

1. Project Data:		Date Posted : 02/26/2009		
PROJ ID : P078807			Appraisal	Actual
Project Name :	Development Policy Grant I	Project Costs (US\$M):	15.0	15.5
Country:	Bhutan	Loan/Credit (US\$M):	15.0	15.5
Sector Board :	EP	Cofinancing (US\$M):		
Sector(s):	Central government administration (35%) General industry and trade sector (25%) Health (15%) Primary education (15%) General finance sector (10%)			
Theme(s):	Education for all (29% - P) Public expenditure financial management and procurement (29% - P) Legal institutions for a market economy (14% - S) Population and reproductive health (14% - S) Infrastructure services for private sector development (14% - S)			
L/C Number:	CH223			
		Board Approval Date :		05/25/2006
Partners involved :		Closing Date :	04/30/2007	04/30/2007
Evaluator :	Panel Reviewer :	Group Manager :	Group :	
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## 2. Project Objectives and Components:

### a. Objectives:

The overarching objective of the Development Policy Grant program (this operation, DPG 1, being the first in a planned series of two) was to strengthen Bhutan's ongoing reform program articulated in its Ninth Five Year Plan (FY03-08), through support for four sub-objectives.

- Improved delivery of public services, by maintaining a sound macroeconomic framework, strengthening fiscal management, and bolstering financial management;
- Private sector growth, through improvements in the investment climate and greater labor market flexibility;

- iii. Progress in education, through increasing access to and quality of educational services; and,
- iv. Better health outcomes especially in maternal mortality, by increasing the number of births delivered in health facilities.

**b. Were the project objectives/key associated outcome targets revised during implementation?**

No

**c. Components (or Key Conditions in the case of DPLs, as appropriate):**

Parallel to the objectives, DPG 1 had four components.

- i. Maintenance of a sound macroeconomic framework and strengthened fiscal policy, with focus on macroeconomic monitoring, debt management and budget preparation and implementation, and public financial management and procurement. Up-front actions were the adoption of a Medium Term Fiscal Framework, endorsed by the Council of Ministers (COM), and submission of a draft Public Finance Act to the COM;
- ii. Private sector growth, with focus on labor market reform and reforms to create an enabling environment for foreign direct investment. Up-front actions were submission of a draft Labor and Employment Act to the COM, streamlining the process for recruiting foreign workers, and approval of Foreign Direct Investment rules and regulations;
- iii. Education reform with focus on access to basic education and quality. Up-front actions were the establishment by the government of 23 new community primary schools (CPS) in remote and/or underserved areas, and the development of a curriculum framework for English from classes pre -primary to 12; and,
- iv. Health sector reform, with focus on maternal health and reduction in sexually transmitted diseases. The up-front action was development of a draft strategy to increase institutional deliveries (child birth) and selection of two districts for the strategy to be piloted.

**d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:**

There was no cofinancing. DPG 1 was approved on May 25, 2006 for US\$15 million and disbursed at effectiveness on June 7, 2006.

**3. Relevance of Objectives & Design:**

The DPG program objectives and design were relevant. They were based on the government's own priorities, goals and reform agenda, as outlined in its PRSP. They were also consistent with the strategic priorities identified by the Bank in its Country Assistance Strategy for FY 06-09. While the DPG program supported all of the CAS's pillars it did so selectively and focused on a few subobjectives taking into account the limited technical capacity in the country.

Most of the policy actions that were supported by the program were focused on institutional change and capacity building. Thus, the project development indicators as well as the progress indicators were primarily outputs rather than outcomes.

**4. Achievement of Objectives (Efficacy):**

**(a) Ensuring the maintenance of a sound macroeconomic framework, strengthening fiscal policy, and bolstering financial management.**

With support from DPG 1, a Macroeconomic Framework Coordination Committee, together with a technical subcommittee, was created at the end of 2005 to bring together inputs from various parts of government and integrate these into a coherent framework so as to be able to prepare reliable macroeconomic and fiscal projections. DPG 1 also included training to improve internal and external debt monitoring and prepare the government to eventually carry out its own debt sustainability analyses.

The DPG program also supported implementation of the government's new Public Finance Act and helped introduce annual budget preparation within a medium-term fiscal framework. For the first time, the 2007/08

budget included a three year fiscal framework . The reforms in budgetary preparation and procedures should help improve management of the traditional volatility of Bhutan's budget, resulting from the small size and openness of the economy .

A main purpose of the new Public Finance Act (a draft of which was a prior action for DPG 1; the Act was submitted to the National Assembly in June 2007) was to improve the legal and institutional framework for public financial management. An important first achievement was improved government financial statements . For the first time, the Annual Financial Statement for the year 2005/06 was prepared within a period of six months of the close of the financial year and submitted for audit, and the Department of Public Accounts prepared consolidated in-year financial statements for the six months ending December 31, 2006.

In order to strengthen the legal framework for procurement, a revised procurement manual was issued as a prior action for DPG 2. In addition, a Public Procurement Policy Division was created to improve procurement management.

Efficacy in this area is rated substantial.

**(b) Enhancing the investment climate for private sector growth and employment generation**

A key prior action for DPG 1 was the submission to the Council of Ministers of a draft Labor and Employment Act. The Act was submitted to the National Assembly as a prior action for DPG 2 and came into force in Feb. 2007. The Act marks the beginning of comprehensive labor legislation in Bhutan . Labor protection has increased without compromising labor market flexibility . The process of recruiting foreign workers has been streamlined with a substantial reduction in the time needed for foreign workers to obtain work permits .

In addition, rules and regulations governing foreign direct investment were eased and simplified, a private sector development strategy was prepared, and the business registration process was simplified . Initial results are promising: the number of FDI enquiries rose from 14 in 2005 to 30 in 2007, and the number of FDI projects rose from two in 2000 to ten in 2007. Starting a business and becoming an incorporated entity had required 11 steps and 62 days in 2005, but only ten steps and 43 days by April 2007.

Efficacy in this area is rated substantial.

**(c) Augmenting the quality of and access to education**

The focus was on access to basic education and the development of new Community Primary Schools (CPSs) in remote and/or underserved areas. Prior actions for DPG 1 included the establishment of a specified number of new CPSs with substantial community ownership . Primary enrollment rates have grown significantly . The DPG program was an important factor in an increase in net primary enrollment from 79 percent in 2006 to almost 84 percent currently, and an increase in gross primary enrollment from 88 percent in 2005 to above 100 percent currently . To enhance education quality, new curricula have been developed with support from DPG 1. The DPG program also supported efforts to strengthen the education management information system : improved information on education outcomes is expected in the near future .

Efficacy in this area is rated substantial.

**(d) Improving health care utilization**

Efforts to reduce maternal mortality and morbidity by increasing the utilization of skilled birth attendants have yielded results. The proportion of births delivered in health facilities has grown from 40 percent in 2004 to 55 percent in 2008. Progress has been made also in the use of better drugs to control sexually transmitted diseases. Progress in the management of health care facilities, and consequent improvement in the quality of health care, has been slow.

Efficacy in this area is rated substantial.

**5. Efficiency (not applicable to DPLs):**

N.A.

**a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation :**

	Rate Available?	Point Value	Coverage/Scope*
Appraisal		%	%
ICR estimate		%	%
* Refers to percent of total project cost for which ERR/FRR was calculated.			

## 6. Outcome:

Many of the more important actions planned under DPG 1 were "prior" actions and they were all met. Good progress was also made towards most project development and intermediate outcome indicators. Key achievements include an improved budget preparation process, strengthened financial audit and procurement practices, more flexible labor markets, simplification in the business registration process, improved access to basic education and increased use of skilled birth attendants.

At the same time, there were some delays such as in the development of the country's ability to generate debt sustainability analyses and in the construction of the Ministry of Finance's website.

**a. Outcome Rating :** Satisfactory

## 7. Rationale for Risk to Development Outcome Rating:

While there have been major political changes in Bhutan over the course of the DPG program, including a transition to democracy and a new elected government in 2008, the political risk is low given the government's strong ownership of the program and its achievements. The greater capacity to forecast macroeconomic developments, as a result of the program, should help reduce risks associated with external shocks. Bhutan's limited technical capacity is another risk, but the design of the program was sufficiently selective and simple and there was adequate support for capacity building.

**a. Risk to Development Outcome Rating :** Negligible to Low

## 8. Assessment of Bank Performance:

The Bank worked closely with the government to prepare a program that was well-aligned with the government's PRSP and the Bank's CAS. Close contact with other donors was also maintained. The Bank identified the major risks involved--limited technical capacity, vulnerable economy, political transition--and built in remedial measures to counteract the risks. During supervision a continuous dialogue was maintained not only with the government but also with other Bank teams working on related projects.

**a. Ensuring Quality -at-Entry:** Satisfactory

**b. Quality of Supervision :** Satisfactory

**c. Overall Bank Performance :** Satisfactory

## 9. Assessment of Borrower Performance:

Probably the most significant development in Bhutan during the period of implementation of the DPG program was the ongoing political transition to democracy. Notwithstanding, the program was kept on track. Implementation was facilitated by the coordination provided by the implementing agency, the Department of Aid and Debt Management in the Ministry of Finance. In spite of the focus and the simplicity of the program, there were some delays as discussed in section 6 above.

**a. Government Performance :** Satisfactory

**b. Implementing Agency Performance** :Satisfactory

**c. Overall Borrower Performance** :Satisfactory

**10. M&E Design, Implementation, & Utilization:**

The monitoring and evaluation system was designed around the policy program matrices, with target date results and intermediate progress indicators together constituting the results framework . Most of the results were outputs rather than outcomes and for the few that were quantified it was generally difficult to find data . Implementation was done well: steps taken by the government and achievements were monitored against the indicators in the matrix. The mix of qualitative and quantitative information obtained was well used, not only as a monitoring tool but also to highlight data gaps and point to needed improvements .

**a. M&E Quality Rating** : Substantial

**11. Other Issues (Safeguards, Fiduciary, Unintended Positive and Negative Impacts):**

<b>12. Ratings :</b>	<b>ICR</b>	<b>IEG Review</b>	<b>Reason for Disagreement / Comments</b>
<b>Outcome:</b>	Satisfactory	Satisfactory	
<b>Risk to Development Outcome:</b>	Negligible to Low	Negligible to Low	
<b>Bank Performance :</b>	Satisfactory	Satisfactory	
<b>Borrower Performance :</b>	Highly Satisfactory	Satisfactory	See Section 9. There were some delays which negate a highly satisfactory rating .
<b>Quality of ICR :</b>		Satisfactory	

**NOTES:**

- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate .

**13. Lessons:**

There are a number of useful lessons to be drawn from this ICR .

- In challenging conditions, such as during the political transition situation in Bhutan, cross sectoral development policy lending is appropriate because it can promote continuity in the government's reform program.
- In countries with weak technical capacity, institution and capacity building efforts are essential for success.
- Close alignment of up-front actions with the country's own development program helps ensure ownership and success.
- An improvement in basic data would allow for more effective and better targeted interventions and more accurate measures of success .

**14. Assessment Recommended?** ☐ Yes ☒ No

**15. Comments on Quality of ICR:**

The ICR contains the necessary information to make evaluative judgments on the impact of the program . At the same time, it lacks discipline. As examples, the data sheet contains numerous errors on dates, and Table 1 is meant to convey "economic" volatility but is unclear on what is being measured .

**a.Quality of ICR Rating :** Satisfactory