



Completion Report

Project Number: 48911-001
Technical Assistance Number: 8770
September 2017

Bhutan: Development of Non-energy Private Sector Projects

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TA Number, Country, and Name:			Amount Approved: \$225,000.00	
TA 8770-BHU: Development of Non-energy Private Sector Projects			Revised Amount: NA	
Executing Agency: Druk Holding and Investments Limited (DHI)		Source of Funding: TA SF-Other Sources	Amount Undisbursed: \$78,000.00	Amount Utilized: \$147,000.00
TA Approval Date: 21 Nov 2014	TA Signing Date: 21 Nov 2014	Fielding of First Consultant: 20 Jul 2015	TA Completion Date Original: 31 Mar 2015	Actual: 31 Aug 2016
			Account Closing Date Original: 31 Mar 2015	Actual: 31 Oct 2016
Description				
<p>To broaden the economic base of Bhutan and make its growth more inclusive, the Government of Bhutan tasked Druk Holding and Investments Limited (DHI) to identify new industries where commercially viable private sector projects could be developed and create more employment opportunities. DHI is an investment company wholly owned by the government. ADB proposed a small-scale project preparatory technical assistance (S-PPTA) to support the government's initiative and assisted DHI in implementing the task. In November 2014, ADB approved the provision of a S-PPTA for DHI in an amount not exceeding the equivalent of \$225,000 for the Development of Non-energy Private Sector Projects.¹ The S-PPTA was funded solely by way of grants from ADB's technical assistance special fund (TASF-other sources). ADB's support was aligned to the promotion of private sector development.</p> <p>The S-PPTA aimed to (i) assess three business categories which DHI had considered (i.e., agriculture, pharmaceutical, and eco-business), and evaluate commercial viability and strategic fit to DHI's existing operations; (ii) propose business plans and/or projects in each category that are feasible and bankable; and (iii) structure suitable financing plans for the proposed projects. The executing agency was DHI and implementing agency was ADB. ADB's Infrastructure Finance Division 1 (PSIF1) was responsible for the recruitment of the consulting firm, negotiation of the contract terms, and supervision of the consulting services during implementation with support from the Operations Services and Financial Management Department (OSFMD).</p>				
Expected Impact, Outcome, and Outputs				
<p>Impact. The development impact of the S-PPTA is increased investment in non-hydro power sectors in Bhutan. Outcome. The outcome of the S-PPTA is potential investment into commercially viable economic activities based on the recommended business plans. Outputs. The output of the S-PPTA is a final consultant's report, which includes (i) commercially viable plans for new businesses and/or projects, and (ii) basic financing structures for the identified businesses/projects.</p>				
Delivery of Inputs and Conduct of Activities				
<p>The design and formulation of the S-PPTA is considered adequate. The concept of the TA was derived from a broad discussion between the Private Sector Operations Department (PSOD) of ADB and DHI on the company's long-term business vision. DHI, as the commercial arm of the government of Bhutan and the largest local investor in the country, had keen interest to develop commercially viable private businesses with the aim of diversifying the country's industrial and economic base. Although DHI had some preliminary concepts on what types of businesses to promote and focus on, they did not have all the required experience and skills in bringing such ideas into solid business plans. Hence, the S-PPTA was designed to engage skillful consultants to assist DHI in this project preparatory activity. Terms of reference were carefully designed in order to address DHI's requirements comprehensively.</p> <p>ADB, as the implementing agency (IA), carried out the consultant's recruitment, oversight, monitoring, and evaluation. The other role of the IA was to manage the interface between DHI and the consultant. The IA actively coordinated the two parties to ensure a productive and efficient workflow. The IA's activities were carried out in cooperation with DHI as the executing agency. DHI played an active part in the entire TA implementation process, provided information and/or comments to the consultant from time to time, and was diligent and responsive.</p> <p>IDRG Consultancy Services, a consulting firm in India, was engaged on an output-based (lump-sum) contract. The consultant was expected to review three industries mentioned above, recommend what industry is the most relevant</p>				

¹ ADB. 2014. *TA8770-BHU: Development of Non-energy Private Sector Projects (S-PPTA)*. Manila.

to DHI's objectives and maximize synergies with DHI's existing operations, and formulate business plans including funding strategy. Such funding strategy would consider utilization of private sector financing, particularly PSOD's loans/guarantees. The S-PPTA was implemented through the five components of the consulting firm's scope of work: (i) kick off and data gathering meeting, (ii) market analysis, (iii) formulation of business plans, (iv) formulation of financing strategy, and (v) deliverables. The consultant attended the kick off meeting on 19 Aug 2015 and data gathering was commenced immediately thereafter. In terms of performance, while demonstrating adequate knowledge and skills required under the S-PPTA, the consultant focused more on macro-economic aspects rather than on detailed elements of business planning. At times, they needed to refine their deliverables to cater to DHI's requirements more meaningfully.

ADB received a no objection from the government in February 2015, prior to the commencement of activities under the TA in Bhutan. All disbursements under the S-PPTA were made in accordance with ADB's Technical Assistance Disbursement Handbook (2010, as amended from time to time). ADB, in coordination with DHI, provided in-depth review of the consultant's initial, interim, and final reports.

No change was made on the consulting activities during implementation, except that the TA completion date was extended from the original target of March 2015 to the actual date of August 2016. Extension of time was sought to gather more information to capture changing market dynamics so that business strategies could be defined more clearly, and to formulate up-to-date financial, operational, and economic assumptions for the detailed cash flow analyses. A review mission was not deemed necessary.

Evaluation of Outputs and Achievement of Outcome

The main output of the S-PPTA was the consultant's final reports as provided in the design and monitoring framework (DMF). Two reports were submitted for agriculture and pharmaceutical businesses, while the original requirement was submission of three reports including eco-business. By way of background, the consultant recommended at an early stage of the assessment that DHI consider dropping the eco-business because the range of businesses classified in this category are too broad, and many of them are overlapped with other industry categories. Alternatively, the consultant suggested that they would explore eco-friendly agriculture and pharmaceutical businesses, and DHI agreed with it. The final reports included: (i) overall market analysis on each industry; (ii) recommendations on commercially viable business plans, and (iii) a conceptual funding strategy and possible financing structures.

The outcome of the S-PPTA under DMF is business plans agreed and accepted by DHI. Overall, the final reports were satisfactory in that they met the requirements under the terms of reference thereby addressing DHI's major business requirements under the TA. The consultant came up with plans of establishing an integrated fruits and vegetables processing unit for the agriculture business, and an integrated formulation unit for the pharmaceutical business. The business plans were designed to take advantage of Bhutan's relatively low costs of workforce and utilities, and suggested the utilization of the country's hazard-free raw materials to be eco-friendly. The recommended business plans, although somewhat novel in the context of Bhutan, did not look particularly innovative. Nonetheless, DHI accepted the reports as a basis of internal discussion and consideration. DHI would examine the recommended business plans, and would subsequently seek management approval to put it into action, as appropriate.

Overall Assessment and Rating

The S-PPTA is considered successful for its relevance to DHI's objectives. According to the Country Partnership Strategy (CPS) for Bhutan, 2014-2018, the country urgently needs to broaden its economic base and make its growth more inclusive. Reformation of industrial structure is therefore the key to success. The CPS also mentions that private sector development is important for economic diversification and generation of employment. The outcome of the S-PPTA is fully aligned with these development priorities. It has the potential to address many of these issues once the business plans materialize.

The S-PPTA's resources were utilized in an efficient manner. Considering the amount of time and workload put into it, the cost of the S-PPTA was reasonable. The TA was underutilized mainly due to variances between budgeted and actual costs. From a sustainability perspective, the S-PPTA is considered to have achieved its objective, as it has prepared DHI to proceed to the next phase of the business development for consideration of a potential ADB NSO financing.

Major Lessons

The challenge was to find a capable consultant within the limited budget. DHI was seeking a single consulting firm that is equipped with thorough understanding and robust experience in three completely different industries - agriculture, pharmaceuticals, and eco-business. Moreover, the consultant had to be familiar with Bhutan and its economy. The recruitment process took much longer than what was originally anticipated as there was limited appetite in the market due to the highly complex selection criteria. The recruitment process would have been more efficient had it narrowed down the scope of work, or split the TA in phases such that the target industries were explored one at a time.

Recommendations and Follow-Up Actions

ADB will continue working with DHI to explore options for further financial assistance for the company's business development.

Prepared By: Ichiro Aoki

Brian Cafirma

Designation and Division: Investment Specialist, Infrastructure Finance Division 1

Designation and Division: Associate Project Analyst, Portfolio Management Division