comparison to the performance of the sector prior to the setting up of BPC. The assessment should pay particular attention to the following issues:
 - Adequacy of domestic power tariff for recovery of transmission and distribution cost recovery and to the recovery of the generation cost (i.e. financial cost as well as opportunity cost of forgone power exports to India). This assessment should be undertaken for different consumer categories and especially for rural consumers. Any cross subsidies from urban and industrial consumers to rural consumers should be identified and make an assessment of the sustainability of these subsidies.
 - Adequacy of wheeling charges to cover the transmission investments and the degree of subsidization of domestic operations of BPC by wheeling charges.
 - Adequacy of power export prices to cover the debt service of the projects concerned and provide adequate return on government use and use of natural resource.
 - The contribution of power exports to national budget exports and identify any macroeconomic impacts.
 - The economic impacts of subsidized tariffs for industries in Bhutan and its sustainability.
 - Assess the financial performance of BPC as a going concern given the highly ambitious rural electrification program.
 - Assess the overall economic impacts of high investment commitment for export oriented power generation in terms of increase in national debt, export earnings, government revenues and sectoral impacts in terms of increased investment requirement for power transmission and increase revenues from wheeling charges.
- (ii) Based on above analysis make an assessment on the overall financial sustainability of the power sector and how the ADB supported projects and policy dialogue contributed to ensuring the financial sustainability of the sector; and
- (iii) Identify any key outstanding issues and development challenges that may adversely impact on the sector performance.

2. Road Sector Expert (1 person-month of inputs)

8. A consultant with wide-ranging experience in road sector development in developing countries will be recruited to:

- (i) Assess the validity of ADB's transport sector development strategies in Bhutan;
- (ii) Evaluate ADB-financed transport sector assistance programs and assess their relevance, effectiveness, efficiency, sustainability, and impacts;

- (iii) Identify critical factors affecting executing agency capacity and performance in the roads subsector and evaluate the effectiveness of ADB's approaches to addressing identified capacity problems;
- (iv) Identify any technical issues for ADB road projects in the country with regard to road surfacing technology being used, the quality of construction, road safety parameters, axle loading, and road maintenance. Assessment will be based on a review of all technical aspects of roads design, construction, and operation and maintenance;
- (v) Participate in key-informant/focus group interviews with appropriately selected stakeholder/beneficiaries of ADB's assistance on outcome and impact of ADB assistance;
- (vi) Identify any ADB performance issues;
- (vii) Formulate recommendations on how to further improve on capacity development and performance of counterpart EA/IAs in Bhutan;
- (viii) Assess the scope, strategies and modalities for private sector involvement in the construction and maintenance of roads;
- (ix) Make recommendations on how to address identified sector assistance issues; and
- (x) Prepare and present a report in prescribed format on findings for points (i) to (ix).

3. Urban Development Expert (1 person-month of inputs)

9. A consultant with previous exposure to ADB work and urban development issues in South Asia will be recruited to:

- (i) Assess the validity of ADB's urban infrastructure development strategy in Bhutan
- (ii) Review ADB-financed urban development assistance programs and assess their relevance, effectiveness, sustainability, and impact towards the strategic objectives and development needs for the sector;
- (iii) Undertake key-informant/focus group interviews with selected beneficiaries of ADB's assistance on outcomes and impact of ADB assistance;
- (iv) Discuss with EAs and other government and non-government entities urban development issues and concerns;
- (v) Identify institutional issues affecting the implementation ADB sector projects based on a review of project implementation documents, evaluation reports, and feedback from relevant Government entities, EAs, and ADB project staff;
- (vi) Identify critical factors affecting EA capacity and performance in the urban sector at the central and local Government levels, as well as related Government capacity development efforts at the individual, organizational, and policy levels;
- (vii) Evaluate the effectiveness of ADB's approaches to addressing identified capacity problems; and
- (viii) Prepare and present report in prescribed format on findings for points (i) to (vii).

4. Financial Sector Expert (0.5 person-month of inputs)

10. A consultant with previous exposure to ADB work and broad-based experience in financial sector development issues will be recruited to:

- (i) Assess the validity of ADB's financial sector development strategies in Bhutan;
- (ii) Evaluate ADB-financed sector assistance programs and assess their relevance, effectiveness, efficiency, sustainability, and impacts;

- (iii) Identify critical factors affecting executing agency capacity and performance in the relevant sectors and evaluate the effectiveness of ADB's approaches to addressing identified capacity problems;
- (iv) Assess ADB's performance in the design and supervision of sector assistance projects; and
- (v) Prepare and present report in prescribed format on findings for points (i) to (iv).

5. Impact Evaluation Expert (2 person-months of inputs)

11. A consultant with impact evaluation expertise and knowledge of Bhutan will:

- (i) Collect and collate relevant socio-economic data to help establish a link between ADB projects and development outcomes;
- (ii) Design and implement stakeholder/beneficiary surveys to evaluate the likely socio-economic impact associated with 2 feeder roads that are being constructed under the Road Network Project and the upgrading of the East-West Highway, which will include the:
 - a. design of the structured questionnaires
 - b. selection of the interviewees and survey participants (beneficiaries and non-beneficiaries)
 - c. preparation of timetable and modalities for interviews/surveys
 - d. testing of questionnaires
 - e. recruitment and supervision of enumerators undertaking the surveys
 - f. implementation of surveys
 - g. analysis of findings from stakeholder/beneficiary surveys;
- (iii) Conduct a tracking study for beneficiaries of the Basic Skills Development Project;
- (iv) Assess socio-economic benefits associated with microfinance loans extended under the Micro, Small, and Medium-Sized Enterprise Sector Development Project; and
- (v) Present findings in a report.

C. Domestic Consultants

1. Domestic Consultant (2 person-months of total inputs)

12. A domestic consultant will be recruited to:

- (i) Organize key-informant and focus group interviews;
- (ii) Arrange meetings for international consultants; and
- (iii) Undertake other assignments related to the CAPE, as required.