

MANAGEMENT RESPONSE TO THE COUNTRY ASSISTANCE PROGRAM EVALUATION FOR BHUTAN

On 13 September 2010, the Director General, Independent Evaluation Department, received the following response from the Managing Director General on behalf of Management:

I. General Comments

1. We appreciate the overall assessment that ADB's assistance during 2001-2009 was successful. The CAPE notes: "ADB assistance in Bhutan was well aligned with country development needs, government development priorities, and Strategy 2020". Before responding to key recommendations, we would like to highlight a few points.

2. **Aid Coordination:** The CAPE states: "While ADB cooperated well with the Austria Development Cooperation and the Japan International Cooperation Agency (JICA), particularly with regard to power sector assistance, most bilateral agencies interviewed by ADB were unfamiliar with ADB activities and had limited interaction with ADB staff" (para. 96). We would like to first note that in the power and road sectors—two of the four focus sectors of ADB operations in Bhutan—the key development partners are multilateral institutions such as the World Bank. With respect to bilateral agencies, India is the largest donor, but it does not participate in aid coordination meetings as it considers itself a development partner, and not a donor.¹ In addition, given the low physical presence of bilateral development partners in Thimphu, most of whom work in sectors which are not Country Partnership Strategy (CPS) focus areas, most of the coordination work is done by the United Nations Development Programme (UNDP). ADB staff has regularly kept UNDP updated on ADB's work in Bhutan; this information is then disseminated by UNDP. Given the active engagement with key donors in ADB's four focus areas, we disagree with the "Not implemented" and comment in Table 2 of the CAPE regarding donor coordination and mobilization of cofinancing.

3. **Midterm Review of the CPS:** The CAPE statement that the midterm review for the current Country Strategy and Program was delegated to a staff consultant (para. 96) should be corrected. The midterm review was led by a senior ADB staff who had worked on Bhutan operations for five years. A consultant assisted with data collection, but the work was done by ADB staff.

¹ Notwithstanding the above, during Country Program Missions, ADB staff have regularly called on the Development Counselor at the Indian Embassy in Thimphu.

II. Comments on Specific Recommendations

4. **Recommendation 1: Results Orientation.** We agree. We note that the CPS under review was the second CPS prepared in ADB under the Managing for Development Results framework. Given the data limitations in Bhutan, ADB has provided sustained assistance to the Statistics Division to generate and strengthen existing baseline data. The approval and publication of the new guidelines on Preparing Results Frameworks and Monitoring Results: Country and Sector Levels; and the training sessions on results-based CPS and sector assessments, and the results-based Country Portfolio Review Mission will enhance the results orientation in the preparation in 2013 of the next CPS (2014-2018) in alignment with the country's development priorities in the forthcoming Government of Bhutan's 11th Five-Year Plan (FY2013-2018); an Interim CPS (2011-2013) will be processed in 2011 to cover the remaining period of the Government's 10th Five-Year Plan.

5. **Recommendation 2: Capacity Development.** We agree. Weak capacity is a critical obstacle to achieving aid effectiveness in Bhutan. A comprehensive and accurate assessment of institutional capacity development needs is fundamental to providing demand-based capacity interventions and developing sustainable institutional capacity in the future. To develop capacities, for each of the five years covered by the CPS, two-thirds of the annual technical assistance was directed for local capacity enhancement.

6. **Recommendation 3: Gender, Private Sector Development, Environmental Impact Assessments and Management, and Service-Delivery at Local Government Level Mainstreaming.** We agree, but with a clarification regarding sub-item (iii) of this recommendation. Recommendation 3(iii), which requires assistance for environmental impact assessments, particularly for the hydropower sector at the district level, can only be operational if requested by the Government. Currently, hydropower is handled at the central level, and ADB needs to respect Bhutan's internal arrangements.

7. **Recommendation 4: Economic Efficiency of Future Rural Connectivity Projects.** We agree. The recommendation on the review and adaptation of the economic analysis for rural roads in line with country conditions is noted, and a proper economic model for analyzing economic returns for rural roads will be reevaluated for new rural road projects. Rural electrification projects have been set up for on-grid and off-grid bases subject to economic cost benefit assessments. Where the grid connection is economically unfeasible, off-grid solar home systems plan will be installed. As complementary energy sources, biogas and wind are being built in a packaged approach to ensure overall economic and resource efficiency for the proposed 2010 rural electrification project.

8. **Recommendation 5: Sustainability of ADB Operations.** We agree. The recommendation on improving the sustainability of ADB operations through (i) systematic policy dialogue on adequate budget provisions for self-financing mechanisms for operation and maintenance of infrastructure; (ii) ADB financing of maintenance equipment; and (iii) adequate TA for building institutional capacity at central and local levels for operations and maintenance of

infrastructure is noted. In the energy sector, focus will be on the operations and maintenance of the systems and the study of the business model. In the transport sector, the focus is on developing modern road technologies and road management system, including workshop and training in further raising the awareness of importance of road maintenance. In the urban sector, the focus on the development of operations and maintenance capacity requires training of core staff, procurement of relevant equipment, and establishment of processes and systems.

9. **Recommendation 6: Implementation Efficiency.** We agree. In particular, with respect to sub-item (i) regarding establishment of an in-country presence, we note that discussion within ADB has commenced, and establishment of an in-country presence in 2011, the recommended timeframe, may be possible.

10. **Recommendation 7: Adaptation to Changing Country Conditions.** We cannot agree at this time as it will be the Government's decision whether to expand assistance for integrated urban development and for government employment-generation initiatives. We will of course provide all necessary support if so requested by the Government. Sustaining strong economic growth is likely to remain a central pillar of the next CPS and coupled with private sector growth provide a more sustainable basis to support employment and income generation.