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IMPLEMENTATION COMPLETION AND RESULTS REPORT

ON A

CREDIT

IN THE AMOUNT OF SDR 18.4 MILLION
(US\$27.58 MILLION EQUIVALENT)

TO THE

THE KINGDOM OF BHUTAN

FOR THE

DEVELOPMENT POLICY GRANTS 1 AND 2

November 21, 2008

Poverty Reduction and Economic Management
Finance and Private Sector Development Unit
Bhutan Country Management Unit
South Asia Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective October 20, 2008)

Currency Unit = Ngultrum (Nu)

US\$ 1.00 = 43.25 Nu

FISCAL YEAR

July 1 – June 30

ABBREVIATIONS AND ACRONYMS

BCCI	Bhutan Chamber of Commerce and Industry
BPFFS	Budget Policy and Fiscal Framework Statement
CAS	Country Assistance Strategy
DANIDA	Danish International Development Assistance
DADM	Department of Aid & Debt Management
DPG	Development Policy Grant
DPG1	First Development Policy Grant
DPG2	Second Development Policy Grant
EMIS	Education Management Information System
GDP	Gross Domestic Product
GNH	Gross National Happiness
ICR	Implementation Completion Report
IDF	Institutional Development Fund
M&E	Monitoring and Evaluation
MFCC	Macroeconomic Framework Coordination Committee
MTFF	Medium Term Fiscal Framework
MYRB	Multi-Year Rolling Budgets
PD	Program Document
PDO	Program Development Objective
PRSP	Poverty Reduction Strategy Paper
SMEs	Small and Medium Enterprises
RGoB	Royal Government of Bhutan
UNDP	United Nations Development Program
UNICEF	United Nations Children's Fund
WHO	World Health Organization

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Country Director: Marco Scuriatti (Acting)

Sector Manager: Miria Pigato

Task Team Leader: Christian Eigen-Zucchi

ICR Team Leader: Ananya Basu

KINGDOM OF BHUTAN
Series of Two Programmatic Development Policy Grants 1 and 2

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MAP No 33373R

A. Basic Information			
Program 1			
Country	Bhutan	Program Name	Development Policy Grant I
Program ID	P078807	L/C/TF Number(s)	IDA-H2230
ICR Date	11/26/2008	ICR Type	Core ICR
Lending Instrument	DPL	Borrower	ROYAL GOVERNMENT OF BHUTAN
Original Total Commitment	XDR 10.4M	Disbursed Amount	XDR 10.4M
Implementing Agencies			
Department of Aid & Debt Management, Ministry of Finance			
Cofinanciers and Other External Partners			
Program 2			
Country	Bhutan	Program Name	Second Development Policy Grant
Program ID	P104931	L/C/TF Number(s)	IDA-H3060
ICR Date	11/26/2008	ICR Type	Core ICR
Lending Instrument	DPL	Borrower	ROYAL GOVERNMENT OF BHUTAN
Original Total Commitment	XDR 8.0M	Disbursed Amount	XDR 8.0M
Implementing Agencies			
Department of Aid & Debt Management, Ministry of Finance			
Cofinanciers and Other External Partners			

B. Key Dates				
Development Policy Grant I - P078807				
Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	01/24/2002	Effectiveness:	04/08/2003	04/08/2003
Appraisal:	03/25/2002	Restructuring(s):		
Approval:	05/30/2002	Mid-term Review:		
		Closing:	04/30/2007	04/30/2007

Second Development Policy Grant - P104931				
Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	01/24/2002	Effectiveness:	04/08/2003	04/08/2003
Appraisal:	03/25/2002	Restructuring(s):		
Approval:	05/30/2002	Mid-term Review:		
		Closing:	06/30/2008	06/30/2008

C. Ratings Summary

C.1 Performance Rating by ICR

Development Policy Grant I - P078807

Outcomes	Satisfactory
Risk to Development Outcome	Low or Negligible
Bank Performance	Satisfactory
Borrower Performance	Highly Satisfactory

Second Development Policy Grant - P104931

Outcomes	Satisfactory
Risk to Development Outcome	Low or Negligible
Bank Performance	Satisfactory
Borrower Performance	Highly Satisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)

Development Policy Grant I - P078807

Bank	Ratings	Borrower	Ratings
Quality at Entry	Satisfactory	Government:	Not Applicable
Quality of Supervision:	Satisfactory	Implementing Agency/Agencies:	Not Applicable
Overall Bank Performance	Satisfactory	Overall Borrower Performance	Highly Satisfactory

Second Development Policy Grant - P104931

Bank	Ratings	Borrower	Ratings
Quality at Entry	Satisfactory	Government:	Not Applicable
Quality of Supervision:	Satisfactory	Implementing Agency/Agencies:	Not Applicable
Overall Bank Performance	Satisfactory	Overall Borrower Performance	Highly Satisfactory

C.3 Quality at Entry and Implementation Performance Indicators			
Development Policy Grant I - P078807			
Implementation Performance	Indicators	QAG Assessments (if any)	Rating:
Potential Problem Program at any time (Yes/No):	No	Quality at Entry (QEA)	None
Problem Program at any time (Yes/No):	No	Quality of Supervision (QSA)	None
DO rating before Closing/Inactive status	Satisfactory		

Second Development Policy Grant - P104931			
Implementation Performance	Indicators	QAG Assessments (if any)	Rating:
Potential Problem Program at any time (Yes/No):	No	Quality at Entry (QEA)	None
Problem Program at any time (Yes/No):	No	Quality of Supervision (QSA)	None
DO rating before Closing/Inactive status	Satisfactory		

D. Sector and Theme Codes		
Development Policy Grant I - P078807		
	Original	Actual
Sector Code (as % of total Bank financing)		
Central government administration	35	35
General finance sector	10	10
General industry and trade sector	25	25
Health	15	15
Primary education	15	15
Theme Code (Primary/Secondary)		
Education for all	Primary	Primary
Infrastructure services for private sector development	Secondary	Secondary
Legal institutions for a market economy	Secondary	Secondary
Population and reproductive health	Secondary	Secondary
Public expenditure, financial management and	Primary	Primary

procurement		
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Second Development Policy Grant - P104931		
	Original	Actual
Sector Code (as % of total Bank financing)		
Central government administration	43	43
General education sector	6	6
General industry and trade sector	21	21
Health	15	15
Primary education	15	15
Theme Code (Primary/Secondary)		
Education for all	Primary	Primary
Improving labor markets	Secondary	Secondary
Population and reproductive health	Secondary	Secondary
Public expenditure, financial management and procurement	Primary	Primary
Regulation and competition policy	Secondary	Secondary

E. Bank Staff		
Development Policy Grant I - P078807		
Positions	At ICR	At Approval
Vice President:	Isabel M. Guerrero	Praful C. Patel
Country Director:	Marco Scuriatti	Alastair J. McKechnie
Sector Manager:	Miria A. Pigato	Ijaz Nabi
Task Team Leader:	Christian Eigen-Zucchi	Vinaya Swaroop
ICR Team Leader:	Ananya Basu	
ICR Primary Author:	Ananya Basu	

Second Development Policy Grant - P104931		
Positions	At ICR	At Approval
Vice President:	Isabel M. Guerrero	Praful C. Patel
Country Director:	Marco Scuriatti	Alastair J. McKechnie
Sector Manager:	Miria A. Pigato	Ijaz Nabi
Task Team Leader:	Christian Eigen-Zucchi	Christian Eigen-Zucchi
ICR Team Leader:	Ananya Basu	
ICR Primary Author:	Ananya Basu	

F. Results Framework Analysis

Program Development Objectives (from Program Document)

These budget operations were a central part of the Bank's strategy to help the RGoB in implementing its poverty reduction strategy. The expected benefits from the operations as identified in the program document were to be:

- (i) Improved delivery of public services as a result of better public budget and financial management;
- (ii) Greater foreign direct investment and more job opportunities due to improvements in the investment climate and increased labor market flexibility;
- (iii) Higher school enrollment and completion, particularly in previously under served areas, as access to schooling services is expanding; and
- (iv) Better health outcomes in such critical areas as maternal mortality as a result of an increased number of births being delivered in health facilities

Revised Program Development Objectives (as approved by original approving authority)

None

(a) PDO Indicator(s)

Development Policy Grant I - P078807				
Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	The time taken to issue approval for foreign workers recruitment is reduced (with the long-term impact of more job opportunities and a better business environment).			
Value (quantitative or Qualitative)	3 months	3 weeks		9 days
Date achieved	11/01/2005	12/31/2006		02/28/2007
Comments (incl. % achievement)				
Indicator 2 :	The cost of setting up a business is reduced (with the long-term impact of fostering private sector development).			
Value (quantitative or Qualitative)	62 days	47 days		43 days
Date achieved	06/30/2005	12/31/2006		02/28/2007
Comments (incl. % achievement)	Recognizing the importance of business registration and regulations for new firms and existing firms, the RGoB has successfully reduced the number of days it takes an average firm to register in Bhutan from 62 to 43 days.			

Indicator 3 :	The quality and relevance of the English curriculum is improved (with the long-term impact of greater English proficiency among school leavers and a stronger skill set).			
Value (quantitative or Qualitative)	Outmoded curricula being used, emphasizing rote memorization.	The preparation of English textbooks and teachers guides for classes 5-8, 10 and 12.		Teacher training in new curriculum completed and in use at all levels.
Date achieved	10/03/2005	02/01/2007		11/01/2007
Comments (incl. % achievement)				

Second Development Policy Grant - P104931				
Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	More flexible labor markets, leading to better business environment for potential investors and better job opportunities.			
Value (quantitative or Qualitative)	The Labor and Employment Act was drafted, to balance needs of workers with private sector development objective, improving flexibility of labor markets.	Labor and Employment Act to be submitted to the National Assembly.		Labor and Employment Act enacted, and Rules and Regulations drafted.
Date achieved	12/30/2005	07/30/2007		07/31/2008
Comments (incl. % achievement)	The Act was passed in July 2006.			
Indicator 2 :	Strengthening macroeconomic framework by preparing forecasts.			
Value (quantitative or Qualitative)	Budgeting was needs based; lack of proper coordination amongst key economic agencies; projections usually done once in financial year (when budget report was prepared).	The Budget Call Notification for 2007/08 and 2008/09 included resource envelopes from the MTFF. The BPFSS statement and projections for future has been included in the 2007/08 budget.		This process has continued for the 2008/09 budget as well.
Date achieved	02/22/2006	06/30/2007		06/30/2008
Comments (incl. % achievement)				

Indicator 3 :	Wider access to schooling services, helping raise enrollment and completion.			
Value (quantitative or Qualitative)	Gross primary enrollment was 88%, net primary enrollment was 79%, and the number of community primary schools was 221.	Net primary enrollment to be 84% by 2009. CPSs expected to be 265 by end of FY 2009.		Gross primary enrollment was 106%, net primary enrollment was 84%, and the number of community primary schools was 249.
Date achieved	06/30/2006	06/30/2008		05/28/2008
Comments (incl. % achievement)	Number of CPSs expected to be 265 by FY 2009.			

(b) Intermediate Outcome Indicator(s)

Development Policy Grant I - P078807				
Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Establishing a functioning Medium Term Fiscal Framework with a commitment to a specific path of strategic fiscal policy variables (leading to improved fiscal management and macroeconomic performance).			
Value (quantitative or Qualitative)	Preliminary technical work undertaken.	The MTFF is circulated as a part of the annual budget preparation process in 2007-08, and budget numbers are increasingly in conformity.		Methodologies used to prepare macroeconomic projections were documented by the Ministry of Finance
Date achieved	10/31/2005	03/31/2007		03/31/2007
Comments (incl. % achievement)	Original targets were achieved as per timeline.			
Indicator 2 :	Increasing the proportion of births delivered in Essential Obstetric Care (EOC) facilities (leading to reduced maternal mortality).			
Value (quantitative or Qualitative)	26 percent of births delivered in EOCs	36 percent of births delivered in EOCs		36 percent of births delivered in EOCs
Date achieved	12/31/2004	06/30/2008		06/30/2008
Comments (incl. % achievement)				

Indicator 3 :	Improved treatment of Sexually Transmitted Diseases (STIs) and control of HIV/AIDS transmission (leading to the reduced prevalence of STIs).			
Value (quantitative or Qualitative)	0% of cases of selected STIs treated with drugs considered most effective.	30% of cases of selected STIs are treated with effective drugs by June 2007, rising to 50 % by June 2008.		STIs recorded a decline of 11.7% between 2005 and 2006 and of 17.2 % from 2006 to 2007.
Date achieved	05/01/2006	06/02/2008		03/31/2008
Comments (incl. % achievement)	Clearer indicators to show progress against targets are not available.			

Second Development Policy Grant - P104931				
Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Improving the debt management system.			
Value (quantitative or Qualitative)	RGoB was in the process of operationalizing CS-DRMS software for debt management, and planned to improve it under DPG2.	New debt management tools are operational as shown by the generation of regular reports on the debt and DSA undertaken.		The RGoB has produced preliminary debt reports using the system, and plans to generate debt sustainability analyses over the coming year.
Date achieved	05/31/2007	05/28/2008		06/30/2008
Comments (incl. % achievement)	Targets were achieved, and the process of reforms continues.			

Indicator 2 :	All teachers of English familiarized with content of newly developed grade-wise program of studies.			
Value (quantitative or Qualitative)	New English textbooks and teacher guides for grades 5-12, with teacher training in their use.	New English textbooks and teacher guides for PP to grade 4, with teacher training in their use, such that the curriculum now covers PP to grade 12.		New English textbooks and teacher guides for PP to grade 4, with teacher training in their use, such that the curriculum now covers PP to grade 12.
Date achieved	05/31/2007	05/30/2008		05/30/2008
Comments (incl. % achievement)	Targets were achieved as planned.			

G. Ratings of Program Performance in ISRs

Development Policy Grant I - P078807				
No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
1	01/13/2007	Satisfactory	Satisfactory	15.47

Second Development Policy Grant - P104931				
No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
1	08/26/2008	Satisfactory	Satisfactory	12.11

H. Restructuring (if any)

1. Program Context, Development Objectives and Design

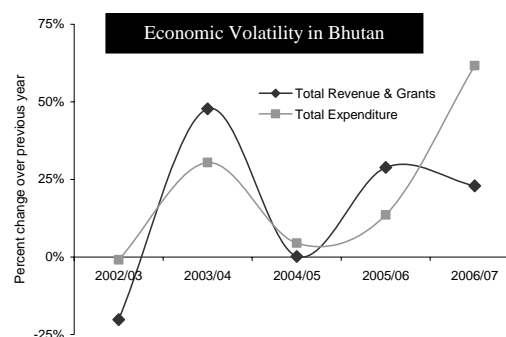
1.1 Context at Appraisal

When the First Development Policy Grant (DPG1) was appraised in January 2006, Bhutan's economic performance was strong—as indicated by low inflation, manageable fiscal deficits, high reserves, and growth averaging more than 6 percent over the past twenty five years. The free trade regime with India and the policy of maintaining the Ngultrum exchange rate pegged to the Indian Rupee had been instrumental in maintaining this solid macroeconomic performance. On the expenditure side, the public sector was a key driver of growth. Large revenues from external donor assistance and hydropower sales to India flowed through the government, and public investment (like in hydropower projects) and spending on the provision of public services played a central role in ensuring the continued buoyancy of the economy.

However, the Kingdom faced two key macroeconomic challenges. First, the small size of the Bhutanese economy implied that volatility was a major concern (Table 1). While RGoB aimed to limit the overall fiscal deficit, including grants, to 4-5 percent of GDP over the next few years, this was dependent largely on the Tala Hydropower project coming on-stream in mid-2006, and two years' of excise duty refunds from India. Any delays would have had adverse implications for the fiscal situation. Second, RGoB and the donor community anticipated clear financing needs for the next few years. High expectations surrounded the commissioning of the Tala Hydropower plant, and, while domestic revenue and grants were expected to increase by over 40 percent in 2006/07 compared to the previous year, the overall resource envelope would increase by *less*, as large repayments were due to begin with the commissioning of Tala, and the Government of India was likely to reduce its program grants to Bhutan. In addition, other donors also planned to reduce or cease operations in Bhutan concomitantly, either for logistical reasons, or because of the expectations associated with Tala. While Bhutan's overall debt burden was expected to fall from almost 90 percent of GDP to below 70 percent after Tala came on stream, the servicing of Tala-related debt was expected to raise Bhutan's debt servicing obligations.

Table 1: Key Macroeconomic Indicators preceding DPG1 and DPG2

	2002/03	2003/04	2004/05	2005/06	2006/07
	Actual	Actual	Actual	Actual	Revised
Nominal GDP at market prices (mn.US\$)	582.2	679.4	771.2	872.4	1053.4
Nominal GDP per capita (US\$)	953.1	1098.0	1230.3	1373.9	1628.4
Current account balance (mn. US\$)	-137.6	-121.5	-235.1	-37.9	114.5
(% of GDP)	-23.6	-17.9	-30.4	-4.3	11.3
Exchange rate (nu. per US\$)	47.9	45.4	44.6	44.7	44.2
CPI (annual % change)	2.5	3.3	4.8	5.2	5.1
Gross foreign reserves (mn. US\$)	373.3	383.3	366.5	478.8	599.0
(In months of GNFS imports)	14.9	13.6	7.9	11.8	11.9
Total Revenue & Grants (% of GDP)	25.3	33.8	30.3	34.5	35.5
Expenditure + Net Lending (% of GDP)	37.4	32.0	37.5	34.7	32.9
Fiscal Balance (including all grants)	-12.1	1.8	-7.1	-0.2	2.7
Total government debt (% of GDP)	78.6	77.9	86.6	87.1	68.3



Source: RGoB, Ministry of Finance, Macroeconomic Coordination Committee. Negative value denotes a surplus.

A process of political change was also underway in Bhutan when the program was appraised. A new constitution, aimed at creating a democratic political system consistent with the country's vision and values, was prepared and was widely distributed in March, 2005. The Constitution

was to be enacted by the National Assembly in 2008, and the stage was set for a transition to democracy by 2008.

In human development, Bhutan had demonstrated solid progress, given the difficult terrain and wide dispersion of the population. The poverty headcount rate of around 31 percent in 2003 showed a declining trend, and was comparable to that of neighboring countries in South and Southeast Asia. Widespread hunger, destitution, and homelessness have never been serious issues in Bhutan. Available data suggested that Bhutan was likely to achieve most of its Millennium Development Goals (MDG) by 2015—except for some indicators of maternal health and gender equality in higher education. However, problems remained in terms of access to public services in the remote areas, due to the rugged terrain and limited availability of trained human resources.

In response to these challenges, the Royal Government of Bhutan (RGoB) was then pursuing a medium-term policy and institutional reform program that was anchored in its Ninth Five-Year Plan, which was also its Poverty Reduction Strategy Paper (PRSP). Reflecting the distinct vision of Gross National Happiness (GNH), the Ninth Five-Year Plan had five overall goals: (i) improving quality of life and income, especially for the poor; (ii) ensuring good governance; (iii) promoting private sector growth and employment generation; (iv) preserving and promoting cultural heritage and the environment; and (v) achieving rapid economic growth and transformation. The strategies outlined to achieve these goals included expanding infrastructure, maintaining sound macroeconomic policy, ensuring good governance, and improving access to enhanced social services. The RGoB's reform program underpinned these goals and strategies. The RGoB program was still at an early stage, but was moving in the right direction and was commensurate with the existing technical capacity and circumstances of the country. Most importantly, the government was strongly committed to implementing its reform agenda.

During the Country Assistance Strategy (CAS) consultations in early 2005, the RGoB requested policy-based assistance in order to pursue its poverty reduction strategy (PRS). In view of the existing capacity constraints, PRS implementation in Bhutan was technically demanding and required long-term support from development partners. This was also confirmed at the Ninth Round Table Meeting held in Geneva on February 15 and 16, 2006, where it was felt that further support was needed to help the RGoB meet emerging development challenges such as political and institutional reforms. Development policy lending was regarded as an appropriate instrument in such circumstances. Part of the impetus for the DPG stemmed from the anticipated financing needs as described briefly above. Bhutan's development progress and commitment to moving forward justified policy-based support to help maintain the momentum of reform.

DPG1 was planned as the first in a series of single-tranche programmatic budget operations, to support selected key components of the government's own program. DPG1 provided US\$15 million in budget support in FY06 to help the RGoB meet its development goals, and helped to deepen the policy dialogue with the RGoB. Based on continued good progress on the medium-term program of policy and institutional reforms, a Second Development Policy Grant (DPG2) was appraised in April 2007, and was linked to strengthening the reform program and quickening the pace of implementation. Moreover, delays in commissioning of the large Tala hydropower project, combined with other factors, meant that the resource envelope would not, in the short

term, be expanding as much as previously anticipated. Accordingly, while DPG2 had originally been programmed for US\$5 million in the 2005 CAS, the Bank's agreement to process a larger amount of US\$12 million reflected strong support for the RGoB's important reform efforts during a time of major changes for Bhutan vis-à-vis political changes and increasing financing needs.

1.2 Original Program Development Objectives (PDO) and Key Indicators

The assessment notes that a PDO statement and associated indicators are not explicitly identified in the Program Documents. Accordingly, the PDOs are indirectly derived from a description of the benefits that the DPGs were expected to achieve.¹ Since DPG2 was designed to deepen and sustain the reforms supported under DPG1, the PDOs for each individual operation were synchronized with the overall DPG program.

Specifically, the DPG program aimed to: (a) enhance the delivery of public services by strengthening fiscal management, (b) increase the effectiveness of public spending by improving financial management and procurement processes, (c) create better income earning opportunities by improving the investment climate, facilitating greater labor market flexibility, and increasing foreign direct investment, (d) raise educational attainment, particularly in previously under served areas, by expanding access to high quality education services, and (e) reduce maternal mortality by increasing the number of births delivered in health facilities. It should be noted that, even though DPG1 supported selected financial management actions, item (b) was added as a separate focus area under DPG2 to better support the RGoB's work in strengthening public financial management and procurement.

The key indicators of expected outputs and outcomes of the DPG program, along with several specific progress indicators related to their achievement, were presented in the Program Policy Matrices of DPG1 and DPG2. Success in achieving the PDO is evaluated in this ICR in terms of accomplishments against progress indicators in the Policy Matrix.

1.3 Revised PDO (as approved by original approving authority) and Key Indicators, and reasons/justification

The Program Development Objectives were not revised.

1.4 Original Policy Areas Supported by the Program (as approved)

The Bhutan CAS emphasizes selectivity to maximize the development impact of the Bank's limited financial and staff resources. Accordingly, selectivity was also a key feature of the DPG program. While there were numerous meaningful development initiatives being undertaken by

¹ This follows the Implementation Completion and Results Report Guidelines, OPCS, August 2006. See http://intresources.worldbank.org/INTINVLENDING/Resources/ICR/ICRGuideFINAL_RevFeb9_2007.pdf

the RGoB, the DPG focused on strategic areas identified in close consultation with the authorities, which were considered important to the overall success of the RGoB's program and closely aligned with the objectives of the Ninth Five-Year Plan. Under the overarching themes of enhancing economic growth, reducing poverty, and achieving the MDGs, the following four components of the RGoB's interrelated developmental reform strategies were supported by DPG1:

- Ensuring the maintenance of a sound macroeconomic framework, strengthening fiscal policy, and bolstering financial management and accountability;
- Enhancing the investment climate for private sector growth and employment generation;
- Augmenting the quality of and access to education; and
- Improving health care.

Following good progress, and in view of RGoB's commitment to implementing its policy and institutional reform program, there was a follow-up operation in DPG2. Fiduciary systems were added as a separate area to be supported by the DPG program under the second operation. This reflected the RGoB's continuing efforts to improve financial management, and adding a component on procurement highlighted important initiatives underway. Thus, an additional theme was added under DPG2 as:

- Bolstering fiduciary systems in the areas of financial management and procurement.

Specific reform actions supported under the different themes are described subsequently.

1.5 Revised Policy Areas

Policy areas were not revised. Financial management and procurement reforms were highlighted as a separate theme under DPG2.

1.6 Other significant changes

There were no significant changes in design, scope and scale, implementation arrangements and schedule or funding allocations.

2. Key Factors Affecting Implementation and Outcomes

2.1 Program Performance

Both DPG1&2 were single tranche operations, and disbursed as follows.

Operation #	Amount in USD	Expected Release Date	Actual Release Date	Release
DPG 1	15,468,925	8/30/2006	6/7/2006	Regular
DPG 2	12,107,280	6/25/2007	6/27/2007	Regular

The DPG program supported several elements of the RGoB's overall reform program, as presented in the Policy Program Matrix of DPG1&2, and elaborated in Section 3.2. Some specific policies within the Matrix were mutually identified as upfront actions, which were regarded as critical to the RGoB's medium term reform efforts. The overall conclusion of this assessment was that the program performance, as evaluated on the basis of fulfillment of upfront actions, was a success.

The RGoB successfully met all of the upfront actions before DPG1 was approved. DPG1 was the first in a series of two planned budget operations over the current CAS period FY06-09, and supported four components of the RGoB's interrelated developmental reform strategies. It was a single-tranche operation, designed such that specific government actions had to be completed before DPG1 was presented to the Bank's Executive Board, as described in Box 1.

Box 1: First Operation in a Programmatic Series: DPG1	
<i>Prior Actions (from Program Document)</i>	<i>Status</i>
Theme 1: Macroeconomic, Fiscal and Financial Management. <i>Ensuring the maintenance of a sound macroeconomic framework, strengthening fiscal policy, and bolstering financial management.</i>	
Up-front Action 1. The RGoB's MTFF will specify target ranges for key fiscal indicators, including overall balance, the resource gap and debt, based on and consistent with a sound macroeconomic framework. It will be submitted to the Committee of the Council of Ministers (CoM) in January 2006 and the CoM's endorsement of the MTFF will be sought as a basis for the preparation of the 2006-07 budget.	Met
Up-front Action 2. The RGoB will submit the draft Public Finance Act to the CoM.	Met
Theme 2. Private Sector Development. <i>Enhancing the investment climate for private sector growth and employment generation.</i>	
Up-front Action 3. The draft Labor and Employment Act is submitted to the CoM by December 2005 and the process for recruiting foreign workers is streamlined.	Met
Up-front Action 4. Foreign Direct Investment (FDI) rules and regulations are approved by December 2005.	Met
Theme 3. Education Reform. <i>Augmenting the quality of and access to education.</i>	
Up-front Action 5. As part of the implementation of its policy to expand education coverage through the establishment of new CPSs in underserved areas, the RGoB will establish 23 new CPSs in remote and/or underserved areas to increase enrollment and completion at the primary level, helping make progress toward the achievement of the education-related MDG target.	Met
Up-front Action 6. A curriculum framework is to be developed for English from classes pre-primary (PP) to 12, by December 2005.	Met
Theme 4. Health Sector Reform. <i>Improving the quality and effectiveness of health services.</i>	
Up-front Action 7. A draft strategy to increase institutional deliveries (child birth) is developed and two districts, where the strategy is to be piloted, are selected.	Met

Given the programmatic approach, DPG1 had also identified upfront indicative triggers that would need to be fulfilled before DPG2 could be presented to the Bank's Executive Board. Following appraisal in 2007, the RGoB was found to be on-track for meeting the triggers previously identified as indicative for moving forward with DPG2, and in several areas,

initiatives were moving farther and faster than expected. All the triggers listed in DPG1 as indicative for proceeding with DPG2 were successfully met prior to Board approval— with the exception of the trigger on maternal mortality, which was revised somewhat to focus more on demand side factors.² These measures were recognized to be substantively important, represented a logical continuation of earlier reform measures supported under DPG1, and demonstrated sustained progress. The specific actions are described in Box 2.

Box 2: Second Operation in a Programmatic Series: DPG2	
<i>Prior Actions (from Program Document)</i>	<i>Status</i>
Theme 1: Macroeconomic and Fiscal Management. <i>Ensuring the maintenance of a sound macroeconomic framework and strengthening fiscal policy.</i>	
The MTFF is circulated as a part of the annual budget preparation process starting in 2007/08, and annual budget numbers (expenditure, revenue, deficits and debt) are developed in accordance with MTFF targets. Key steps in the process include preparing drafts of the MTFF through the MFCC, debating the framework more widely, preparing the draft BPFFS, and seeking CoM endorsement for inclusion in the Budget presentation.	Met
Theme 2: Fiduciary Systems. <i>Strengthening financial management and improving procurement processes.</i>	
Annual financial statement for the year 2005/06 is prepared by December 31, 2006 and submitted for audit; the in-year budget report for six months ending December 31, 2006 is prepared by April 15, 2007.	Met
Issue revised procurement manual by March 2007. <i>(Completed).</i>	Met
Theme 3: Private Sector Development. <i>Enhancing the investment climate for private sector growth and employment generation.</i>	
The Labor and Employment Act is to be submitted to the National Assembly by July 2006.	Met
The business registration process is simplified, including the number of procedures, time taken and costs involved by March 2007.	Met
Theme 4: Education Reform. <i>Augmenting the quality of and access to education.</i>	
Establishment of 20 new CPSs in remote and/or underserved areas to increase enrollment at the primary level toward achievement of the enrollment-related MDG target.	Met
Piloting the reformed Education Management Information System through workshops for central and dzongkhag level users by April 2007.	Met
Theme 5: Health Sector Reform. <i>Improving the quality and effectiveness of health services.</i>	
Design a pilot in 2-3 geogs linked to a BHU in two districts (Trongsa and Mongar) to test new initiatives to increase community awareness and health promotion interventions regarding antenatal and delivery care, and to strengthen community participation in this area, linking the community more directly with health services. The situation analysis and action plan for the pilot would be submitted on March 15, 2007 and the pilot would begin on April 15, 2007.	Met

2.2 Major Factors Affecting Implementation

A number of factors contributed to the successful implementation of the DPG program, as

² The indicative trigger, as presented in the Program Document for DPG1, was: “Prepare guidelines for the establishment of improved patient referral networks (for institutional deliveries), quality of care and measures to increase demand at the community level on the basis of lessons from the pilots. June 2007.” This was revised as presented in Box 2.

indicated by the timely fulfillment of prior actions for the two operations.

First, the program was designed through a consultative and participatory process. The Bhutan program had full country ownership, and actions supported by the operations were anchored in the Ninth Five-Year Plan that was put together through wide consultations over the course of two years. This included a participatory process that pulled together 201 Gewog (block) plans, 20 Dzongkhag (district) plans, and numerous sectoral plans. The FY06-09 CAS is closely aligned with the Ninth Five-Year Plan/PRSP. It was prepared in consultation with various levels of government, the private sector, development partners, and other stakeholders—and endorsed financial assistance in the form of two development policy operations.

Second, the program was based on sound background analysis, and drew lessons from other related Bank and donor operations. The Bank's support built on the ongoing engagement both in terms of projects, as well as analytical and advisory services. There was a deepening engagement on macroeconomic, fiscal, and financial management issues, through IDF grants supporting capacity in these areas. In order to foster the nascent formal private sector, technical assistance was provided in key areas such as the development of legislation for foreign direct investment (FDI), promotion of small and medium enterprises (SMEs), and capacity building in the Bhutan Chamber of Commerce and Industry (BCCI). Analytical support was provided through the Private Sector Survey (2002), and the Doing Business Report (2005). In education, the DPG program built on the experiences of the Education Development Project (EDP) that supported Bhutan's five-year education development program to expand access to primary and secondary education, and improve education quality at all levels—coordinating with inputs from other donors, including Canada's support for curriculum reform for English at all levels of schooling, UNICEF's assistance with the establishment of resource centers, and DANIDA's budget support to the Ministry of Education. In the health sector, the DPG built on the HIV/AIDS and Sexually Transmitted Infections (STI) Prevention and Control Project (IDA Grant H1030) that was approved in June 2004 to help the RGoB make progress in this vital area. The Bank consulted with DANIDA, UNICEF and WHO on providing technical support on a number of related health activities. Several background notes/papers were prepared by the Bank's team in developing DPG1, on: (a) poverty and MDGs; (b) private sector development and employment generation; (c) medium-term macro/fiscal issues; (d) financial management; (e) education; and (f) health issues. The substantial analytic content of the DPG2 engagement builds on the Country Economic Update, the Hydropower Study, the Youth and Employment Study, the Private Sector Survey, the Doing Business Report, the ROSC, and the State Owned Enterprise Study.

Third, the program design was based on realistic expectations of capacity and complexity. Effort was well spent on supporting institution and capacity building, in order to consolidate progress made on various reform efforts. For example, the RGoB has received considerable support from the Bank in the form of technical assistance over the past several years for strengthening country fiduciary systems. The convening power of the Ministry of Finance as the focal ministry for programmatic support helped to ensure that line ministries remain on-track for achieving agreed targets in specific sectors.

Fourth, adequate efforts were made to ensure that the identified risks did not derail the program. In particular, the Bank was aware of the political risks that could affect program implementation, in view of the abdication of the King and replacement by his son, the planned formation of political parties, the expected approval of the new Constitution, the upcoming legislative elections, and the formation of a new government in 2008. In order to mitigate this risk, the Bank sought to ensure full country ownership, as described above. Moreover, the design of the program attempted to ensure continuity of reforms. While DPG1 supported selected components of the RGoB's medium-term reform program, subsequent programmatic operations were to provide financial support on the basis of progress made, as measured against a set of monitorable actions identified through the previous operation. The Bank also recognized the threat of external shocks that could affect the program, particularly in a small landlocked country like Bhutan—but the scope for the DPG to mitigate the risk of major external shocks was limited. The program's emphasis on medium-term fiscal programming helped ensure that the multi-year consequences of investments and other decisions were forecast and taken into account. The program's focus on improving the general environment for private sector development also helped the country realize more of its potential for economic diversification, thereby reducing the magnitude of risks from external shocks.

2.3 *Monitoring and Evaluation (M&E) Design, Implementation and Utilization*

The assessment finds that the overall M&E of the operations was satisfactory, given data limitations in the Bhutanese context.

At the stage of *designing* M&E, several outcome indicators for the various policy actions were identified at appraisal. The Policy Program Matrices of the two operations provided a results framework that described expected outcomes at the end of the program, as well as indicators to measure success along the way. However, there were data limitations that made it difficult to assess whether particular outcomes were achieved in some cases. It was also difficult to attribute changes in some outcome indicators to specific policy actions supported under the DPG program.

The M&E *implementation* of the program was done well, given the challenges. The Department of Aid and Debt Management (DADM), Ministry of Finance, was responsible for the overall implementation of the DPG program. The RGoB established a multi-ministerial group of officials, headed by the Secretary, Ministry of Finance to provide overall coordination for the operations. The Bank's implementation support plan monitored actions and reviewed implementation progress of the two operations. During the implementation phase of the operations, the benchmarks identified in the Policy Program Matrices were regularly evaluated to the extent possible, and interim steps taken by the RGoB were monitored.

The available and new data collected were *utilized* well for M&E purposes. M&E of the program involved a mix of qualitative and quantitative data. It was challenging, as Bhutan remains characterized by significant data gaps which are still being addressed. Where possible, program monitoring relied on quantitative indicators. In areas like macroeconomic management, education, and health, the program was linked to improvements in fiscal monitoring, strengthening the Education Management Information Systems (EMIS), and development of Quality Assurance indicators—which helped in the development of more accurate and user-

friendly data as part of the program. M&E of development outcomes were also helped by the M&E framework being prepared as a part of the implementation of Multi Year Rolling Budgets, and the development of the EMIS. In areas like financial management and procurement, where progress was linked to particular process steps, monitoring was necessarily qualitative.

2.4 *Expected Next Phase/Follow-up Operation*

The DPG program was originally conceived to consist of two operations, which have now been completed. A new government has come to power following the historic elections at the end of March 2008, and has expressed the need for continued financial support for its ongoing reform program. In view of good progress and to support the new administration, the Bank is designing a new DPG program. The presence of the new government also makes this a good time to take a fresh look at the broad areas to be highlighted. It has been agreed that the new DPG program should highlight the key themes of strengthening governance, fostering employment generation, and expanding access to infrastructure, which are core focus areas in the RGoB's draft Tenth Five-Year Plan. While several of the policies supported under the new program will deepen and strengthen earlier initiatives, the Bank will also begin DPG engagement in new areas like infrastructure.

3. *Assessment of Outcomes*

3.1 *Relevance of Objectives, Design and Implementation*

The objectives of the program remain relevant to Bhutan's current development priorities. They constituted a well structured program of reform that would enable Bhutan to advance its long term development goals, identified by the RGoB in its PRSP as described in Section 1.1. In fact, the program design was based on the RGoB's own broad reform agenda, as outlined in the Letters of Development Policy dated February 24, 2006 and April 17, 2007.

Program objectives also reflected the strategic priorities identified by the Bank in its Country Assistance Strategy (CAS) for FY06-09. The Bhutan CAS that guided Bank engagement during appraisal of DPG1 is still in effect, and, hence, remains relevant. The Bank's CAS aligned with Bhutan's vision of Gross National Happiness, and the priorities and goals of the PRSP. It emphasized selectivity, and supported development based on three pillars: (i) expanding access to better infrastructure and quality social services, as well as connecting communities to markets; (ii) promoting private sector development and employment; (iii) strengthening the management of public resources, as well as the monitoring and evaluation of development outcomes.

The proposed DPG program supported all three CAS pillars. The first two components on macro/fiscal management and fiduciary systems are part of the third CAS pillar, aiming to help the RGoB ensure effective public resource management. The DPG program's third component on private sector development is a part of the second CAS pillar on fostering private sector growth and employment opportunities, highlighting several measures specifically targeting private sector development and the labor market. The DPG program's last two components on education and health lie within the first CAS pillar, aiming to assist the RGoB's efforts to provide wider access to quality social services. Hence, the policies supported under the DPG program remain closely aligned with the current CAS.

Implementation was well organized and structured. The program design was commensurate with the existing technical capacity and circumstances in the country, and gathered pace and depth over the course of the DPGs. Bank staff and RGoB officials had a clear understanding of the constraints, and continuous dialogue ensured that the program remained highly relevant to RGoB's development priorities.

3.2 *Achievement of Program Development Objectives*

The DPG program satisfactorily achieved the Program Development Objectives (PDO) under both DPGs individually, as measured by the outputs and progress indicators identified at appraisal. The operations were designed such that the key reform actions were met upfront, and the reforms remain on course, despite the political transition. While questions have been raised concerning the effectiveness of the budget support instrument and specific causal connections between indicators and policy actions, the assessment concludes that RGoB had made good progress in its reforms over the past few years, even though the DPG program coincided with a remarkable transition in governance arrangements.³

As the two DPGs in the series were appraised and processed within a short period, it was difficult to specify the long term development outcomes of the RGoB's reform program, and to identify the contributions of the policy actions supported by the two DPGs toward achieving the expected long term development outcomes. Consequently, the evaluation is based on the outputs and progress indicators in the Policy Program Matrices, and on the strength of the linkages between the policy actions supported by the DPGs and the desired long term outcomes. For purposes of this section, the ICR focuses on the policy areas and actions supported by the DPG, with data on outputs and progress indicators—both qualitative and quantitative—where available. For some process-related actions, progress indicators are necessarily qualitative. As per OPCS guidelines, this ICR evaluates against progress indicators and effective design where data on final outcomes and outputs are not available.

The ICR concludes that the impact on the ground of the policy and institutional reforms supported by the DPG program is evident in many areas, including improved budget preparation, strengthened audit and procurement practices, streamlined business start-up procedures, enhanced curricula for grades PP through 12, and reduced maternal mortality. However, the RGoB will need to strengthen efforts in a few areas in order to sustain the momentum.

Theme 1: Ensuring the maintenance of a sound macroeconomic framework and strengthening fiscal policy

The DPG program sought to ensure the maintenance of a sound macroeconomic framework, and strengthen fiscal policy, with a view to eventually enhance the delivery of public services. Closer macroeconomic monitoring and the development and adoption of a multi-year budget process were expected to enable early detection of possible economic concerns and facilitate timely policy responses, in an environment of macroeconomic volatility. Prior to the reforms

³ See Section 7 (a) for a summary of issues discussed at an ICR stakeholder workshop.

under the DPG program, budgeting was need-based with sector ceilings largely based on the Five Year Plan outlays and activities, the budget was prepared only for one year without expenditure forecast for future years, and the system lacked proper coordination among key economic agencies. The reforms and institutional changes under this component have helped facilitate closer macroeconomic monitoring, strengthen debt management, and improve the budget preparation process, which will together underpin sound policy formulation for sustained robust growth and improved delivery of services. While it is difficult to attribute sustained economic growth and enhanced service delivery to reforms under this component, it has certainly contributed to building a system that can anticipate shocks and mitigate economic volatility.

In order to *strengthen the macroeconomic framework*, with support from DPG1, a Macroeconomic Framework Coordination Committee (MFCC) and a Macroeconomic Framework Coordination Technical Committee were established by the RGoB at the end of 2005, to facilitate the regular preparation of reliable and systematically compiled macroeconomic and fiscal projections. This initiative arose from RGoB's efforts to monitor macroeconomic and fiscal developments more closely, and was expected to play an important role in helping the RGoB implement MYRBs. The mandate of the MFCC and the technical sub-committee were to play a strong coordination role, bringing together inputs from various parts of government, and to integrate these into a coherent framework for a comprehensive picture of emerging macroeconomic developments. The framework makes assumptions explicit, and sets a fiscal path consistent with macroeconomic stability. Methodologies used to prepare macroeconomic projections were documented by the Ministry of Finance under DPG2.

To improve *debt management and monitoring*, RGoB had acquired new debt management software, the CD-DRMS, and trained staff in the use of this tool to improve debt monitoring and to carry-out its own debt sustainability analyses in future (covering both external and domestic debt) under DPG1. This initiative continued under DPG2, including further training and implementation of the strengthened debt management system. The RGoB has produced preliminary debt reports using the system, and plans to generate debt sustainability analyses over the coming year.

With a view to *bolster budget preparation and implementation*, the DPG program supported implementation of the key provisions of the RGoB's Public Finance Act. The Public Finance Act provided specifically for the inclusion of indicative sector ceilings over the medium term, incorporating overall fiscal constraints and serving decision makers as a tool to assess the multi-year fiscal implications of important policy choices facing the RGoB. It also provided for the development of a three year Budget Policy and Fiscal Framework Statement (BPFBS).⁴ Prior to the appraisal of the DPG program, the RGoB had revised the Budget Manual in 2001, calling for the preparation of MYRBs to link the five-year plans more closely to the annual budget process. However, RGoB had not implemented MYRBs, mainly due to capacity constraints and uncertainty surrounding the extent to which the existing budget system would need to be altered. Reform actions in this area were aimed at greater fiscal marksmanship.

⁴ It was passed by the Assembly in June, 2007, as discussed below.

(i) The MFCC prepared an MTFF, and used it as the basis for the 2006/07 Budget Calls that were issued at the end of 2005. The MTFF was endorsed by the Committee of the Council of Ministers (CoM) in January 2006. Together, these constituted an upfront action for DPG1. Reforms continued under DPG2, and the MTFF was circulated as a part of the annual budget preparation process starting in 2007/08, and annual budget numbers (expenditure, revenue, deficits and debt) were developed in accordance with MTFF targets. The Budget Call Notification for 2007/08 and 2008/09 included resource envelopes from the MTFF, and budgeting based on availability of resources began from 2007/08. The BPFES statement and projections for future years has been included in the 2007/08 budget report.

(ii) Based on the resource envelop estimated through the MTFF, the RGoB planned to prepare ‘top-down’ MYRBs, with multi-year ceilings by accountable government agency and by source of finance (domestic versus external). The RGoB has conducted consultative meetings, trainings, and sensitization workshops for this approach in July 2006 and November 2006. Templates for the MYRB were developed under DPG1, and the approach was piloted in two key ministries: the Ministry of Education and the Ministry of Works and Human Settlements. Reforms in this area continued under DPG2, and, for the first time, the Minister of Finance included a three-year fiscal framework in the presentation of the 2007/08 budget. Systems development has proceeded well, and the RGoB has procured the required software and laid the Virtual Private Network (VPN) in 16 Dzongkhags. The VPN will facilitate agencies to access budgetary information on real time basis.

Theme 2: Strengthening financial management and improving procurement processes

The authorities were especially keen to implement policy and institutional reforms to ensure effective public spending through the political transition to democracy, given that a high proportion of Bhutan’s resources are channeled through government. In recognition of the RGoB’s continuing efforts to improve financial management systems and to highlight the important initiatives underway, fiduciary systems were added as a separate theme under the second DPG operation. The RGoB placed high priority on strengthening fiduciary systems. The related institutional and policy reforms were aimed at ensuring the effective use of public resources.

➤ **Financial Management**

Improving public financial management and accountability is a central part of the reform program in Bhutan. Diagnostic studies conducted earlier by the Bank and other donors indicated that, while the core elements of an effective financial management system are largely in place, Bhutan faced several challenges in this area. Reforms in the institutional framework have helped bring about satisfactory improvements in quality and timeliness of financial reporting for decision-making, even though progress in some areas has fallen short of expectations.

In order to *establish a satisfactory legal and institutional framework* for PFM, RGoB drafted a Public Finance Act, and submitted it to the CoM in 2006 as an upfront action for DPG1. Following consultations and revisions, it was submitted to the National Assembly in the June

2007 session. To strengthen reforms in this area, the Ministry of Finance has recently discussed adoption of international accounting standards, specifically IPSAS, under IDF support.

With a view to improve the *institutional framework* for PFM, it was important to bring closer attention to accounting and Treasury functions and enable timely preparation of government financial statements. DPG1 supported separation of the Department of Budget and Accounts into two departments in December 2005, namely (i) the Department of National Budget and (ii) the Department of Public Accounts (DPA) by issue of a Government Order. Staff was reassigned to the separated departments, and their roles and actions clarified. This has contributed to improved quality and timeliness of financial information and reporting. As prior actions for DPG2, for the first time, the Annual Financial Statement (AFS) 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 RGoB in-year financial statements for the six months ending December 31, 2006.

In order to *improve the Management Information System*, RGoB adopted a computerized Budgeting and Accounting system (BAS) in the line ministries/agencies and the central budgeting and accounting system in the DBA with Asian Development Bank assistance. To expedite the release of funds, the DBA developed a system using electronic transfers (in place of the manual Letter of Credit system) for fund releases in all spending agencies in Thimphu, which was operational by June 2006 and highlighted under DPG1. In an effort to enhance transparency and increase the demand for information on the use of public funds, the RGoB posted audited AFS of the government on the Ministry of Finance website, starting with statements for 2002/03, 2003/04 and 2004/05, under DPG2. However, currently, the report is not available since the website is under construction for quite some time. The DPA plans to work out a mechanism to transfer the block grant to local governments, aligning it to the RGoB cash flow system.

To *strengthen legislative oversight of public finances*, the Royal Audit Authority (RAA), which ascertains and evaluates whether government resources are handled in accordance with the established rules and regulations, was brought within the legal framework of an Audit Act. A draft act was prepared and submitted to the CoM by December 2005, as a prior action for DPG1. The RAA set up a separate division to actively track and monitor responses by public spending units of audit observations until settlement/adjustment. The RGoB also made efforts to strengthen the effectiveness of internal audits, and drafted the Charter, Code of Ethics for internal auditors. While a decision has been taken to anchor the internal audit function within the Ministry of Finance, key actions to finalize institutional arrangements and augment staff resources are pending. Disruptions due to elections-related duties assigned to civil servants have resulted in delays in the preparation of in-year budget reports for FY 2007-08, even though that for 2006-07 has been prepared.

➤ **Procurement**

In this area, the RGoB's reform agenda aimed at bolstering the procurement process, enhancing transparency, accountability, and efficiency. Overall achievement of objectives under the DPG program has been satisfactory, in spite of shortcomings on some components. It should be noted that this was a new area highlighted under DPG2.

The DPG program supported efforts to *strengthen the legal framework* for procurement. With the assistance of the ADB, Chapter 17 of the 1988 Finance Manual was revised in 1998 as a separate procurement manual, which formed a part of the Financial Rules and Regulations. To incorporate lessons learned in using these rules and regulations, as well as changes in procurement-related policy, an effort to revise the existing manual was initiated under the DPG program. A new draft was submitted by the working group to the Ministry of Finance at the end of December 2006, and was issued to government agencies at the end of March 2007 as an up-front action for DPG2. The government has also completed the revision of the supporting set of Standard Bidding Documents (SBD) for works and goods, as well as the standard request for proposal document for consultancy services. Hard copies of all documents will be printed in the very near future and work on specialized SBDs started.

In order to *improve capacity through procurement training* for civil servants, RCSC has created various levels of procurement professionals in its civil service ranks, and the MoF, together with other institutions, is seeking to establish a professional procurement training center in the Royal Institute of Management. The government has finalized an agreement on a three year project that supports building institutional and individual capacity in Bhutan to allow for the delivery of certified procurement training on a sustainable basis through its national institutes and tertiary education system.

DPG2 highlighted an urgent need that was identified by the RGoB to *create a central procurement policy mechanism*, carrying responsibility for all procurement policy in Bhutan, and leading the reform agenda. The RGoB looks to make a significant impact in improving procurement management in future years through having officially approved and established the Public Procurement Policy Division (PPPD), under the Department of National Properties, Ministry of Finance. Two officers, including the Head, have already been appointed. It is expected to receive technical assistance from donors to help it become operational and fulfill its mandate.

The DPG program highlighted the need to *establish a procurement grievance mechanism*, given that Bhutan has several ad hoc mechanisms to deal with complaints, but these are not very effective, efficient, independent, or broad enough in scope to cover all procurement types. The RGoB commissioned a study to analyze the current process for complaints, and to offer policy options—and this study has been completed. However, implementation is lagging, and a policy decision on setting up an appropriate grievance mechanism in Bhutan is still pending.

In order to *adopt electronic procurement*, that will make government procurement more efficient and modern, an assessment study to identify options and recommendations was commissioned by RGoB, and duly completed and highlighted under DPG2. The RGoB was expected to devise an implementation strategy and action plan for e-procurement under DPG2, but this action has not yet been undertaken.

Theme 3: Enhancing the investment climate for private sector growth and employment generation

Given the small size of the economy, the dominance of the public sector, and underdeveloped financial markets, growth of the private sector in Bhutan has been slow. Private sector development (PSD) is an essential engine of growth and employment generation, and is highlighted as a central tenet of the Five-Year Development Plans. The RGoB regards PSD as a particularly important to tackle the growing problem of unemployment, especially among educated youth, since it can create productive job opportunities. There has been substantial progress in implementing the reforms related to PSD, and Bhutan is noted as one of the top reformers in South Asia in the 2008 Doing Business Report. The RGoB has developed a rich agenda of policy and institutional reforms, covering labor market issues, skill shortages, regulations for facilitating domestic and foreign investment, and access to finance. The Bank supported selected items of the agenda through the DPG program, as described below.

The DPG program supported RGoB's efforts to improve the functioning of labor market through the development of *flexible labor and employment laws*. According to the Doing Business indicators, Bhutan had the least flexible labor market in the South Asia region at the start of the DPG engagement.⁵ With the exception of some rudimentary regulation,⁶ there was no legislation or policy framework governing labor markets in the country, and the labor market was highly segmented with stringent restrictions on the recruitment of foreign workers. To address these issues, DPG1 highlighted as a key prior action, the presentation of RGoB's draft Labor and Employment Act to Council of Ministers (CoM) with a view to balancing the legitimate needs of workers with the promotion of private sector activity. The Cabinet had reviewed the first draft of the Act in May 2004, which was then submitted to the National Assembly in December 2006 as a prior action for DPG2. The 86th session of the Assembly unanimously endorsed the draft in January 2007, and the Act came into force on February 20, 2007. Furthermore, twenty two Rules and Regulations supporting the Labor and Employment Act have been drafted, and are awaiting endorsement by the new government. The Labor and Employment Act and its Rules and Regulation have increased worker protections without compromising labor market flexibility. A range of reforms to streamline the process for recruiting foreign workers have also been supported by the DPG. In particular, an online recruitment system cut the time needed to obtain permits for foreign workers from three months to three weeks by mid-2006 and further to nine days by February 2007.

The DPG highlighted reforms to *create an enabling environment for Foreign Direct Investment (FDI)*. An FDI Policy was approved in 2002, to provide a clear policy on the regulation of foreign investment, particularly the entry of such investment, and on other matters, including guarantees that pertain only to foreign investors. Accompanying FDI Rules and Regulations were approved in December 2005, meeting an up-front action for DPG1. The FDI policy is currently being discussed for its revision with a view to relaxing the minimum required amount of FDI, easing the restriction on the share holdings of foreign investment, and allowing

⁵ This assessment was based on the rigidity of employment index, which captures the rigidity of working hours as well as the difficulties and costs associated with hiring and firing workers.

⁶ These include: (i) Chatrim for Wage Rate, Recruitment Agencies and Workmen's Compensation, 1994, and (ii) draft *Rules and Regulations on Employment of Bhutanese Nationals in the Private Sector*, December 1997.

investments in Indian rupees. In addition, efforts are currently underway to enact the Industrial and Investment Act, which would provide legal backing to the FDI Policy and raise investor confidence. The Act is expected to be submitted to the National Assembly by the end of 2008. Once fully effective, the strengthened FDI law and set of policies/regulations should result in an increase in foreign investment. Initial FDI gains are already apparent: the number of FDI enquiries rose from 14 in 2005 to 30 in 2007; the number of FDI registration certificates rose from 8 in 2005 to 12 in 2007; and the number of FDI projects rose from 2 in 2000, to 10 in 2007. Specific measures *to foster private sector development* were also supported under the DPG program, as described below.

(i) The Private Sector Development Committee (PSDC), originally established in 2000 as a public-private consultative forum for maintaining regular and structured dialogue on cross-cutting and sector-specific policies and strategies for facilitating private sector development, had ceased operation in 2003. Highlighted under DPG1, the PSDC has been re-invigorated, chaired at the ministerial level with inter-departmental representation and private sector participation. A White Paper, which lays out a Private Sector Development Strategy, has been prepared, covering different facets of private sector development. There has been an increase in private sector growth, as indicated by an increase in the number of licenses issued in the manufacturing sector which are operational from 528 in 2004 to 716 in 2007.

(ii) To promote tourism—a key growth industry—a Tourism Development Master Plan has been finalized and shared with stakeholders. The Plan provides a vision, roadmap, and regulatory framework for encouraging private sector entry and growth in the sector. To provide legal underpinnings, a Tourism Act has been prepared, and is expected to be submitted to the National Assembly in 2008. The sector has been very dynamic over the past few years, with tourist arrivals rising from 9,249 in 2004 to 21,094 in 2007.

(iii) To foster the information and communications technology (ICT) sector, RGoB enacted the Bhutan Information, Communication & Media Act in 2006. The Act encourages local and foreign investment in the ICT and media industry by providing a modern regulatory framework that fosters a convergence of information, computing, media, and communications technologies, as well as facilitating privatization and competition.

(iv) In the area of implementing corporate sector reforms, the DPG program has highlighted amendments to the Companies Act, which is planned to be submitted to the National Assembly by the end of 2008. In an effort to improve corporate governance and operational efficiency in the state-owned enterprises, the RGoB established Druk Holding and Investments (DHI) in November, 2007, and the RGoB's shares in twelve companies have been transferred. This was followed by the appointment of new management in some of its subsidiaries at the end of last year, aiming to spur innovation and dynamism in the SOEs.

(v) The DPG program has highlighted reforms to expand access to credit and strengthen the financial infrastructure. Expanding the range of financial services being offered particularly through the use of ICT, and improving the efficiency of the sector—which is dominated by public sector institutions and lacks competition—is a key priority. The RGoB is endeavoring to encourage competition by allowing more private financial institutions in the sector, and

strengthen the legal and regulatory framework for the supervisory function of the Royal Monetary Authority (RMA) with regard to the expansion of financial services and the use of electronic payment practices in commercial banks. This entails amendment of the Negotiable Instrument Act 1997, and enactment of the Financial Service Act (FSA).

As part of its efforts to *reduce the costs of doing business*, the RGoB sought to simplify the business registration procedures, with support from the DPG program. Reforms highlighted under DPG1 included initiatives by the Department of Industries to streamline the registration process for micro enterprises with investment of less than Nu 1 million, capacity building initiatives for key staff of the Registrar of Companies, and initiation of a diagnostic study of business registration processes for medium and large firms governed by the 2001 Companies Act. The latter study was completed in 2006, followed by an implementation plan. As an upfront action for DPG2, the business registration process was simplified, including the number of procedures, time taken, and costs involved by March 2007. This was reflected in the finding from the Doing Business survey, that starting a business and becoming an incorporated entity had required 11 steps and 62 days in 2005, but came down to 10 steps and 43 days as of April 2007.⁷ The reform program for business registration will further consolidate registration and licensing functions by creating a Registrar of Enterprises (RoE), a one-stop window for registration of all types of business entities including sole proprietorships, partnerships, corporations, and the like. The Enterprise Registration Act has been drafted, and will establish the legal framework for the RoE and facilitate various forms of business entities. In addition, the RGoB is currently designing reforms to simplify specific sector clearance processes, assisted by the IFC-SEDF.

Theme 4: Augmenting the quality of and access to education

The RGoB is committed to ensuring that all children have access to free basic education of reasonable quality. This long-standing commitment is reflected in successive five-year national development plans, where the RGoB has devoted a substantial proportion of resources to developing the education system. The DPG operations have helped focus attention on key areas of system development which require special attention in order to ensure the achievement of over-arching development objectives. Overall, achievements for education sector development and reform under the DPG operations have been impressive. The program has contributed to higher enrollment rates. The DPG operations have achieved heightened awareness across government of the priority areas of education system development and, in this manner, helped marshal greater understanding of the challenges facing the education sector in Bhutan. The inclusion of a repeating set of up-front actions for the education sector have provided the continuity required to bring about meaningful change and reflects the long-term nature of education system reform and improvement.

In order to *improve access to schooling*, the DPG program supported establishment of new Community Primary Schools (CPSs) in remote and/or underserved areas. The primary strategy

⁷ The Registrar of Companies no longer requires approval for the company's name from the Intellectual Property Division of MTI. This step has been eliminated from the registration process.

adopted by the RGoB has been the establishment of CPSs with cost-sharing with communities, a high level of community ownership, and decentralization of education service delivery as local authorities have key decision-making authority over their establishment. At the start of the DPG, there were 221 CPSs and 92 primary schools in Bhutan. The RGoB established 20 new CPSs and 3 new Primary Schools by the end of 2005, meeting an up-front action for DPG1. Another 20 CPSs were established as an upfront action for DPG2, and an additional 20 are expected to be set up by the end of this year—and this is currently on track. This expansion contributed to an increase in the Net Primary Enrollment Rate from 79 percent in 2006 to almost 84 percent at present, while the Gross Primary Enrollment Rate went up from 88 percent in 2005 to almost 106 percent at present.

In order to *improve the quality of education*, the DPGs supported curriculum revision. Considerable work was carried out at the primary level to make curricula more relevant and reflective of the unique character of Bhutanese society and culture, and of higher pedagogic quality. The Ministry of Education's Curriculum and Professional Support Services Division (CAPSD) was responsible for the review, development, and implementation of curricula at all levels of education, and was supported through three IDA-funded operations in the education sector. The development of a curriculum framework for English from classes pre-primary to 12 was completed in December 2005 as an upfront action for DPG1, as the initial step in the process for the overall curriculum reform at each level of schooling. DPG2 continued to emphasize maintaining momentum for carrying out this multi-staged process to revise the English curriculum by highlighting the completion of textbooks and teacher guides from Grades Five to 12, the training of teachers in the use of these new materials for use at the start of the 2007 academic year, and the preparation of materials for kindergarten to Grade Four. DPG2 also highlighted the role of the Education Review Commission, established under DPG1, and its work to carry out a survey on education quality with the financial support of the Education Program Development Fund (EPDF), a multilateral global education funding mechanism managed by the World Bank. English textbooks and teacher guides for Grades PP through Four have also been completed. The DPG program has coincided with a shift from out-dated rote teaching-learning approaches to more modern active-learning, and child-centered methodologies. This is expected to have improved the quality of education imparted.

The DPG program supported actions to *strengthen the education management information system* (EMIS) to help underpin policy making. The rapid expansion of schooling and the decentralization of data collection to the Dzongkhag and school levels raised several challenges for the data management system. The RGoB sought technical assistance for enhancing the management of education data and generating budget information, and DPG1 supported the preparation of a concept paper on EMIS reform options and strategies to improve data collection, reliability, usability and automation. A prototype system was developed, and the EMIS was piloted to ascertain its efficacy prior to national implementation. The piloting of the new system through workshops for central and dzongkhag level users, and the availability of a first version of the reformed EMIS for use in producing the annual education statistics for 2008, was highlighted as an upfront action for DPG2. Automated data for 2005 are now available, and policy makers and key stakeholders are now aware of the importance of an effectively functioning EMIS, and this is recognized to be an important tool for moving forward with MYRB. To sustain the progress, it has been determined that additional personnel are required at the central level to

manage the new system, and that, as a 'living system', the EMIS requires on-going refinement and adaptation.

Theme 5: Improving the quality and effectiveness of health services

There has been satisfactory progress in improving health care under the DPG program. In particular, while data on maternal mortality for recent years is not available, the program has contributed to higher institutional deliveries. Other initiatives have also shown progress. The RGoB places a high priority on providing universal health care to its population, which is publicly provided and financed. Improving access and quality of care, particularly to the underserved, were the major objectives of the Ninth Five-Year Plan. Although a secondary objective was to increase the sustainability of health care services, the emphasis was more on public solutions, rather than on encouraging private sector delivery and financing.

The DPG program supported RGoB's efforts to *reduce maternal mortality and morbidity* by increasing utilization of skilled birth attendants (either in health facilities or at home), along with demand side interventions. It was recognized that, although maternal mortality had declined from 770 per 100,000 live births in 1984 to 260 in 2000, further improvements would only be possible by expanding access to skilled deliveries backed by the necessary systems, equipment and supplies, and effective referrals to Essential Obstetric Care (EOC) services when necessary. As a prior action for DPG1, a draft Strategy was prepared to increase institutional deliveries by raising demand for services and introducing improvements in the organization of the referral network and links to communities, which was a prior action for DPG1. The Strategy was prepared but not piloted in 2006, because it became evident that it would have to be revised to focus more on demand-side factors, including health promotion and community mobilization, in order to improve the link between the community and health facilities. Although some delays were experienced in the revision of the Strategy due to insufficient in-house capacity to design the communications and community mobilization strategy, it was revised and the pilot was launched in Trongsa and Mongar in July 2007 as a prior action for DPG2. The piloting of the strategy were completed and evaluated in July 2008, and, based on lessons learned, guidelines will be developed for the expansion of the pilots to three additional districts. The expected outcome is increased utilization of facility-based delivery care, measured by an increase in the proportion of all births that are delivered in health facilities from 40 percent in 2004 to 55 percent in 2008. The 2006 value is 49 percent. Moreover, the proportion of births delivered in EOC facilities has gone up from 26.2 percent in 2004 to 36.0 percent in June 2008.⁸ In addition, the Ministry of Health has made important inroads in working with the community to increase awareness on the benefits of skilled birth attendance and of delivering in a health facility, as well as obtaining community support to help mothers to deliver in health centers and hospitals. The pilots launched made it clear that educating the community on health related issues is essential in motivating them to utilize health services.

⁸ The indicator is based on 26 EOC facilities, and the denominator is the estimated number of births for 2004.

In order to *reduce sexually transmitted infections* (STIs), the DPG program supported RGoB efforts to assess the extent of resistance and adjust its treatment protocols to include more effective treatment. The RGoB conducted a Gonococcal Susceptibility Study to determine the level of resistance to currently used drugs, in order to adjust its policy on STI management and supply all health care facilities with new drugs. Given the clarity of the results of the study, the National Drug Committee approved ceftriaxone as the first line treatment for STIs at BHUs on January 10, 2006. Under DPG2, a new draft of the National Guidelines for STI Syndromic Management was prepared by May 2006 and the training of trainers of health facility staff began in June 2006. Training of all BHU staff (basic health workers) was completed in February, well ahead of the expected June 2007 date. The first procurement of the new drugs has been completed, and the drugs were distributed to District Hospitals and to BHUs by mid-2007. Non-resistant STI treatment has been made available and prescribed across the country by mid-2007, a year sooner than previously anticipated. The outcome was reduced overall resistance to treatment, with resistance to available drugs expected to decrease from an average of 93 percent in 2006 to 40 percent by mid-2008, as measured by Gonococcal Susceptibility Study at Clinical Laboratories. There are remaining challenges, in that referral hospitals have shown better prescribing practices, and more work needs to be done at lower level facilities to ensure full adherence to the new policy. Even with these challenges, the prevalence of STIs decreased by 17.2 percent from 2006 to 2007, as compared to a decline of 11.7 percent between 2005 and 2006.

In order to *improve the quality of care*, the DPG program supported the implementation of Quality Assurance action plans at the facility level and the monitoring of quality of all facilities through the systematic application of a set of 10 indicators. Under DPG1, a Quality Assurance and Standardization Division (QASD) reporting directly to the Secretary, and a Health Technology and Quality Committee (HTQC) were established (recently renamed the Quality Assurance Group, (QAG)). The group was to function as a steering committee, and lead efforts to introduce quality assurance methodologies in the daily management of healthcare services. Quality assurance (QA) teams were set up in all 25 hospitals, and a Quality Assurance Manual was developed. Furthermore, DPG2 supported establishment of baseline values for ten proposed quality assurance indicators that would be part of a self-assessment tool to evaluate semi-annual progress. Although some progress is evident in this reform area, this has been limited by slow adoption of new approaches due to the lack of a results-based environment, inadequate understanding of the concepts of quality assurance and the role of the indicators in tracking quality improvements, insufficient attention to in-depth training, lack of resources, and non-systematized development and implementation of action plans for application of the ten indicators. Despite these shortcomings, the percentage of hospitals (including five level 1 BHUs) that have at least one doctor present between 10-12 am on a given day went up from 72 percent in January 2005 to 100 percent in June 2007, and the indicator for June 2008, which measures the number of hospitals where there were at least two doctors present, is estimated to be 100 percent.

3.3 *Justification of Overall Outcome Rating*

Rating: Satisfactory

The overall conclusion is that the major relevant objectives of the DPG program (and each individual operation) were achieved as per the progress indicators outlined in the PDs, or are on track. The program remains relevant even today. The operations were designed such that key policy actions were implemented prior to Board approval of the two operations. The impact on the ground of the policy and institutional reforms supported by the DPG program is evident in many areas, as discussed above in Section 3.2. This includes improved budget preparation, strengthened audit and procurement practices, streamlined business start-up procedures, enhanced curricula for Grades PP through 12, and improved health care. In fact, in each of the five policy areas individually, the progress has been satisfactory. However, the RGoB will need to step up efforts in a few areas in order to sustain momentum, especially given the political transition that Bhutan is going through.

3.4 Overarching Themes, Other Outcomes and Impacts

(a) Poverty Impacts, Gender Aspects, and Social Development

The DPG program directly yielded positive social impacts by providing remote communities opportunities to access schools and quality health care systems. Improved delivery of obstetric services is aimed directly at women's health. The DPG involved the direct and systematic participation of beneficiary communities in the selection, implementation, and maintenance of the community schools and health care services. While no major national surveys have been undertaken recently to yield updated data on social indicators, Bhutan is on track in meeting most of the MDGs, including those for gender equality in primary and secondary education, which were areas supported under the DPG. The RGoB continues to spend heavily on the provision of public services like health and education, especially in remote areas.

Indirect social impacts are also expected to be positive. The program helped to provide sound macroeconomic and fiscal underpinnings for continued steady economic growth to help improve the quality of life for all sections of the population. Measures to increase incomes through PSD-related reforms, as well as to enhance access to basic public services and information, education and health services through improved efficiency of public spending—with a special focus on remote, under-served areas—will be particularly beneficial to the poor. Efforts to improve the investment climate for private sector growth and employment generation will create new opportunities and reduce the dependence of the poor on agricultural employment.

(b) Institutional Change/Strengthening

The DPG program has had major institutional development impacts across the economy. In fact, the key policy actions that were supported by the program were all geared towards institutional strengthening and change, and building capacity within the government for the longer term. While there have been some shortfalls and delays as discussed in Section 3.2, the overall institutional development achieved under the DPG program has been substantial.

In the area of *strengthening fiscal management*, the RGoB crossed several milestones in the course of the DPG program. The Macroeconomic Framework Coordination Committee has been the focal group preparing projections, with capacity and expertise being developed through successive iterations. The systems for debt monitoring are operational, and debt reports are

being prepared. Most notably, the Public Finance act was passed in June 2007, which provides for the development of a three year BPFFS. This is a major development, and there is agreement that the 2008/09 budget, the BPFFS which spans the 2008/09 budget and two further years, and the Tenth Five-Year Plan spanning 2008/09 to 2012/13, will all be based on the same set of figures. The BPFFS will help encourage substantive discussions of policy in the National Assembly, and raise the effectiveness of budget policy over the longer term.

In the area of *public financial management and procurement*, major institutional reforms have been undertaken with a longer term perspective. The passage of the Public Finance Act by the National Assembly in June 2007 represents a significant step towards providing legal underpinnings for financial management practices in Bhutan. Continuing with the initiatives to strengthen the financial management information systems, the RGoB initiated the process of developing integrated web based application software, which will allow the newly introduced MYRB process to align with the accounting and reporting functions. This will substantively update and replace the existing budgeting and accounting systems as well as the interface with the Planning and Monitoring System (PlaMS) of the Gross National Happiness Commission. The RGoB launched the revised procurement manual in March of 2007, which contains the rules and regulations guiding public procurement processes in Bhutan. Other areas in which the RGoB looks to make a significant impact in improving procurement management in future years is by officially approving the creation of a public procurement policy division, which is to receive technical assistance from donors to help it become operational and fulfill its mandate. There has been institutional strengthening in PSD-related reforms. The process of starting a business has been simplified, the first Labor and Employment Act has been enacted in 2007, and related rules and regulations have been drafted. The FDI policy is currently being discussed with a view to improving it, and will help attract foreign investment when it is in operation. The Tourism Act has been prepared, and Tourism Policy and Rules and Regulations are in place to facilitate tourism growth. In an effort to improve corporate governance and operational efficiency in the state owned enterprises, the RGoB established Druk Holding and Investments (DHI), followed by the appointment of new management in some of its subsidiaries at the end of last year, aiming to spur innovation and dynamism in the SOEs.

Under *education* reforms, the DPG program supported institutional development through establishment of additional community primary schools in remote parts of the country, the reform of the curriculum for English as the medium of instruction across subjects from Grades PP to 12 along with teacher training, and the strengthening of the Education Management Information System (EMIS). The DPG operations have helped focus attention on key areas of system development which require special attention in order to ensure the achievement of over-arching development objectives. The DPG operations have achieved heightened awareness across government of the priority areas of education system development and, in this manner, helped marshal greater understanding of the challenges facing the education sector in Bhutan.

Under *health* reforms, the Ministry of Health has made important inroads in working with the community to increase awareness on the benefits of skilled birth attendance and of delivering in a health facility, as well as obtaining community support to help mothers to deliver in health centers and hospitals. The National STI Drug Policy was revised, guidelines for the use of the new drugs were prepared, and training for prescribing staff was provided—and this will have

benefits over the longer term. Quality assurance teams have been set up in all hospitals, and action plans have been developed—and once issues of insufficient capacity at the local level and a lack of resources to provide the necessary follow-up can be overcome, this will also have long term institutional benefits..

(c) Other Unintended Outcomes and Impacts

Not applicable.

3.5 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops

A workshop was held on April 30, 2008, bringing together representatives from the RGoB, the World Bank, development partners, and other stakeholders to discuss achievements, shortcomings, and lessons of the DPG program. RGoB counterparts made a series of presentations on each of the components, which were followed by discussions among the workshop participants on both the progress made and the role of the DPGs in highlighting the noted reform areas. The assessments were generally favorable, and concluded that the DPG program had made significant contributions to the institutional reforms in Bhutan.

4. Assessment of Risk to Development Outcome

Rating: Negligible to Low

The overall risk that the development outcomes will not be maintained is rated as negligible to low, individually for both operations. In fact, DPG2 helped sustain and build on the development outcomes achieved under DPG1, since, in most cases, DPG2 consolidated and carried forward reform actions from the preceding operation. The justification for the rating is described below.

Political Risks. There have been major political changes underway in Bhutan during the course of the DPG program, culminating in the formation of a new elected government in 2008. While this does propose some risk to the sustainability of the development outcomes that have already been achieved under the two operations, this assessment rates that risk as low. The political transition has been smooth and peaceful. The program has already achieved satisfactory development outcomes even through the period of governance changes. Sustainability has been helped by the extensive and careful preparation of the ongoing changes in governance, and the strong ownership of the reform program by the government (and civil service). Indeed, the RGoB views the reform program as an important source of continuity through the transition. In early-2008, the authorities formally requested a follow-up to the DPG program, to which the Bank has agreed. This shows commitment of the government to keeping the reform momentum going. Programmatic follow-up operations are under preparation, and will contribute to sustaining achievements.

Capacity Constraints. The DPG program identified risks related to technical capacity constraints and put forward some mitigation measures, including the provision of appropriate technical assistance where essential. Both DPG1 and DPG2 accounted for capacity constraints in their

design, through selectivity of focus, a limited number of up-front actions, and simplicity. There were also efforts to identify and encompass technical assistance (financed from other sources) to support the reform program—such as IDF grants for capacity building in the areas of fiscal management and procurement. Capacity building measures will continue under follow-up operations, and is unlikely to pose a major risk to development outcomes already achieved.

External Shocks. As a small landlocked country, Bhutan faces several vulnerabilities, including, most notably, the heavy reliance on hydropower for its budget, balance of payments, and growth prospects. The undiversified nature of the economy poses risks for the development outcomes. DPG2 specifically mitigated risks to the development outcomes from DPG1, as the accelerated processing schedule for DPG2 was intended to offset, in part, the impact of the delayed start-up of the Tala hydropower plant, which was an unexpected “shock”. Overall, the program’s emphasis on medium-term fiscal programming should help ensure that the multi-year consequences of investments and other decisions are forecast and taken into account. The program’s focus on improving the general environment for private sector development should help the country realize more of its potential for economic diversification, thereby reducing the magnitude of risks from external shocks to the development outcomes that have been achieved

5. Assessment of Bank and Borrower Performance

5.1 Bank Performance

(a) Bank Performance in Ensuring Quality at Entry

Rating: Satisfactory

The Bank collaborated effectively with the borrower in devising a relevant program of reforms to be supported under the DPG operations. Possible risks to program implementation were clearly flagged, and mitigatory measures were successfully adopted. Identification and design were consistent with the CAS and country priorities in the PRSP. In fact, DPG2 built on DPG1, to keep the reform momentum strong. The Bank was responsive to client concerns—as indicated in fast-tracking the preparation of DPG2 to partially offset the fiscal impacts of the delayed start-up of the Tala Hydropower Project. The DPG team maintained close contact with other donors, including CIDA, DANIDA, IMF, UNICEF, WHO, and UNDP during program identification and preparation.

The Bank team recognized upfront that, as the program would evolve, country circumstances could change, particularly in light of the pending transition to a system of democratic governance. Accordingly, a flexible approach was adopted to designing the two operations, and responding to the borrower. In particular, the team was responsive to the important reforms that RGoB was pursuing in financial management and procurement during DPG1, and showed flexibility in expanding the areas highlighted under DPG2 to include some of these reforms. The fast-track nature of the preparation of DPG2 reflected the Bank’s response to the importance the RGoB assigned to ensuring that necessary reforms are in place as a means of providing additional support to Bhutan’s first democratically-elected government and enhancing the continuity of key

policies and reforms during the transition period. Lessons from DPG1 also informed the design of DPG1, as described below in Section 6.

(b) Quality of Supervision

Rating: Satisfactory

The Bank team's supervision was satisfactory for both operations. The team maintained a proactive relationship with the government authorities during supervision, and was able to engage the government in a continued dialogue through the political transition. The DPG program was monitored through four full supervision missions, in July 2006, March 2007, November 2007, and April 2008, which included specialists to cover the different areas of support under the program.⁹ Sector specialists working on related projects in Bhutan—notably the Education Development Project (EDP), the HIV/AIDS and Sexually Transmitted Infections (STI) Prevention and Control Project, the PSD/ICT project and the procurement training project that are currently under preparation—were part of the DPG team, and, apart from actively participating in DPG missions, also provided supplementary supervision through activities for sectoral projects. The supervision missions followed up on progress on implementing agreed actions and monitoring indicators. Outside of the immediate team, the Country Director took an active interest in program implementation, and was constantly available to provide assistance as needed. In addition to regular and supplementary supervision, there were ancillary activities—under two Institutional Development Fund (IDF) grants to improve public expenditure management, and financial management—that strengthened the supervision function.

The Bank followed up on M&E arrangements during supervision as effectively as possible, given data limitations and the difficulties of attributing particular outputs and outcomes to specific actions. The Bank team's supervision plan monitored actions and review implementation progress of the operations. The Program Policy Matrix of the operations provided a results framework that described expected outcomes at the end of the program, as well as indicators to measure success. During the supervision phase of the operation, these benchmarks were regularly evaluated, and the interim steps taken by the RGoB were monitored. Monitoring and evaluation remained challenging through the program, as significant data gaps and uncertainties are still being addressed. For quantitative indicators, the supervisions missions obtained data whenever updates were available. In most cases, the team relied on administrative data collected by the RGoB. Monitoring and evaluation of development outcomes were helped by the M&E framework prepared as a part of the implementation of MYRBs, as well as the development of the EMIS.

(c) Justification of Rating for Overall Bank Performance

Rating: Satisfactory

⁹ The preparation mission for DPG2 also undertook supervision for DPG1.

The overall assessment of the Bank's performance is rated as satisfactory, both for DPG1&2. Project identification and appraisal were satisfactory, with a drawback in the form of rather broad PDO which were difficult to link causally with the progress indicators in some cases. Supervision was satisfactory at all stages of implementation.

5.2 Borrower Performance

(a) Government Performance

(b) Implementing Agency or Agencies Performance

The government and the implementing agency were the same.

(c) Justification of Rating for Overall Borrower Performance

Rating: Highly Satisfactory

The assessment finds it highly commendable that the RGoB was able to maintain the DPG program on track through momentous changes in governance, as the Kingdom made the transition to a democracy. As discussed above, all upfront actions were successfully and timely met by the RGoB prior to Board approval of the individual operations. The RGoB was always keen to engage with the Bank, and the program was designed through close interactions. The RGoB participated actively in preparation and implementation—through consultations, meetings, organizational support, research, and discussions. There were no major drawbacks or discontinuities in implementation from the RGoB side, despite the significant political changes culminating in elections in March 2008.

The Department of Aid and Debt Management (DADM), Ministry of Finance was responsible for overall implementation of the DPG program. The RGoB established an inter-ministerial group of officials, headed by the Secretary, Ministry of Finance, to provide coordination for the DPG. This group has been working with the Bank team since the inception of the program, and their growing experience and familiarity with the DPG processes has helped in smooth implementation. Some minor delays and lack of progress on specific actions have been described in Section 3.2. This is partly attributable to lack of capacity within the government, in recognition of which various capacity-building measures have been supported under both operations. That the RGoB delivered the agreed program through these shortcomings and governance changes is considered to be particularly noteworthy.

6. Lessons Learned

When DPG2 was under preparation, the DPG engagement with Bhutan was still nascent. Important lessons learnt under DPG1 informed the design of DPG2.

- Despite the small size of Bhutan and the high costs of operations, it was recognized that it was important and worthwhile to sustain a close engagement, as there are strong impacts of

Bank interventions in a small economy. Accordingly, DPG2 sought to deepen the engagement for wider and longer-lasting impacts.

- Efforts to support institutions and capacity building were seen to be worthwhile, in order to consolidate progress made on various reform efforts. Accordingly, DPG2 saw a stronger support for capacity building initiatives, with parallel IDF grants and other measures.
- Providing assistance through cross sectoral programmatic support helped to sustain momentum in the RGoB's efforts to implement its reform program. The convening power of the Ministry of Finance as the focal ministry for programmatic support helps to ensure that line ministries remain on-track for achieving agreed targets in specific sectors. Accordingly, DPG2 emphasized the need to sustain the reform momentum.

Several additional lessons also emerge from the DPG program, which will be used in the design of subsequent follow up operations.

- Identifying good indicators upfront to gauge progress can be difficult, especially in a country with limited capacity and data. The DPG experience also shows the difficulty in finding suitable indicators of progress, when attribution is difficult. The proposed follow-up operations will pay closer attention to this issue.
- Achievement of the development objectives is more likely when the upfront actions supported under such operations are part of the borrower's overall Plan objectives and goals. Accordingly, the proposed follow-up DPG program will align closely with the Tenth Plan.

Sector-specific lessons have also been learnt from implementation of the program. In education, it has been determined that: (i) the closer monitoring of migration and population trends would bring about more effective targeting for the establishment of community primary schools, and that more concerted attention is needed to avoid imposing an unnecessary burden on local communities for the establishment of schools; (ii) more time must be given for in-service training of teachers in the use of the new English textbooks that comes with the new curriculum; and (iii) additional personnel are required at the central level to manage the new EMIS, and that, as a 'living system,' the EMIS requires on-going refinement and adaptation. In health, the experience of the National STI Drug Policy shows that greater work on prevention is needed and more specialized training has to be provided, especially at lower level facilities.

7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners

(a) Borrower/Implementing agencies

The RGoB was in broad agreement with the Bank's assessment of DPG1&2. At a workshop held on April 30, 2008, bringing together representatives from the RGoB, the World Bank, development partners and other stakeholders, it was recognized that the DPG program had played a useful role in helping the RGoB more fully develop, articulate and highlight specific institutional and policy reforms. Furthermore, in a context of major governance changes and a plethora of competing priorities, the DPG had helped counterparts sustain momentum and follow-through on their stated intentions. Some concerns were raised about the lack of

earmarked funds for ministries involved in the DPG program. The DPG experience also shows the difficulty in finding suitable indicators of progress, when attribution is difficult.

(b) Cofinanciers

Not applicable.

(c) Other partners and stakeholders

Not applicable.

Annex 1 Bank Lending and Implementation Support/Supervision Processes

(a) Task Team members

P078807 - Development Policy Grant I			
Names	Title	Unit	Responsibility/ Specialty
Lending/Supervision			
Vinaya Swaroop	Lead Economist	SASEP	Team Leader
Asya Akhlaque	Senior Economist	SASFP	Private Sector
Madhvan Balachandran	Financial Management Specialist	SDNCA	Finance
Christian Eigen-Zucchi	Senior Economist	SASEP	Fiscal/macro
Mark F. LaPrairie	Education Spec.	SASHD	Education
Manvinder Mamak	Sr Financial Management Specialist	SARFM	Finance
Bala Bhaskar Naidu Kalimili	Operations Analyst	SAREP	Statistical
Dimitri De Pues	Consultant	SARPS	Procurement
Hnin Hnin Pyne	Sr. Public Health Specialist	SASHD	Health
Sandra Rosenhouse	Sr Population & Health Specialist	SASHD	Health
Corinne Siaens	Economist	SASHD	Education
Shahnaz Sultana Ahmed	Program Assistant	SASEP	Administrative

P0104931 - Development Policy Grant 2			
Names	Title	Unit	Responsibility/ Specialty
Lending/Supervision			
Christian Eigen-Zucchi	Senior Economist	SASEP	Team Leader
Asya Akhlaque	Senior Economist	SASFP	Private Sector
William Byrd	Adviser	SASPR	Macro/fiscal
Debabrata Chakraborti	Sr. Procurement Specialist	SARPS	Procurement
Pema Chewang	Consultant	SACBT	Macro/fiscal
Richard Damania	Sr Environmental Economist	SASDN	Environment
Dimitri De Pues	E T Consultant	SARPS	Procurement
Bala Bhaskar Naidu Kalimili	Research Analyst	SASPR	Statistical
Mark F. LaPrairie	Education Specialist	SASHD	Education
Manvinder Mamak	Sr Financial Management Specialist	SARFM	Finance
Kyoo-won Oh	E T Consultant	SASFP	Private Sector Dev.
Sandra Rosenhouse	Sr Population & Health Specialist	SASHD	Health
Wendy Jo Werner	Operations Officer	SEDF, IFC	Private Sector Dev.
Shahnaz Sultana Ahmed	Program Assistant	SASEP	Administrative

(b) Staff Time and Cost

P078807 - Development Policy Grant I		
Stage	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
Lending		
FY06	45	278.69
FY07		0.00
FY08		0.00
Total:	45	278.69
Supervision		
FY06		0.87
FY07	16	126.98
FY08		0.00
Total:	16	127.85

P104931 - Second Development Policy Grant		
Stage	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
Lending		
FY07	15	111.25
FY08	1	3.34
Total:	16	114.59
Supervision		
FY07		0.00
FY08	2	18.65
Total:	2	18.65

Annex 2. Beneficiary Survey Results

Not applicable.

Annex 3. Stakeholder Workshop Report and Results

A workshop was held on April 30, 2008, bringing together representatives from the RGoB, the World Bank, development partners, and other stakeholders to discuss achievements, shortcomings, and lessons of the DPG program. RGoB counterparts made a series of presentations on each of the components, which were followed by discussions among the workshop participants on both the progress made and the role of the DPGs in highlighting the noted reform areas.

It was recognized that the DPG program had played a useful role in helping the RGoB more fully develop, articulate and highlight specific institutional and policy reforms. Furthermore, in a context of major governance changes and a plethora of competing priorities, the DPG had helped counterparts sustain momentum and follow-through on their stated intentions.

Some concerns were raised about the lack of earmarked funds for ministries involved in the DPG program. The DPG experience also shows the difficulty in finding suitable indicators of progress, when attribution is difficult. However, overall, the DPG program is considered to have contributed positively to RGoB's efforts.

Annex 4. Summary of Borrower's ICR and/or Comments on Draft ICR



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DEPARTMENT OF PUBLIC ACCOUNTS
MINISTRY OF FINANCE



DPA/IDA/DPG/
October 29, 2008

241011

Ms. Ananya Basu
Senior Economist
South Asia PREM
The World Bank
70 Lodi Estate
New Delhi 110003.

Re: Borrowers Implementation Completion Report (ICR)

Dear Ms. Basu,

Please refer to your letter dated August 5, 2008, on the Implementation Completion Report for the First and Second Development Policy Grants to Bhutan.

The Royal Government of Bhutan concurs with the World Bank's evaluation of the Grant outcomes. Please find enclosed herewith an Implementation Completion Report prepared by the Royal Government of Bhutan for use by the Bank.

Yours sincerely,



(Nima Dorji)
Director

ROYAL GOVERNMENT OF BHUTAN
BORROWER'S ICR FOR FIRST AND SECOND DEVELOPMENT POLICY GRANT

A. Objectives

1. Since the beginning of the planned development in Bhutan in the early 1960s, its development philosophy is guided by the series of Five-Year development plans. The Ninth Five-Year Plan covering the period FY03 to FY08 of the Royal Government of Bhutan (RGoB) coincided with the implementation of the two development policy operations. The Ninth Five-Year Plan encompasses the medium-term policy and institutional reform program, which is also its Poverty Reduction Strategy Paper. It has five overall goals:

- (i) Improving quality of the life and income, especially for the poor;
- (ii) Ensuring good governance;
- (iii) Promoting private sector growth and employment generation;
- (iv) Preserving and promoting cultural heritage and environmental conservation; and
- (v) Achieving rapid economic growth and transformation.

2. The strategies to achieve these goals include expanding infrastructure, maintaining sound macroeconomic policy, ensuring good governance, and improving access and enhancing social services.

3. The RGoB requested for policy-based assistance during the Country Assistance Strategy consultations in early 2005, in order to pursue its poverty reduction strategy (PRS). Bhutan being rated as one of the top performer among IDA countries with high CPIA ratings in the region, and given the RGoB's commitment to move forward with its reform agenda, the World Bank agreed to provide policy-based support help Bhutan to provide impetus to the ongoing reform programs enshrined in the Ninth Five Year Plan.

4. The World Bank provided two Development Policy Grants (DPG): DPG I of SDR 10.4 million (US\$ 15 million equivalent) in FY06 and DPG2 of SDR 8 million (US\$ 12 million equivalent) in FY07 to Bhutan. The DPG I and DPG II supported key components of the RGoB program and to help meet its development goals through deepening of the policy dialogue and a process of learning. A series of development policy operation is planned to maintain the momentum of reform programs undertaken under the DPG I by building on lessons learnt, including the usefulness of the instrument in facilitating development in Bhutan.

B. Design, Implementation, and Operation experience

5. The RGoB requested for a series of policy support from the Bank for the following reasons: (i) Fungibility - it provided flexibility in terms of utilization of the proceeds based on the RGoB's priority. (ii) Simple and lower cost of administering the program – the DPG proceeds are transferred to the RGoB's consolidated account in a single tranche.; (iii) It provides added impetus to the RGoB's effort towards ongoing reform programs already initiated; and (iv) Ownership – the reform programs under the DPG are bases on medium term institutional and policy reforms reflected in the Ninth Five-Year Plan and something that has been already initiated by the RGoB.

6. As part of the institutional arrangement for DPG preparation and implementation, the RGoB has constituted a Taskforce with representations from all relevant agencies chaired by the Finance Secretary during the project preparation and implementation to ensure that stakeholders are on board. This modality facilitated the RGoB to move forward with the reform program very smoothly.

7. The first Development Policy Grant (DPG I) supported RGoB's ongoing reform program, which includes four components:

- (i) Ensuring the maintenance of a sound macroeconomic framework, strengthening fiscal policy and bolstering financial management;
- (ii) Enhancing the investment climate for private sector growth and employment generation;
- (iii) Augmenting the quality of and access to education; and
- (iv) Improving health care.

8. The expected benefits from the development policy program include:

- (i) Improved delivery of public services as a result of better public budget and financial management;
- (ii) Greater foreign direct investment and more job opportunities due to improvements in the investment climate and increased labor market flexibility;
- (iii) Higher school enrollment and completion, particularly in previously under served areas, as access to schooling services is expanded, and
- (iv) Better health outcomes in such critical areas as maternal mortality, as a result of an increased number of births being delivered in health facilities.

9. The second Development Policy Grant is a follow on operation based on the progress achieved under the DPG I, and carry forward reform program undertaken under DPG I. The policy areas supported by DPG II are as follows:

- (i) Enhance the delivery of public services by strengthening fiscal management;
- (ii) Increase the effectiveness of public spending by improving public financial management and procurement processes;
- (iii) Create better income earning opportunities by improving the investment climate, facilitating greater labor market flexibility, and increasing foreign direct investment;
- (iv) Raise educational attainment, particularly in previously under served areas, by expanding access to high quality education services; and
- (v) Reduce maternal mortality by increasing the number of birth delivered in health facilities.

10. The expected benefits of the policy operation are reducing poverty through better service delivery including in particular in education and health, promoting private sector-based growth and employment generation, and ensuring good governance.

C. Reform progress achieved under the two developments policy operations

11. *Ensuring the maintenance of a sound macroeconomic framework and strengthening fiscal policy*

The DPG program supported reforms to strengthen public expenditure management, through close coordination of macroeconomic monitoring, improved debt management practices, and introducing a multi-year budget preparation process:

- (i) The Macroeconomic Framework Coordination Committed (MFCC), a focal group for preparing MTFF has been established, and its capacity developed through successive iterations;
- (ii) New debt management system is operational, and its staff capacity strengthened. The Ministry of Finance has the capacity to produce timely debt reports, prepare projections, and undertake Debt Sustainability Analysis; and
- (iii) Public Finance Act was enacted in 2007, which provides for the development of three multi-year, and Budget Policy and Fiscal Framework Statement (BPFFS). The BPFFS covering the period FY08/09 and two further years FY09/10 and FY10/11 will be based on the same set of figures.

12. *Bolstering fiduciary systems in the areas of financial management and procurement*

- (i) The Public Finance Act 2007 provides legal underpinnings for the financial management practices in Bhutan. The RGoB will have started developing integrated web-based application software that will allow newly introduced multi-year rolling budget (MYRB) process to align accounting and reporting functions. This will replace the existing budgeting and accounting systems, enable integration with Gross National Happiness Commission's Planning and Monitoring Systems;
- (ii) Revised procurement manual was launched in March 2007, which contains the rules and regulations guiding public procurement process in Bhutan. The standard bidding documents for works and goods, and standard request for proposal for services is yet to be finalized;
- (iii) Separation of Department of Budget and Accounts into two departments – (a) Department National Budget; and (b) Department of Public Accounts in December 2005 which contributed to improved quality and timeliness of financial information and reporting;
- (iv) Revised procurement manual launched in March 2007, which contains the rules and regulations guiding public procurement process in Bhutan;
- (v) The standard bidding documents for works and goods, and standard request for proposal for services is yet to be finalized;
- (vi) The Public Procurement Policy Division was created in 2008 under the Department of National Property, Ministry of Finance; and
- (vii) Audits tabled in National Assembly for debate.

13. *Private Sector Development*

- (i) Private Sector Development Committee, a public-private consultative forum for private sector development which ceased operation in 2003 was re-invigorated and a white paper which lays out a Private Sector Development Strategy has been prepared;

- (ii) The Department of Industries has streamlined the registration process of micro enterprises with investment of less than Nu 1 million;
- (iii) The time required to start a business was reduced and a process simplified;
- (iv) The Labor and Employment Act enacted in 2007, and related rules and regulations were drafted;
- (v) The FDI policy is being reviewed to relax the minimum required amount of FDI, easing restriction on the shareholdings of foreign investors, and allowing investment in Indian rupees;
- (vi) Information, Communication and Media Act was enacted in 2006 to foster information and communication technology; and
- (vii) Tourism Development Master Plan has been finalized and Tourism Act is drafted which will be submitted to November 2008 National Assembly session.

14. *Education*

- (i) Establishment of additional 20 community schools and three new primary schools in the remote parts of the country which contributed to increase in primary enrollment rate;
- (ii) A new English curriculum has been developed and implemented for grades PP to 12; and
- (iii) Strengthening of Education Management Information System

15. *Improving Health Care Utilization*

- (i) A demand side intervention by the Ministry of Health has increased the awareness on the benefits of skilled birth attendance and institutionalized deliveries;
- (ii) More effective STI treatment protocols have been established; and
- (iii) National STI Drug Policy was revised, guidelines on the use of the new drugs prepared, and training provided to the staff.

16. On the overall, the DPG operations were successful from the fact the all upfront actions under the two operations were met timely and longer term reform progress are on track. The main factor contributing to its success is the full country ownership as the DPG operations supported the ongoing RGoB's reform program anchored in Ninth Five-Year Plan prepared through extensive consultations with 201 Gewogs and 20 Dzongkhags over two years period.

17. The most invaluable aspect of such policy operation is transfer of knowledge to the RGoB's counterpart staff. It provides an important opportunity for the RGoB counterparts to interact and learn from the team of experts in various fields thereby contributing to capacity building. For instance, the MoF is capable of preparing MTF in-house starting from FY07.

18. One of the challenges of implementing such policy operation is that of convincing the stakeholders and educating them on the overall benefits of such budgetary support to the RGoB as whole. Since the DPG proceeds goes into the RGoB's consolidated account, there is a perception by the stakeholders (line ministries/agencies) that they are burdened with additional responsibility of carrying out the reform programs without parallel increase in budgetary allocation for the same.

D. Proposed arrangement for follow on operation

19. Based on the RGOB's request for the follow on operation in February 2008, the World Bank team visited Bhutan to review progress on the reform initiatives supported by the two policy operations – DPG I in FY06 and DPG II in FY07 as well as to initiate discussion on the future programmatic operation. The Bank team and the RGoB after wide consultation have agreed upon the following broad areas of reform program: (1) strengthening governance; (2) fostering employment generation; and (3) expanding access to infrastructure.

20. Strengthening governance

There is a need to further strengthen governance particularly in the area of public expenditure management, fiduciary systems, decentralization, and anti-corruption with country's recent changes in the governance structure. The following activities are identified under governance:

- (i) Improving the BPFFS and rolling out MYRB process throughout RGoB's budgetary agencies which is currently piloted with in Ministry of Education and Ministry of Works and Human Settlement;
- (ii) Enhancing parliamentary oversight;
- (iii) Strengthening Financial Management and procurement practices;
- (iv) Block grants mechanism;
- (v) Finalizing the National Anti-corruption Strategy, mainstreaming ACC's Standard Cost Model, which looks at the administrative burden;
- (vi) Improving regulatory framework for corporate and private sector; and
- (vii) Establishing e-governance i.e. developing IT solutions and one-stop shops for the government services.

21. Fostering employment generation

- (i) Improving regulatory framework for corporate and private sector;
- (ii) Establishing e-governance, institutional strengthening of MoLHR for implementing the rules and regulations for Labor and Employment Act, developing labornet and expanding job portal;
- (iii) Improving skills match in labor market;
- (iv) Enhancing labor market monitoring; and
- (v) Providing support to SMEs

22. Expanding access to infrastructure

Providing access to infrastructure particularly rural access and electricity is a priority for Bhutan to meet its development objectives.

- (i) Institutional strengthening of DoR, MoWHS;
- (ii) Improving contract management and quality control mechanism;
- (iii) Strengthening the capacity of the contracting industry including adoption of performance based maintenance contracts; and
- (iv) Enhance FM and procurement practices

23. The RGoB on its part is committed to carry forward the reform program undertaken under the past programmatic operations as well new areas of engagement. As part of program preparation and implementation arrangement, the RGoB has constituted a Taskforce with representations from all relevant

agencies chaired by the Finance Secretary. The Taskforce will lead the discussion and provide required counterpart input to the program development and implementation. The identification / preparation mission for the follow on policy operations took place from September 22 to October 3, 2008 during which the areas of engagement were further concretized.

E. Conclusion

24. On the overall, the DPG operations were successful from the fact the all upfront actions under the two operations were met timely and longer term reform progress are on track. The success of the two DPG operation is mainly attributed the commitment and full country ownership of the DPG program.

25. It is evident from the above (the reform progress achieved under DPGs) that there is a visible impact on the ground of policy and institutional reforms supported by the two policy operations. This includes improved and rational budget preparation based on the BPFBS and adopting MYRB process, strengthened financial management, and procurement practices by providing legal backing through enactment of Public Finance Act, and revision of Procurement Manual, streamlined business start-up procedures, enhanced curricula for classes PP through 12, and strengthened EMIS, and improved health care through establishment of more effective STI treatment protocol and increased institutional delivery.

26. Drawing on the lessons learnt, and the benefits derived from the past two DPG operations, the RGoB is committed to carry forward the reform program undertaken under the past programmatic operations as well new areas of engagement. The RGoB is looking forward for implementation of the third policy operation in FY09.

Annex 5. Comments of Cofinanciers and Other Partners/Stakeholders

Not applicable.

Annex 6. List of Supporting Documents

Internal World Bank Documents:

Development Policy Grant 1

Minutes of Regional Operations Committee Review, December 20, 2006
Aide-Memoire, Appraisal Mission, February 7, 2006
Agreed Minutes of Negotiations, February 18, 2006
Aide-Memoire, Supervision Mission, August 29, 2006
Implementation Status Report, No. 1, January 13, 2007

Publicly available World Bank Documents to this Grant

Program Document, March 30, 2006
Project Information Document, December 20, 2005

Development Policy Grant 2

Minutes of Regional Operations Committee Review, March 22, 2007
Aide-Memoire, Appraisal Mission, April 17, 2007
Agreed Minutes of Negotiations, April 20, 2007
Aide-Memoire, Supervision Mission, December 26, 2007
Implementation Status Report, No. 1, August 26, 2008

Publicly available World Bank Documents related to this Grant

Program Document, May 17, 2007
Project Information Document, April 4, 2007

Other World Bank Reports

Country Assistance Strategy, Report No. 33704-BT, September 28, 2005
World Bank Indicators, World Bank 2008

Other Reports and Documents

UNDP Human Development Report 2007/2008

