

KINGDOM OF BHUTAN

**AGRICULTURE, MARKETING AND ENTERPRISE
PROMOTION PROGRAMME (AMEPP)**

SUPERVISION REPORT

NOVEMBER 2010

Loan No. 659-BT
Project No. 1296
Report No. 2355-BT

KINGDOM OF BHUTAN

Agriculture, Marketing and Enterprise Promotion Programme (AMEPP)

IFAD Loan No. 659-BT and Grant No. 780-BT

Supervision Mission: 20th October-19th November 2010

Aide-Mémoire

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A. Introduction¹

1. IFAD fielded a Supervision Mission during 20th October-19th November 2010 to review the implementation progress of AMEPP. The main objectives of the mission are to: (i) assess the implementation progress in terms of achievement of AMEPP development objectives; (ii) highlight the shortcomings; (iii) assess the efficiency of implementation processes; and (iv) review the compliance with IFAD procedures for financial management and procurement. The special focus of this mission is to: (i) establish the reasons for availability of limited balance in the Special Account and establish the correct amount of funds to be reimbursed by IFAD and amount to be contributed by Royal Government of Bhutan (RGOB); and (ii) verify compliance to procurement procedures with special reference to deviations in farm road construction.
2. The mission was in the field for 22 days. The field visits were coordinated by a team of officials from the Project facilitation Office (PFO). The mission upon arrival in Thimphu on 13th November 2010 held discussions with the officials of the Department of Public Accounts (DPA), the Engineering Division of the Department of Agriculture and Research (DOAR) and the Bhutan Development Finance Corporation Ltd (BDFCL). A pre-wrap up meeting with the PFO officials was held on 16th November to agree on a set of recommendations for implementation. This Aide Mémoire was presented at a wrap-up meeting held on 17th November chaired by the Secretary, Ministry of Agriculture and Forestry (MOAF) and attended by the officials of the Ministry of Finance (MOF), the PFO, the technical departments of the MOAF and the BDFCL. The mission would like to thank the district and PFO officials and the farmer groups for the excellent co-operation and warm hospitality provided to the mission during its stay in Bhutan.
3. As identified in the Appraisal Report, the purpose of the Programme is to *"increase the rural production potential and the income-earning capabilities of the target population directly through the introduction of more performing technologies and indirectly through reducing, where possible removing, the obstacles to their development."* This goal was to be achieved through: (i) direct and indirect support for on-farm and livestock production; (ii) provision of other economic infrastructure to increase food security and promote off-farm income generating activities; (iii) support for sound natural resources management; (iv) technical support and training of beneficiaries to ensure their credit-worthiness through capacity building in technical and financial skills; (v) credit for viable productive activities.; and (vi) provision of access infrastructure, e.g. farm roads.
4. The IFAD Loan and Grant Agreements were signed on 12th October 2005 and made effective on 14th June 2006. The total programme cost was estimated at USD 19.6 million. The Mid Term Review took place in October 2008 and the completion date is 30 June 2012.

B. Overall Assessment of Project Implementation Progress

5. Two years after the MTR took place, the programme has duly implemented the strategy recommended by the MTR, namely to focus on commercialization in areas with farm road access on the one hand, and to support subsistence-based farming in remote areas on the other, as a way to enhance impact. Potato/vegetable/pulse cultivation, dairy, poultry and piggery are hence some of the major activities that have shown promising results so far, although there are instances of failures in group-owned activities. The financial services delivery by BDFCL in the programme area continued and the collaboration between PFO and BDFCL has improved with regard to reporting. Since start-up, the programme has completed 22 stretches of farm roads/Power Tiller Tracks (PTTs) and only 8 stretches are still under

¹ Shreekantha Shetty (Mission Leader), Turi Fileccia (Agronomist, FAO Investment Centre) and Amar Mishra (Financial Management Expert). The mission was joined by Ms. Maria Donnat (Country Programme Manager) and Mr. Shankar Kutty (Regional Financial Management Officer) during 15 -19 November 2010.

construction. The quality of programme management has shown improvement with regard to collaboration with the district administrations, synchronising AWPB with that of the national Planning and Monitoring System (PLAMS) and progress monitoring and reporting.

6. The financial management related issues continued however to constrain implementation progress. During the first four months of the 2009-10 fiscal year, programme funds were not available and the 2010-11 funds were yet to be released at the time of the supervision mission. This is mainly on account of non-availability of adequate credit balance in the Special Account. Main reason for this includes inadequate capacity at the level of PFO for undertaking functions related to compilation of expenditure and preparation of WAs. This was compounded by inaccurate submission of information related to payments under various road contracts by the districts and by the inability of the MOAF to engage a PFO Senior Accountant and a software developer to reconcile the expenditure statements of the districts as had been recommended by the last supervision mission.
7. The programme was consequently able to utilize only 52.4% of the overall 2009-10 allocations. The On-Farm Development Component has performed better with the utilization of 65% of the budget allocation. Nevertheless all expected major outputs² are expected to be achieved by project completion (or have already been achieved as shown in the table below), while the mission is recommending that some activities may be simply taken over within the up-coming IFAD-funded MAGIP, so as to avoid possible overlaps and unnecessary complexity for district-level implementers.

Type of support	Appraisal target	MTR target	Cumulative achievements to date
Nb of km of farm roads and PPT to be constructed	155 (farm roads) + 240 (PPT)	248 (farm roads) + 19 (PPT)	154 (farm roads) + 31 (PPT)
Nb. of households with farm road access	3,300-4,900	3,300	2,540
Nb. of households receiving MIF and BOF	NT	75 (MIF) + 19 (BOF)	55 (MIF) + 10 (BOF)
Nb. of BDFCL beneficiaries	2,250	2,250	1,613
Nb. of VAHWs trained	120	120	318
Nb. of individual farmers trained/supported	8,100	8,100	15,106
Nb. of farmer groups supported	NT	170	157

8. Whereas sustainability of most project activities appears to be granted, sustainability of the existing farm roads and the on-going ambitious farm road expansion plan of RGOB remain issues of concern for reasons explained in Section C.4 of this Aide Mémoire. Solutions to these issues are however beyond project scope and should be taken up by RGOB itself, even though AMEPP implementation has been instrumental in highlighting the past and current problems of RGOB farm road expansion plans.

Agreed action	Responsibility	Agreed date
Prepare an inventory of farm roads in the country, estimate the investments costs required to make them sustainable and environment friendly in terms of improvements, monsoon restoration and maintenance requirements-Engineers to be recruited for this purpose by PFO.	PFO/Engineering Division	May 2011
Organize a workshop of all stakeholders to discuss policy issues such as: (i) development of a focal institutional framework to oversee farm road construction and management aspects; and (ii) programme management challenges in a decentralised governance environment based on AMEPP implementation lessons.	PFO	October 2011

² It should be noted that few quantitative targets had been identified in the Appraisal Report. Most quantitative targets were actually set post-facto during the MTR, on the basis of the detailed Appraisal Cost Tables. In addition the MTR suggested a number of new activities/targets.

C. Outputs and Outcomes, by Component

Component 1 - On-farm Production

Component 1.1 - Crop Production

9. Lower than expected achievement against targets set in AWPB of 2009-2010 is mainly due to: (i) a lower demand and requests made by the districts for certain activities; and (ii) lower (or higher) actual unit cost of the investment/development items. Expenditures were also significantly curtailed by the delayed release of funds resulting in achievement of 65% of financial targets.
10. Despite this setback, the programme has duly implemented the strategy recommended by the MTR, moving ahead from a fragmented delivery mode to adopt a cluster approach involving the provision of comprehensive packages of inputs and training to farmers organized in groups, rather than to individual farmers. This has improved efficiency and effectiveness of service delivery, as well as the impact at the group/households' level. It is also observed that programme impact has spread beyond AMEPP target groups, as neighbouring households have started emulating the practices promoted under the programme. However a great majority, if not all farmers, still lack business and enterprise management skills. This issue, if not remedied, carries a high risk of weakening the sustainability of programme achievements and outcomes. Also, as Government support now flows to the farmers in the form of grants, a trend of dependence on government support is developing. On a more positive note, some farmer groups have converted these grants into a revolving fund and have started lending schemes on their own initiative.

Agreed action	Responsibility	Agreed date
Prepare a plan for fine tuning and replicating the system of converting government support into revolving fund/lending schemes practiced by some farmer groups to all groups. PFO to provide resources	PFO/RAMCO/DAMC	on-going
Develop business management and marketing skills at farmer group level through direct farmers training and through a Training of Trainers (TOT) of Extension Agents. PFO to provide resources.	PFO/RAMCO	March 2011

11. **Crop development:** Potato is emerging as farmers' major cash earner. Albeit RGOB districts statistics indication of the contrary, potato production in the areas connected by farm roads has increased several folds, mostly because of increased potato intensity within farmers' cropping pattern. Issues on pest management are however growing and require more attention and action. Similarly, there is a need to look at storage facilities so that farmers can fetch better prices. Action is also required to sensitise farmers interested in setting-up processing facilities on the opportunities offered by the programme (e.g. MIF and BOF).
12. **Vegetable production:** Vegetable and chilli programs have performed very well and targets were exceeded. The only exception relates to the provision of plastic tunnels which has been more limited than planned as unit costs revealed to be higher than expected and because vegetable and chilli farmers limit maximum labour intensity only for their nurseries. Technology-wise, low-cost sprinklers have been in high demand and widely distributed to vegetable growers. Training in business management is required as both potato and vegetable farmers lack knowledge related to costs of production and calculation of breakeven prices.
13. **Fruit trees:** Both sub-tropical and temperate fruit tree programs have progressed well. Despite being a long-term investment, farmers appreciate enhancing their orchard areas as other crops are subject to depredation by wild animals. Additional training is required in terms of tree husbandry and in particular on pruning techniques.

Agreed action	Responsibility	Agreed date
Conduct a study of the design, cost of investment and feasibility of developing low cost storage in the eastern districts. Provide budget for new/expansion of storage facilities at farmers' village level.	PFO/RAMCO	Feb 2011
Identify best potential areas and analyze feasibility of processing businesses among supported potato growers.	PFO/RAMCO	Feb 2011
Develop business management and marketing skills at target farmer group level.	PFO/RAMCO	Feb-Mar 2011
Ensure that potato and vegetable growing farmers technical training topics include Integrated Pest Management (IPM) techniques	PFO/Districts	On-going
Conduct orchard management campaigns among beneficiary farmers	PFO/RAMCO/RC	on-going
Develop tree husbandry and pruning techniques at farmer group level through a Training of Trainers (TOT) of Extension Agents	PFO/Districts	on-going

Component 1.2 - Livestock production

14. **Dairy production:** On-farm pasture development is a highly relevant program that enables livestock producers to improve their otherwise deficient animal feeding capacity, which explains the high demand for such support interventions and corresponding over-achievements (the area brought under pasture development over the review period was reportedly triple the set annual target).
15. While the Community Animal Health Workers (CAHWs) initiative appeared during the MTR to be a success story worthwhile expanding, some inherent weaknesses are now evident. Hence RGOB policies are still against the payment of incentives to CAHWs as it would not be sustainable and would also be unequal in other regions of the country where no incentives are recognised. Support to Artificial Insemination (AI) is highly relevant and ought to be continued particularly with mobile units.

Probably because support for the establishment of dairy groups was in high demand, programme support has in some cases been provided to groups with low technical and management know-how and which had no previous experience in dairy activities. As a consequence, some groups are still underperforming and with modest potential. More attention is required by supporting groups which show some potential for sustainability and business management training should be made compulsory for all groups. A thematic study to identify the gaps in support was recommended by the 2009 SM but was not undertaken. The Department of Livestock (DOL) has undertaken a sub-sector review in October 2010. This review should be analysed and if needed integrated by the programme.
16. **Poultry and piggery:** During 2009-10, the programme supported 8 poultry groups with 107 members during 2009-10 (and 27 such groups with 317 members since start-up), as well as 8 piggery groups with 93 members. These interventions are directed toward poorest households in remote gewogs and there are first indications that these households will benefit substantially from these activities.

Agreed action	Responsibility	Agreed date
Discontinue activities related to incentives to CAHWs, new AI centers, and supply of Mithun bulls	PFO	immediate
Analyze the review done by the Department of Livestock (DOL) and if required complement to project needs.	PFO/RAMCO	April 2011

Component 2 - Marketing and Enterprise Development

17. The marketing and enterprise (ME) related program is implemented by the districts administrations and RAMCO, while the PFO implements Micro-Initiatives Fund (MIF) and Business Operations Facility (BOF). Overall, progress is 67% of allocated budget and specifically, ME activities reached 38%; RAMCO, 40%; MIF, 83%; and BOF 128% (MIF and BOF disbursements will be accounted in the 2010-2011 expenditure). Progress on market infrastructure has been minimal due to non-inclusion of marketing related activities in the approved district budget for 2009-10. Subsequently, the districts have started requesting RAMCO to provide support. Prioritisation of the district needs is required based on market potential and remoteness.

Agreed action	Responsibility	Agreed date
Prioritize the needs of the districts based on market potential and remoteness	RAMCO/Districts	Immediate
Use community contracting methods to construct marketing infrastructure as against regular contracting using Districts budget allocation.	RAMCO/Districts	Immediate

18. The **God Father Support** progress has been below expectations in 2009-10. As recommended by the SM of 2009, the districts have sent 34 nominations of educated youth for training in Rural Development Training Centre (RDTC) for preparing them for receiving support under MIF. In January 2011 training by RDTC will cover the technical but also processing, and marketing aspects. Students will be then attached as apprentices to lead farmer businesses.

Agreed action	Responsibility	Agreed date
Approve proposals complying with the MIF guidelines submitted by trained youth	PFO/RAMCO	April 2011
Disburse MIF funds	PFO	June 2011

19. The progress with regard to the **BOF** has been considerable. The PFO approved 6 BOF proposals and disbursed BTN 5.4 million compared to approval of only 4 proposals during the first four programme years. The issue of incomplete utilization of BOF funds by the Food Processing Facility in Lhuentse was raised by the Royal Audit Authority (RAA). The demand for MIF is much more than the BOF. It is observed that the PFO rejects some of the MIF proposals due to inadequate AWPB allocations.

Agreed action	Responsibility	Agreed date
Initiate required actions to comply with the audit observation with regard to BOF of Lhuentse.	PFO	February 2011
Reallocation of resources between BOF and MIF within the approved AWPB permitted subject to sending an email to IFAD informing of the reallocation.	PFO	On-going

20. Implementation performance of the **MIF** has improved substantially. PFO has approved 25 MIF proposals in 2009-10 and is expected to disburse in total BTN 3.33 million. Majority of this support is directed towards poultry and piggery related activities. The demand potential is high but awareness among farmers of this facility is still insufficient. It is noted that there is a lack of 'creativity' among district officials in assisting farmers at identifying other opportunities that could be financed through the MIF. A number of new MIF initiatives are in the pipeline. Although MIF operations are supposed to target poorest households and to alleviate poverty, careful evaluation on actual return to labour of the investment is warranted. The current ceilings hinder MIF delivery especially to groups as the ceiling is not adequate to cover investments by investment 10-15 households.

Agreed action	Responsibility	Agreed date
Increase awareness and sensitize the Farmer groups/cooperatives to obtain support under MIF based on sound proposals	RAMCO	Immediate
Increase the ceiling of MIF for individuals to BTN 100,000 and for groups to BTN 400,000	PFO	Immediate
Provide support to dairy groups that intend to purchase cows using the new DOL modality of 30% MIF support and 70% beneficiary contribution.	PFO	Immediate

21. **RAMCO** has completed a number of important studies. However, actual dissemination of relevant information to farmers has still to come. RAMCO is in the process of forming a Potato Value Chain forum, which will certainly serve the purpose for this group of producers. A similar initiative should be promoted for off-season vegetable growers and for fruit producers. The capacity building/extension activity has been very relevant and demanded. Trainings of potato production and marketing; marketing of citrus; food safety in butter and cheese production; trade shows; seed distribution for off-season vegetables; workshops on Amla processing have targeted a substantial number of farmers. These activities should continue in FY 2010-2011 based on a needs assessment study followed by a planning and programming of a capacity building program.

Agreed action	Responsibility	Agreed date
RAMCO to promote Value Chain fora for off-season	RAMCO	On-going

vegetable growers; fruit producers.		
RAMCO to plan and conduct its capacity building program based on an actual needs assessment	RAMCO	on-going

Component 3 - Rural Financial Services

22. BDFCL has disbursed BTN 10.27 million during the financial year 2009-10 to AMEPP beneficiaries and the cumulative disbursement as at end June 2010 is BTN 49.92 million. The cumulative repayment performance as at end June 2010 was 86% and the portfolio at risk was reported at 26%. The share of women in total disbursement was 58.7%.
23. The allocation of BDFCL for Incremental Credit was reduced to SDR 635,000 as against the original allocation of SDR 710,000. BDFCL has submitted in total three WAs and IFAD released BTN 42,647,000 under the Category IV-Incremental Credit, BTN 6,623,743 under the Category II- Goods and BTN 2,465,364.5 under the Category III- Training. This means BDFCL has utilized SDR 610,438.86 against the revised allocation of SDR 635,000 under Category IV-Incremental Credit. There is still a balance of SDR 24,561.14 under this category. This amount can be reimbursed by IFAD to BDFCL against the last WA submitted by BDFCL.
24. BDFCL is yet to sign the amendment to the SLA with the MOF as recommended by MTR and subsequent SM of 2009. It is necessary that BDFCL concludes this activity without any further delay. BDFCL has prepared AWPB for 2010-11 with an allocation of BTN 500,000 for office equipment, BTN 280,000 for training equipments and BTN 1,460,000 for training and study tours.
25. The programme has provided substantial resources to BDFCL. The data submitted by BDFCL indicates increase in portfolio at risk of loans of BTN 30,000 and below to AMEPP beneficiaries. The impact of the BDFCL loans of BTN 30,000 and below to AMEPP beneficiaries is yet to be quantified both at the level of households and also at the level of BDFCL. Understanding the impact of this Component is indeed essential not only from the BDFCL management's perspective, so that the necessary adjustments may be made to BDFCL micro-lending policies, but also to IFAD and other stakeholders in view of the imminent programme completion.

Agreed action	Responsibility	Agreed date
Sign an amendment to the SLA	BDFCL/PFO/MOF	15 Dec 2010
Release the balance of SDR 24,561.14 against WA already submitted by BDFCL subject to sending a copy of the amended SLA to IFAD.	IFAD	Immediate
Approve a budget of BTN 2,280,000 for BDFCL for 2010-11 for training and equipments.	BDFCL/PFO	Immediate
Conduct an Impact Assessment Study of loans of BTN 30,000 and below disbursed to AMEPP beneficiaries by BDFCL and use the budget allocated for training to undertake this activity.	BDFCL/PFO	June 2011

Component 4 - Infrastructure Development

26. **Performance:** The total target for farm roads and power tiller tracks (PTT) construction was estimated at 248 km and 19 km respectively at the time of MTR, as against the appraisal target of 155 km of farm roads and 240 km of PTTs. Against the revised targets, the programme has completed 154 km of farm road in 18 stretches and 31 km of PTTs in 4 stretches. About 97 km of farm roads in 8 stretches are currently under construction and of which 69 km of formation cutting has been completed and formation cutting on 27.57 km of farm road is on-going.
27. Out of 30 farm road and PTT stretches taken up for construction by the programme since start-up, 15 stretches have been completed within the deviation permissible without IFAD approval and 4 on-going stretches of farm roads are expected to be completed within the permissible limits of deviation. Seven stretches of completed farm road/PTT and two stretches on-going farm roads have crossed the permissible limits of deviation. In addition, SAM-FR-02 and MON-FR-05 are the two problematic cases. During 2009-10 no new irrigation channel construction was taken up.
28. Three factors impact the sustainability of farm road interventions. First, multiple agencies are involved in activities related to farm road interventions; they include Gross National Happiness Commission (GNHC), MOF, MOAF, Districts and GUP offices. The district engineers responsible for supervision of farm roads are under the technical supervision of Ministry of

Works and Human Settlement (MOHS). There is no institutional structure that is fully responsible for farm road development similar to that of Department of Roads for feeder roads. Second, the focus of RGOB is currently on farm road network expansion with little regard to improvement of existing farm roads that lack structures and require improvement. Third, RGOB is yet to put in place a budget for maintenance of the farm roads.

29. During the Mid Term review of 10th Five Year Plan, the MOAF has taken up this issue and a Committee consisting of districts, MOHS, MOAF and MOF has been formed to find a solution to this issue. GNHC is expected to lead this effort. This apart, there are challenges within the decentralised governance structure for implementing projects funded by the multilateral organizations. This includes the need for complying with the processes and procedures of these organizations. These challenges will have to be addressed based on the lessons learned from AMEPP.
30. **Approval for variation orders requested from IFAD:** The PFO had requested IFAD approval for deviation in excess of the permissible limits in respect of six farm roads: (i) MON-FR-01; (ii) SAM-FR-03; (iii) PEM-FR-01; (iv) PEM-FR-03; (v) TRA-FR-04; and (vi) TRA-FR-02. IFAD is yet to approve an additional deviation of 15% which will be over and above the permissible deviation which is 20% in case roads that are part of waiver and 15% for roads for which NOCs from IFAD have been obtained. In case of PEM-FR-01 and TRA-FR-04, approval for additional deviation is not required as the total expenditure is within the limits that does not require IFAD approval. IFAD has no objection to approve additional 15% deviation in respect of MON-FR-01 and TRA-FR-02 as these road works are on-going. In addition, IFAD's no objection for an additional deviation of 15% is not required in respect of MON-PTT-04 and YANG-PTT-04 as these contracts are below the threshold for IFAD review.

Agreed action	Responsibility	Agreed date
Approve the variation orders related to MON-FR-01, and TRA-FR-02 for additional 15% deviation.	IFAD	Immediate
PFO to immediately send signed copies of the variation orders to IFAD in respect of MON-FR-01 and TRA-FR-02.	PFO	Immediate

31. **Samdrup Jhongkar: Geylongkhar-Tokapu Farm Road - 13.7 km - SAM-FR- 02:** This farm road construction was contracted to M/S K. Gangri Constructions on 17/1/2007 for BTN 9,889,899.55. This contract was terminated on 6/11/2009 due to inability of the contractor to complete works as planned and the district administration has taken up this activity under force account. The details of actions taken by RGOB and IFAD in respect of this case are provided in Annex 2.

Agreed action	Responsibility	Agreed date
IFAD to reimburse 75% of the cost of SAM-FR-02 taking into account base cost of BTN 9,889,899.55 after completion of the road- PFO to submit a WA including this expenditure after road completion – A completion certificate jointly issued by the PFO and district administration along with the WA.	PFO	After completion of road construction
The arithmetical error in the court order related to recovery from the Contractor needs to be rectified.	PFO	Immediate

32. **Mongar: Tinkarbi(Broksar)-Silambi (Phase 2)- 10 Km-MON-FR-05:** This road works was advertised after getting IFAD approval for the tender documents. The district administration and the PFO did not request IFAD's no-objection on the bid evaluation report and its recommendations before signing the contract for this farm road works (details in Annex 2). At this stage, three options can be considered by MOAF: (i) cancel the contract with the contractor- Settle the dues of the contractor using RGOB resources - Take up the farm road works on force account basis and use IFAD (75%) and RGOB (25%) resources to finance eligible expenditure; (ii) select one or two roads constructed with RGOB resources using force account procedure up to an expenditure limit of BTN 22.00 million and treat it as AMEPP road/s and submit expenditure details for reimbursement of this expenditure; and (iii) take up a new stretch of farm road construction up to an expenditure limit of BTN 22.00 million either on force account or on contract basis. IFAD prescribed procedures will have to be followed.

Agreed action	Responsibility	Agreed date
PFO to inform IFAD of the option acceptable to MOA and obtain approval to proceed with the same.	PFO	Immediate

33. **Irrigation works:** The districts have included irrigation rehabilitation works in the AWPB for 2010-2011. The districts normally use community contracting or force account procedures for implementing these works. These works are below the threshold for prior review by IFAD. The districts are now requesting the PFO to permit them to use contracting procedures for undertaking irrigation rehabilitation works. During the wrap-up meeting, the mission was informed that RGOB procedures require beneficiary contribution for irrigation works and hence contracting is generally not permitted. It was agreed that the RGOB will consider the need for use of contracting procedures on a case by case basis and provide required approval for contracting irrigation works.

Agreed action	Responsibility	Agreed date
Seek proposals from districts to construct irrigation works on contract basis- seek MOAF approval. IFAD has no objection to use contracting procedures in addition of force account and community contracting procedures. PFO to ensure compliance to IFAD procedures.	PFO	Immediate

D. Project Implementation Performance

Programme Management Performance

34. The programme management performance has improved at the district level with improved cooperation from the districts and their active involvement in AWPB preparation. The exposure visits organised by the programme also helped to build team spirit amongst PFO and district staff. RAMCO continued its excellent collaboration with the programme and the SNV's inputs were directed through RAMCO. During the middle of 2009-10, the Senior Accountant handling programme accounts was transferred. MOF has not been able to post an experienced Accountant to handle programme accounts. The inability of the financial management staff to compile the expenditure related to the programme and preparation of WAs on time with required documentation remained one of the impediments for smooth flow of funds.
35. **Reallocation within approved budget lines:** The AWPB for 2009-10 had allocated BTN 1.4 million for in-country training and a large part of the amount allocated for this purpose lapsed. The programme is in the process of revitalising this fund and a part of this budget line may be modified to include exposure visits across the border for farmer group leaders, RNR district staff and RAMCO officials to study the market, storage and processing of NWFP, Potato and Vegetable. This exposure visit should result in a report to the MOAF detailing the findings and recommendations for implementation. The allocations for mushroom programme, mithun bull supply, fisheries program and Meat Market promotion can be discontinued and savings redistributed among the other programs. The budget lines approved in the AWPB of 2010-11 for BOF may be used for funding MIF intervention.

Agreed action	Responsibility	Agreed date
Utilize the budget for in-country training for providing exposure visit to border states of India with specific reference to NWFP, Potato and Vegetable. RGOB rates of DSA and Travel mode shall be applicable.	PFO	April 2010
Savings made in 2010-11 AWPB activities which are recommended for discontinuation to be re-allocated to more successful programs in consultation with the districts.	PFO	Immediate

36. **Preparation of AWPB for 2011-12:** The reworked financial situation indicates that approximately BTN 201 million (including earthquake response and incremental credit allocation) will be available from IFAD loan for expenditure beyond 30th June 2010. The PFO has an approved AWPB of BTN 96.20 million for 2010-2011 BTN 34.80 million of unutilised allocation of 2009-10 AWPB is expected to be revitalized. It is expected that about BTN 91 million from IFAD loan will be available for financing AWPB for 2011-12. MAGIP is expected to be on stream during 2011-12. Continuation of AMEPP's all activities beyond 2010-11 is expected to result in financial management complications and work plan overlap. It is therefore appropriate that the AMEPP's AWPB for 2011-12 focus only on farm road

construction/improvement/irrigation, MIF and BOF. In the event of the inability of the programme to spend about BTN 110 million during 2010-11, the balance will have to be added to the AWPB of 2011-12. Suggested broad allocation for preparation of AWPB for 2011-12 is provided in Annex 3.

Agreed action	Responsibility	Agreed date
Prepare AWPB for 2011-12 based on the above mentioned broad allocation – Incremental O&M costs include PFO costs except salary and travel related expenses. It includes vehicle maintenance costs of AMEPP provided vehicle in the districts and RAMCO.	PFO/districts/RAMCO	December 2010

37. **Support to Districts:** The engineering capacity at the district level remains weak. Only Trashigang district has engaged an Engineer on contract basis to oversee farm road related works. It is necessary that the programme enhance engineering capacity at the district level to expeditiously complete programme activity. Otherwise, there exists a risk of incomplete utilization of IFAD loan funds. The wrap-up meeting decided use a three pronged approach to address this issue: (i) to allocate three Engineers to the eastern region out of the ten new Engineers that will be recruited by MOAF; (ii) to request districts administrations to allocate additional time of the Engineers to complete AMEPP activities on time; and (iii) to permit PFO in collaboration with the Engineering Division to recruit three Engineers on contract basis for a period of one year.

Agreed action	Responsibility	Agreed date
PFO to approach the Engineering Division to appoint three Engineers on contract basis.	PFO	Immediate
Engineering Division to advertise, select and post the engineers to PFO – PFO to provide financial resources,	Engineering Division/PFO	March 2010

38. **Vehicle procurement:** PFO had signed an agreement on 25/7/2008 with the State Trading Corporation (STCB) for supply of 10 Toyota Hilux vehicles. After delivery, STCB submitted invoices in total amounting to BTN 11,547,330; an increase of BTN 232,080 compared to the indicative price of BTN 11,315,250 mentioned in the agreement. STCB was paid BTN 11,328,957.20 and is requesting balance payment of BTN 218,372.80. The details are provided in Annex 3. This request for payment is pending for more than one year.

Agreed action	Responsibility	Agreed date
Seek detailed justification from STCB for increase in the cost of vehicles from BTN 11,315,250 indicated in the agreement to BTN 11,547,330 as indicated in the invoice at the time of delivery.	PFO	Immediate
Send this justification to IFAD and seek approval to prepare a WA to pay the balance amount of BTN 218,372.80 to STCB.	PFO	Immediate

Monitoring and Evaluation

39. Output, Outcome and Impact level reporting for all RNR activities have now been standardised by the GNHC and the national, web-based planning and monitoring system (PLAMS) is now functional in all districts. It should be used by the PFO, especially as the programme failed to follow-up on MTR recommendations related to M&E. For this to happen, however, PFO and RAMCO staff should be trained and provided with password protocol.
40. The programme is also yet to supplement the use of RGOB district statistical data on production and sales with more AMEPP-related information. RGOB data capture the global picture including farming activities beyond programme scope. It is necessary to have the districts officers and Extension Agents collect, within their routine Gewog-level monitoring activities, and exclusively from the individual and group farmers who have benefited from programme activities, information related to outcomes. Whereas this was one of the main recommendations of the MTR related to M&E, this has yet to happen.

Agreed action	Responsibility	Agreed date
Conduct training in PLAMS for staff of PFO and RAMCO to use PLAMS and provide the password protocol to access PLAMS	PPD/GNHC	Immediate
Use the data collection format that is provided in Annex 1, as well as the post-MTR Logframe as a reference, to collect data on program specific outcomes	PFO/RAMCO	June 2011

41. **Impact Assessment Case Studies:** The programme intends to undertake 6 impact assessment case studies during the financial year 2010-11. An allocation of BTN 600,000 has been made in the AWPB for 2010-11. In addition, SNV has agreed to provide one month technical assistance for undertaking this activity. It is proposed that the programme conduct impact assessment case studies related to: (i) Farmers' Training; (ii) Farm Roads, (iii) Micro-initiatives Fund; (iv) Business Opportunity Facility; (v) Effectiveness of Extension Service Delivery; and (vi) Support for NWFPs. In view of the fact that SNV will be providing one month consultancy it would be appropriate to allocate impact assessment case study on Farmer's Training to SNV recruited consultant. The remaining five impact assessment case studies will have to be conducted by PFO by recruiting a consultant. It is estimated that about three person months of consultant input is required for completion of this activity.

Agreed action	Responsibility	Agreed date
Request SNV to undertake impact assessment case study on Farmers' Training – Send a copy of the TOR to IFAD for review and conduct this study in 2010-11	PFO	March 2011
Engage Consultant/s to undertake remaining five case studies – Send TORs for each study to IFAD for review and conduct these studies in 2011-12	PFO	January 2012

42. **RIMS Final Survey:** The program is required to conduct a RIMS final survey during the last year of program implementation. The PFO has made allocations for this purpose in the AWPB for 2010-11. It will be appropriate if the RIMS final survey is conducted during the first quarter of 2011-12. IFAD will decide whether a RIMS final survey will have to be conducted or a more programme specific Programme Impact Assessment Survey will have to be conducted and inform the PFO accordingly. The wrap-up meeting also emphasised the need for impact assessment surveys as RGOB is also moving towards outcome and impact based results monitoring. It was suggested that the Policy Planning Division (PPD) of MOAF should consult with GNHC to set in place standardised formats that can be modified to take into account programme specific needs for impact assessment survey.

Agreed action	Responsibility	Agreed date
PPD to discuss with GNHC and develop a standardized format to impact assessment surveys that can be modified to meet programme needs.	PPD/PFO	March 2011
Make allocation for RIMS final survey/Program Impact Assessment Survey in AWPB of 2011-12	PFO	December 2010
Engage a consultant to conduct the RIMS final survey/ Program Impact Assessment Survey	PFO	December 2011
Conduct the study and finalize the Report	PFO	March 2012

43. **Project Completion Report:** The programme is required to prepare a Project Completion Report. PFO has made budgetary allocation for this activity in the AWPB for 2010-11. The programme is expected to continue into 2011-12. It is therefore appropriate to make budgetary allocation in the AWPB for 2011-12.

Agreed action	Responsibility	Agreed date
Make allocation for preparing Project Completion Report preparation in the AWPB of 2011-12	PFO	December 2010
Request IFAD to provide implementation support for preparing Project Completion Report	PFO	December 2011
Engage a consultant to prepare Project Completion Report in 2011-12	PFO	March 2012

Gender focus

44. Drudgery remains the most important issue impacting the women in the rural households due to shortage of labour. The programme for the first time implemented drudgery reduction activities during 2009-10 in line with recommendations of SM 2009. As against the target of implementing drudgery reduction interventions in 22 locations proposed in the AWPB for 2009-10, the districts have started implementation in 10 locations. The programme provided equipment such as oil expeller, rice and maize crusher and threshers including materials and skilled labour for construction of a shed to house the equipments. The women groups met by the mission indicated the need for providing drudgery reduction equipments.
45. The programme initiated the process of including women in the training programmes and conducted Gewog based training programmes to enhance participation of women. The participation of women in the AMEPP training programmes was 64% during 2009-10. BDFCL's credit programme targeted women for delivery of credit. In FY 2009-10, BDFCL disbursed 397 loans to AMEPP beneficiaries and of this the share of women was 36%. BDFCL disbursed BTN 10.27 million during this period to AMEPP beneficiaries and of this 35% was disbursed to women. The programme in total approved 25 MIF interventions and expected to disburse BTN 3.32 million in respect of proposals received during FY 2009-10. The share of women in this intervention was 38% in terms of number and 46% in terms of amount disbursed.

Poverty focus

46. The programme focus on the six eastern districts, from a poverty perspective, remains relevant. As per the household categorization exercise conducted by the programme, 31-43% of the households in these districts fall under "Category C" that represents landless, women-headed households with very limited assets and dependent on sharecropping and labour for livelihood. About 43-61% of the households fall under "Category B" with households that have limited asset base and have seasonal food shortages. Lhuentse has the highest number of households in "Category C" (43%) whereas Trashigang has the lowest proportion of "Category C" households (31%). Trashigang has the highest proportion of "Category B" households (61%) whereas Lhuentse and Pemagatsel have the lowest proportion of "Category B" households (43%).
47. As far as the farm road construction activities are concerned, they have exclusively targeted and benefited households living in remote areas, which are also the areas with the highest prevalence of food-insecure households. These activities have led, among others, to improving the physical access to markets, reducing transportation costs and the costs of purchased inputs and to increase farm gate prices. Also, this has allowed farmers to expand the area under cultivation and to start with cash crops production such as potatoes, summer vegetables and citrus
48. For the On-farm Production and Marketing and Enterprise Development Components, the programme have mostly benefited "Category B and C" households. The activities related to BOF are an exception and have targeted better-off households (Category "A"), due to the capital intensive nature of this business. However, these were related to backward and forward linkages and expected to help resource poor primary producers. The activities related to agriculture production up-scaling targeted all interested farmers, including better-off households given the need to be able to achieve economies of scale in production, post-harvest handling and marketing. As for the MIF interventions, 55 were approved and financed by the programme, of which 30 were allocated for remote areas requiring 1-2 days of walk from the farm road head, again showing a strong poverty focus.

Effectiveness of targeting approach

49. As far as the farm road construction activities are concerned, the programme adopted a geographical targeting approach based on a number of criteria defined by the Department of Agriculture in the Farm Roads Guidelines (e.g. the serving area has a minimum of 10 households/km). As mentioned earlier, these activities have exclusively targeted an estimated number of 2,540 poor, often food-insecure households.
50. Looser criteria have been used under the On-farm Production and Marketing and Enterprise Development Components, such as interest in, and ability to, participate in programme activities. But, as a result, the programme was nevertheless able to reach out to a majority

of “Category B and C” households, while the better-off farmers did mostly benefit from their participation in the BOF activities.

51. Post MTR, the programme redefined the targeting criteria for provision of loans by BDFCL. All loans amounting to up to BTN 30,000 are hence now considered loans provided to AMEPP target groups. This is however an “artificial” criterion as there is no indication that under Component 3, BDFCL beneficiary households are the same households targeted under the other programme Components. Nevertheless, loans up to BTN 30,000 are small loans adequate to buy a local cow and the MTR had felt that such small loans would allow the poorer sections of the society to self-target themselves for participation under Component 3.

Knowledge Management

52. Although there has not been a systematic approach for the generation, documentation and sharing of knowledge, a number of knowledge products have nevertheless been generated. Hence RAMCO, with the assistance of SNV, conducted studies on the production and marketing of honey, areca nut, ginger, fish and milk. These reports are in the process of being finalized. The findings of these studies will be disseminated to the districts and the technical departments. RAMCO has also finalised a report on citrus in Dungmin Gewog. The knowledge generated by these studies has been duly incorporated into the development of intervention packages with RGOB and AMEPP support.
53. Upon realizing, at MTR, that implementation of programme activities in a scattered manner did not yield the expected results, programme support has been re-directed to producers’ groups, as opposed to individual farmers. With technical backstopping from SNV, this led to the generation of lots of useful knowledge on group formation, this knowledge being mainstreamed by the RAMCO and even the MoAF. The reports prepared by SNV on various aspects of capacity building, production and marketing are kept with the PFO and RAMCO for easy access by all the stakeholders. RAMCO circulated copies of these studies and reports to the districts and other stakeholders, in addition to conducting training programme and workshops for dissemination of knowledge.

Partnerships

54. There was no support from SNV to PFO during 2009-10. However, SNV continues its support to the eastern districts by collaborating with RAMCO. These included a series of studies on commodities that hold potential for up-scaling.
55. SNV has also agreed to provide one month TA support to AMEPP for conducting impact assessment case study. The programme is in the process of developing partnership with National Council for Women and Child Development (NCWC) and National Women’s Association of Bhutan (NWAB) to analyse the gender disparities prevalent in the rural communities of the eastern districts and to suggest ways and means of addressing these issues. Partnership with NCWC and NWAB will facilitate their long term involvement in the eastern districts to address women related issues.

E. Fiduciary Aspects

56. **Recalculation of programme expenditure:** The mission undertook compilation, reclassification and recalculation of the eligible expenditure of the programme using the BAS reports of all the districts and PFO. This calculation indicates that programme has spent BTN 509,379,454.75 of which IFAD will have to reimburse BTN 434,588,544.45 and the balance will be the contribution from RGOB. IFAD excluding the advance to Special Account has released BTN 310,830,394.23 till date and a balance of BTN 123,279,168.68 will have to be released by IFAD (Table 1 below): (i) USD 1,094,955.41 (equivalent BTN 51,156,334.95) to the Special Account out of the total amount; (ii) BTN 65,086,206.86 to RGOB as imbursement to settle pre-financing dues and other additional payments; and (iii) BTN 7,036,626.87 towards earthquake response expenditure-IFAD will replenish equivalent of SDR 3,268.69 to the Earthquake Special Account and balance will be adjusted towards advance provided to the Earthquake Special Account. In addition, USD 69,266.97 (SDR 44,485.17) will have to be released by IFAD to the Special Account being exchange variance.

1	Recalculated Eligible Expenditure (BTN) up to 30/6/10	509,379,454.75
2	Share of IFAD (BTN)	434,109,562.91
3	Share of RGOB (BTN)	75,269,891.84
4	Amount already disbursed out of IFAD share (BTN)	310,830,394.23
5	Balance to be disbursed by IFAD (BTN)	123,279,168.68
	(i) Proposed replenishment to Special Account (BTN)	51,156,334.95
	(ii) Proposed reimbursement to the Government (BTN)	65,086,206.86
	(iii) Advance adjustment/balance release for earthquake Special Account (BTN)	7,036,626.87
6	Exchange variance to be reimbursed IFAD into Special Account (USD)	69,226.97

Agreed action	Responsibility	Agreed date
PFO make a WA for BTN 51,156,334.95 and USD 69,266.97 for replenishment to the Special Account	PFO	Immediate
PFO make a WA for BTN 65,086,206.86 for reimbursement to MOF	PFO	Immediate
Prepare a WA for BTN 7,036,626.87 being expenditure under earthquake response - IFAD to release equivalent to SDR 3,268.69 against this to the Earthquake Special Account and adjust the balance towards advance to the Special Account	PFO	Immediate
PFO prepare monthly WA and submit the same along with BAS statement, contract log and sub-ledgers for each contract/force account works	PFO	On-going

57. **Disbursement:** IFAD had allocated SDR 9.25 million for implementing AMEPP. As at 9th November 2010, IFAD had reimbursed SDR 4,471,094.02 (excluding initial advance). The balance amount to be reimbursed by IFAD works out to approximately SDR 1,841,836.10. With the proposed disbursement, the total disbursement from the IFAD loan account will be SDR 6.31 million being 68% of the total allocation. Details are provided in Annex 3.
58. **Financial management.** The programme accounts are maintained at two levels. The MOF maintains Special Account dominated in USD whereas the PFO and six districts maintain operational level accounts. During the period 2005-06 to 2009-10, the public accounts of RGOB at all levels were maintained in a computerized Budgeting and Accounting System (BAS). MOF replaced the existing BAS system with a Public Expenditure Management System (PEMS) during the current financial year. The new system has more facilities compared to BAS. This system is web based and the data are stored in a server maintained within MOF.
59. As documented in earlier supervision or MTR reports, quality of financial management has been consistently poor since programme start. Combined with poor adherence with IFAD procurement guidelines, this has resulted in the recurring depletion of the Special Account and in implementation stand still. The mission was nevertheless able to clarify the exact financial situation of the project (see paragraph 57).
60. **Assets Management.** The Mission verified the fixed and current asset records maintained in the districts on a random basis. In Pemagatshel, the receipts and issues were recorded in different places as against the requirement of registering in the same place to reconcile receipts with issues whereas in Mongar, the issues were recorded as receipts.

Agreed action	Responsibility	Agreed date
Advise the RNR staff of districts to maintain asset registers as prescribed by RGOB	PFO	Immediate

61. **Request for Reallocation of IFAD Loan Funds:** In order fully disburse the projected reimbursement of BTN 65.09 million to RGOB as part of the proposed WA 32, it is necessary to seek reallocation of IFAD loan funds between the categories of expenditure as the expenditure under Incremental Operating Costs category exceeds the allocation by more than 30%. The proposed reallocation to be requested by the MOF is provided below:

Category	IFAD Loan Allocation (SDR)	Expenditure as at 30 June 2010 (SDR)	Projected Expenditure 2010-11 (SDR)	Projected Expenditure 2011-2012 (SDR)	Total projected expenditure (SDR)	Reallocation requested (SDR)
I (a) – Building, Road Construction Engineering fee and skilled labour	4,100,000.00	2,935,403.84	510,283.12	803,331.43	4,249,018.39	4,250,000.00
I(b) Irrigation, Studies and Investigations	323,000.00	154,202.45	58,318.07	253,683.61	466,204.13	470,000.00
I(c) Earthquake response	150,000.00	0.00	150,000.00	0.00	150,000.00	150,000.00
2 –Goods	1,800,000.00	1,132,217.07	291,590.36	72,391.05	1,496,198.48	1,500,000.00
2(a)- Goods Earthquake	175,000.00	102,590.63	72,409.37	0.00	175,000.00	175,000.00
III- Training	1,195,000.00	845,938.74	161,832.65	0.00	1,007,771.39	1,030,000.00
IV- Incremental Credit	635,000.00	610,438.86	24,561.14	0.00	635,000.00	635,000.00
V-Rural Support Funds	603,000.00	125,326.02	274,094.93	131,215.66	530,636.62	530,000.00
VI- Technical Assistance	0.00	0.00	0.00	0.00	0.00	0.00
VII- Incremental Operating Costs	269,000.00	406,812.52	66,599.24	67,065.78	540,477.54	540,000.00
Total	9,250,000.00	6,312,930.13	1,609,688.88	1,327,687.53	9,250,360.54	9,250,000.00
Amount in BTN		432,999,925.72	110,407,552.68	91,065,256.74		

Agreed action	Responsibility	Agreed date
PFO to coordinate with MOF and send a request to IFAD for reallocation of resources as indicated in the table above.	PFO	Immediate

62. **Special Account:** IFAD has made an advance payment of USD 1.4 million to the Special Account in September 2006 to enable the RGOB to fund the programme activities of PFO and six programme districts. The closing balance of the Special Account as at 31st October 2010 was USD 235,777.64. This closing balance has been used for reconciliation purposes. The programme has a separate Special Account for earthquake response and IFAD has disbursed an advance of USD 490,000 (SDR 321,731.31) on 20 April 2010 to this account.
63. **IFAD Grant:** IFAD had approved a grant of SDR 70,000 (approximately USD 100,000) for Technical Assistance. An initial advance of SDR 53,367.84 was paid from this grant. IFAD had adjusted SDR 12,874.99 towards expenditure details provided in WA 2. The programme will have to submit a fresh WA for USD 77,200 being amount paid to SNV. IFAD will reimburse the balance after adjusting the advance of SDR 40,492.85. After this payment, the grant account will have a balance of about USD 9,500 based on the prevailing exchange rate.

Agreed action	Responsibility	Agreed date
PFO submit WA for USD 77,200 and IFAD to adjust the outstanding advance and reimburse the balance to RGOB.	IFAD	Immediate
Use the balance of about USD 9500 available under the grant account to recruit a consultant for undertaking RIMS final survey/Impact Assessment Survey	PFO	June 2011

64. **Audit:** AMEPP audit report for FY09-10 is due by end December 2010. Royal Audit Authority has planned to conduct the audit during the last week of November 2010. It is unlikely that the PFO will be able to submit the audit report before the deadline. There has been substantial improvement in the time taken to submit the audit report from five months delay in FY 2007-08 to 2.5 months delay in FY 2008-09. The audit report submitted by the PFO for FY 2008-09 does not include the audit observations of six programme districts. The details of unsettled audit recommendations related to PFO in respect of previous years will be provided in the final report. The audit report of the districts does not have a separate chapter for AMEPP. The mission with the assistance of RNR Accountant reviewed the FY 2008-09 audit reports of all six districts. There audit observations were mainly related to excess payment to the contractors of farm road and non-deduction of liquidated damages for late completion. All these observations were settled by the districts.

Agreed action	Responsibility	Agreed date
PFO to compile the audit observations related to AMEPP from the audit reports of all districts and to maintain an audit log	PFO	Immediate

65. **Compliance with loan covenants.** Programme expenditures are financed by the Government and the IFAD Loan following the Government budgetary system, which is in line with the Sections 3.04 and 3.05 of Article III of the Programme Financing Agreement. The procurement of works, goods and services has been undertaken in accordance with the Procurement rules and regulations of the RGOB.

F. Sustainability

66. **Institutional sustainability:** The Department of Marketing and Cooperatives (DMAC) of MOAF is charged with the responsibility of development of farmer groups and cooperatives. The program has supported several farmer groups to undertake activities related to dairy, poultry, piggery, vegetables, potato and citrus. DAMC has prepared an inventory of farmer groups and cooperatives and is in the process of preparing a training master plan for building capacity of these groups. Once the capacity building exercise is put in place, the groups/cooperatives will start taking first step towards sustainability.
67. The second most important factor that determines institutional sustainability of the farmer groups is the group cohesiveness and democratic functioning. The farmer groups mobilised under the programme are activity based groups and have been formed based on geographical proximity, interest in similar activity and affinity amongst the members. Election of office bearers and opening of bank account and provision of loans amongst members using group savings are some of the institutional strengthening activities the groups have taken up without government/programme support which should be seen as a sign of self motivation and institutional maturity. This also indicates high chance of these groups achieving institutional sustainability. The third factor that enhances sustainability of groups is the linkage to RNR centres and extension officials of the district administration and also to the BDFCL.
68. **Social sustainability (Empowerment):** The cluster approach with package of interventions implemented by the programme has enhanced the cohesiveness amongst the group members. This is evident from the ability of the group members to take up issues related to livelihood activities with local administration, markets and service providers. In addition, the group members have started collecting savings and providing loans to needy members enhancing the ability of the members to cope with the household level emergencies. The poultry and piggery interventions have been directed towards women in remote areas. The income from these activities has reduced their dependence on remittances and loans. The programme has facilitated the women to deal with the markets and service providers.

69. **Economic and financial sustainability:** The data collected from various livelihood activities such as poultry and piggery promoted by the programme indicates that the participating households barring a few exceptions are able to generate enough revenue to pay for second cycle investment. The interventions promoted are profitable and the profitability can be enhanced by developing local feed formulation.
70. **Technical sustainability:** Technical sustainability of the farm road remains an issue of concern. RGOB is pursuing an ambitious farm road expansion programme. There is inadequate resource allocation for monsoon restoration and maintenance. It is necessary that the government make necessary allocations for ensuring sustainability of the farm roads. Recommendations with regard to improving technical sustainability of farm roads have been made separately under the overall assessment of the project implementation progress.
71. **Environmental sustainability:** Similar to technical sustainability, the environment sustainability of the farm roads requires investment in the use of Environment Friendly Road Construction (EFRC) techniques and also essential structures to prevent landslides and environment degradation. Recommendations with regard to improving technical sustainability of farm roads have been made separately.
72. **Exit strategy:** The exit strategy of the programme is dependent on increased resource allocation for monsoon restoration, structures and maintenance of the farm roads built under the programme. The recommendations related to this are made elsewhere in this Aide Mémoire. The minor maintenance is allocated to Farm Road User Groups. Some of these groups intend to levy toll on the trucks using the farm road which requires legal sanction. Implementation of this system can be facilitated by DMAC registering the Farm Road User Groups and allowing these groups to incorporate levying toll on farm road users as one of the functions in the bye laws.
73. The other aspect of exit strategy related to registration of farmer groups, capacity building of farmer groups and establishing linkages with market and service providers have progressed satisfactorily and it is expected that most of the producer groups will operate on a sustainable basis. As for the most recently established groups, there is no need for an exit strategy per se as the plan is that continuing support will be provided in the framework of MAGIP, the up-coming IFAD-funded project which will expand and upscale AMEPP achievements.

Agreed action	Responsibility	Agreed date
Register the Farm Road User Groups and incorporate levying toll as one of the functions	DAMC/RAMCO	

G. Impact

74. The programme is yet to undertake impact assessment case studies to assess the impact of programme interventions on the physical and financial assets of the participating households. This will be conducted during this financial year. The mission undertook a participatory impact assessment of four farm road user groups comprising 95 members. The members were requested to report on four indicators related to physical and financial assets, crop production and cash income. The results of this assessment combined with mission's field visit observations indicate substantial benefits accruing to the households connected with farm roads.
75. **Physical and financial assets:** The results of the participatory assessment conducted by the mission indicate that about 18% and 26% of the households report substantial improvement in homestead infrastructure and in household furniture/equipments/durables respectively.

Indicator	Percentage of households reporting:			
	Substantial Improvement	Moderate Improvement	Marginal Improvement	No improvement
Investment in homestead infrastructure improvement	18	41	27	14
Investment in household furniture/equipments/durables	26	45	19	9

76. **Food security:** The mission field visit indicates that the households have increased production of milk, potato, fruits and vegetables. The participatory impact assessment conducted by the mission indicates substantial improvement with regard to production of cash crops in respect of 41% of the households. The main reason for increased production of cash crops is easy access to market due to farm road construction.

Indicator	Percentage of households reporting:			
	Substantial Improvement	Moderate Improvement	Marginal Improvement	No improvement
Improvement in production of cash crops (potato, fruits, vegetables, ginger, kidney bean and pulses)	41	43	15	0

77. **Increase in incomes:** The farm roads have considerably improved accessibility and reduced the transportation costs. This has resulted in increased sale of major agriculture produce and resultant higher level of cash income in the hands of farmers. The participatory impact assessment indicates that 39% of the respondents have indicated substantial improvement in cash income levels and 48% of the respondents have reported moderate improvement in cash income.

Indicator	Percentage of households reporting:			
	Substantial Improvement	Moderate Improvement	Marginal Improvement	No improvement
Increase in cash income	39	48	12	0

78. **Policy impact:** AMEPP activities had considerable impact on policy developments in three major areas. First, the MOAF switched to a strategy of up-scaling production of crops that have market potential and comparative advantage in Bhutanese context using value chain analysis. Second, the Farmer Groups mobilised in the East have become a reference point for development of act, rules and regulations for registration of farmer groups and cooperatives. Such approaches are now being replicated by the MOAF in other part of the country, which is a significant achievement. Third, there has been considerable policy dialogue related to the need for building structures for the farm roads and also allocating resources for maintenance of farm roads. This has resulted in increased unit cost of farm roads from BTN 1.3 million to BTN 3.0 million to include all required structures. Again, this represents for AMEPP and IFAD a significant achievement.

H. Conclusion

79. The re-categorization and calculation of correct amount of eligible expenditure and preparation of WAs for the balance amount to be reimbursed by IFAD will result in settlement of the accounts until 30th June 2010. It is necessary that the programme management maintain the required diligence in financial management and procurement and complete activities proposed under the programme.
80. As the continuing depletion of the Special Account, and resulting flow of funds problems, had been the number one factor hindering smooth programme implementation, the mission is optimistic that the programme will manage to achieve, and even exceed in many areas, all planned major outputs by expected completion date.
81. It is however the recommendation of the mission that, for the last year of implementation, programme activities shall only focus on MIF/BOF support and farm road/PPT construction, while Component 1 and 2 activities shall be taken over by the upcoming IFAD-funded Market Access and Growth Intensification Project (MAGIP), provided that MAGIP activities will start as planned.
82. The draft Aide Mémoire was presented at a wrap-up meeting held on 17th November chaired by the Secretary, Ministry of Agriculture and Forestry (MOAF) and attended by the officials of the Ministry of Finance (MOF), the PFO, the technical departments of the MOAF and the BDFCL. As conveyed during this wrap-up meeting, IFAD and the Royal Government of Bhutan endorse the findings and recommendations of the supervision mission.

Maria Donnat
Country Programme Manager

Sherab Gyaltshen
Secretary to the MOAF

Date

Date

Appendices and Annexes

- Appendix 1 Summary of project status and ratings
- Appendix 2 Progress against previous mission recommendations
- Appendix 3 Financial: Actual financial performance by financier; Disbursements by category and by component
- Appendix 4 Compliance with financing agreement covenants: Status of implementation
- Appendix 5 Physical progress measured against AWP&B and appraisal targets
- Appendix 6 RIMS Table
- Appendix 7 Learning and innovation
- Appendix 8 Audit log
- Appendix 9 Supervision mission schedule

- Annex I On Farm Production, Marketing and Enterprise Development
- Annex II Farm Road and PTT Construction
- Annex III Financial Management

Appendix 1: Summary of Project Status and Ratings

A. Basic Facts

Country	Bhutan	Project ID	1296	Loan/Grant No.	659
Project	Agriculture, Marketing and Enterprise Promotion Programme			Supp. Loan/Grant	780
Date of Update:	1-Dec-2010	Supervising Inst.	IFAD	Financing terms	D
No. of supervision missions:	4	Last supervision mission:	Oct 2009		
No. of implementation support/follow-up missions:	-	Last Impl. Sup/Follow-up mission	-		

					USD million	Disb. rate
Approval	19-Apr-05			Total costs		
Agreement	12-Oct-05	Effectiveness lag	8 months	IFAD loan	13.91	62%
Effectiveness	14-Jun-06	PAR value		DSF grant		
MTR	01-Oct-08			IFAD grant	0.10	95%
Current completion	30-06-12	Last Amendment	21-Dec-09	Domestic Fin. Inst.		
Current closing	31-12-12	Last Audit	FY 2008-09	Counterpart funding	4.03	
No. of extensions	0			Total costs	19.65	
				Cofinancing	1.61	
				<u>Cofinanciers</u>		

B. Project Performance Ratings

B.1 Fiduciary Aspects	Last	Current	B.2 Project implementation progress	Last	Current
1. Quality of financial management	3	3	1. Quality of project management	3	3
2. Acceptable disbursement rate	4	4	2. Performance of M&E	3	3
3. Counterpart funds	4	5	3. Coherence between AWPB & implementation	4	4
4. Compliance with loan covenants	4	5	4. Gender focus	4	4
5. Compliance with procurement	4	3	5. Poverty focus	5	5
6. Quality and timeliness of audits	4	4	6. Effectiveness of targeting approach	5	5
			7. Innovation and learning	3	4

B.3 Outputs and outcomes	Last	Current	B.4 Sustainability	Last	Current
1. On-farm Production	4	4	1. Institution building (organizations, etc.)	5	5
2. Marketing and Enterprise Promotion	3	4	2. Empowerment	4	4
3. Rural Financial Service	3	4	3. Quality of beneficiary participation	4	4
4. Infrastructure	4	4	4. Responsiveness of service providers	4	4
5. Management	3	4	5. Exit strategy (readiness and quality)		4
			6. Potential for scaling up and replication	4	5

Justification: Cluster approach and market orientation has helped improve the efficiency of service delivery and benefits accruing to the farm households under on-farm and marketing components. BDFCL has completely utilized its allocation for providing loans not exceeding BTN 30,000 to the beneficiaries of eastern districts. The program is making good progress towards physical targets. The targets for farm road/PTT construction are expected to be achieved. The program's M&E effort needs to be strengthened to capture outcomes and impact. The exit strategy seems assured by the on-going efforts for group registration and capacity building.

C. Overall Assessment and Risk Profile

	Last	Current
C.1 Physical/financial assets	3	4
C.2 Food security	4	4
C 1 Overall implementation progress (Sections B1 and B2)	4	4

Justification for rating:

The program is progressing satisfactorily to meet the physical targets revised during MTR. A participatory assessment conducted by the mission indicates substantial improvement in terms of assets, food security and income. More information is needed to quantify these benefits.

C 2 Likelihood of achieving the development objectives (section B 3)	5	4
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Justification for rating

Most programme targets are expected to be met by project completion and outputs related to infrastructure, financial service, technology and training are expected to result in significant reduction in poverty of the participating households. The challenge is however to quantify these results and use them to influence policies for the development and management of farm roads and other infrastructure. A score of 4, instead of 5 is herewith given this year to alert PFO and MoAF's attention on the urgent need to document programme impact before completion date.

C 3 Risks <i>Short description of major risks for each section and their impact on achievement of development objectives and sustainability</i>		
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Fiduciary aspects	There is a continuing need to improve financial management. Current processes pose a risk in terms of not being able to meet IFAD financial and procurement guidelines
Project implementation progress	The programme implementation progress is satisfactory.
Outputs and outcomes	There are no significant risks at the output and outcome level – programme activities are generating good results.
Sustainability	The reorientation of the programme activities towards groups and cluster approach has enabled the programme to move towards sustainability. The progress towards sustainability is further enhanced by the efforts of MOAF to register farm groups and build their capacity.

D. Follow-up Action

Issue/problem	Recommended Action	Status/Timing
Compliance to Procurement Guidelines of IFAD	PFO to closely monitor compliance of the district administration to IFAD procurement guidelines.	On-going
Replenishment to Special Account	PFO to submit monthly WA using BAS statements	On-going
Engagement of Engineers	PFO to recruit additional engineers to districts	Immediate
Sustainability	Convert government support into revolving funds for use by the community to ensure recycling of government support.	Ongoing

Appendix 2: Progress against Previous Mission Recommendations – SM 2009

Component & Activity	Agreed Action	Follow-up actions taken
ON-FARM PRODUCTION		
Group Mobilization Support	Prepare an inventory of existing and emerging groups and assess the capacity of these groups to analyze their training needs and explore the possibility of getting SNV support for this activity	RAMCO with support from SNV has undertaken an inventory and capacity assessment of existing farmers groups. Some of the selected groups have been provided with financial management & leadership training. Registration and certification of these groups for eventual up-gradation to cooperatives is also being done.
	Include the budgets for undertaking the identified training programs in the AWPB of 2010-2011.	RAMCO has an approved budget of Nu 0.360 million to train selected farmers' groups in AWPB 2010-2011
Up scaling Kidney Bean Production	Sensitize the farmers on the benefits of kidney bean production	Farmers of Uzorong, Drepong, Khengkhar, Jurmey, Kalapang and Tsamang (200 plus farmers) were sensitized on the production and marketing of Rajma beans. Districts are expected to continue this activity.
	Increase the targets for Kidney Bean up scaling for the financial year 2010-2011.	Based on the recommendation of the IFAD supervision mission, physical target has increased by 60%.
Potato Seed Groups	Increase the number of potato growers' groups.	Not implemented. This activity will be taken up during 2010-11
	Identify groups capable of seed production in each district.	Groups capable of seed production identified.
	Support the Seed Growers Group with seed purchase arrangement for two years.	The farmers were also supported with seeds in 2009-2010. RAMCO has approved budget under RGoB for seed purchase and distribution for 2010-2011.
	Distribute the seed to the needy groups with preference to those with infected seeds after setting up a system for recover of seeds provided for redistribution to other groups.	The seed will be distributed to the farmers groups upon requisition. RAMCO has established a system that once seed is distributed on 1:1 basis so the farmers have to return and the extension will collect and distribute to other needy farmers group in next season.
	RAMS, PFO and SNV to present the study on the constraints in the potato marketing channel to the MOA.	The report on value chain on Potato has been published and widely distributed to the stakeholders. The constraints have been presented to PCCM.
	Draw up an action plan based on the above consultation with a set of activities and budgets for implementation during 2010-2011.	As per the findings by VC analysis, RAMCO made an attempt to communicate forecasted price information of this season to the districts and the farmer groups.
Support for Non-Wood Forest Products (NWFPs)	Seek new BOF/MIF proposals from NWFP groups for purchase of cutting, drying and packaging equipments and packaging materials	In Collaboration with SNV, RAMCO assisted CFMGs of Kalapang, Dozam, Bagain and Pam (Kheng) in alma processing and helped to prepare a proposal on deseeding machine under MIF.
	Mobilize additional groups /individuals for NWFP activities and make budget provisions accordingly in the AWPB for 2010-2011	RAMCO has identified two groups on amla in Lhuntse and further will find some in Trashigang Dzongkhag. Budget has been proposed in AWPB 2010-2011
Support to Dairy Groups	Undertake a thematic review of the dairy groups supported by the programme in the eastern region in collaboration with the	Not implemented

Component & Activity	Agreed Action	Follow-up actions taken
	Department of Livestock (DOL) and RAMS	
	Include budget requirements for providing support identified in the thematic review in the budget for Dzongkhags after careful prioritization and subject to availability of funds	Not implemented
	Include budget requirements for marketing infrastructure and processing equipments into the budget of RAMS	Not implemented
Support to Poultry Groups	Undertake a thematic review of the poultry groups supported by the programme in the eastern region in collaboration with the DOL and RAMS.	Not implemented
	Include budget requirements for providing support identified in the thematic review in the budget for Dzongkhags after careful prioritization and subject to availability of funds	Not implemented
Marketing and Enterprise Promotion		
Godfather support	Initiate negotiations with Daphney Paper Unit in Trashiyangtse.	Could not implement this due to non-availability of suitable candidate.
	Prepare an action plan for selection of Dzongkhags for establishment of Daphney Paper Units and also selection of youth for training in Trashiyangtse unit and include this activity in the AWPB for 2010-2011	PFO has written a letter to the districts to give a list of educated youth interested to undergo training and to establish enterprise after the training.
	Initiate the activities for selected educating youth for training in RDTC and central and private farms and include this activity in the AWPB for 2010-2011	Discussed with RDTC regarding the training program. Once the name list of youth for different training is received we will negotiate with the RDTC, central farms and private firms
Business Opportunity Facility (BOF)	Revise the guidelines for sanction of BOF including the aspects related to feasibility report and action plan with time frame and communicate the same to all Dzongkhags.	The requirement related to feasibility report and time frame for completion of activities has been communicated to the districts.
	Circulate revised guidelines to all the technical departments	All districts informed
	Advise districts to take the assistance of RAMS for preparing feasibility report and marketing plan	All districts informed. SNV/RAMCO conducted a special program for Livestock sector, Trashigang in business planning and marketing.
	Revise the terms of conditions of the agreement between the beneficiary and the districts to: (i) indicate utilization of BOF for only machinery, equipments and working capital and not for building; (ii) include an action plan and time frame for completion of the activities; (iii) disbursement in installments depending upon progress in work; and (iv) penalties for non-completion as per the agreed action plan	All districts informed
	Prepare and submit a progress report on BOF granted in Samdrup Jongkhar.	Progress Report submitted.
	Recover the funds disbursed to BOF in Samdrup Jongkhar in the event Dzongkhag officials are unable to make the BOF unit operational	BOF unit has become operational
	Constitute a team comprising officials from the PFO, RAMS and the Livestock Officer of Mongar Dzongkhag to address the issues raised by the Ngatshang and Chaskar Dairy Groups and study the feasibility of the BOF proposal submitted for establishing a MPU	MPU unit rejected

Component & Activity	Agreed Action	Follow-up actions taken
Micro-Initiatives Fund (MIF)	Organize Grant Approval Committee's meeting at least twice a year depending on the need.	Implemented
	Send progress reports for each micro project funded by MIF to the PFO on a quarterly basis	Implemented
	Revise the guidelines for sanction of MIF including the aspects related to preparation of an action plan with time frame for completion of activities and communicate the same to all Dzongkhags and accordingly sensitize Gewog Extension Officers	All districts informed
Marketing Infrastructure	Issue an executive order advising all the six eastern Dzongkhags to obtain clearance for site selection and design from RAMS before starting construction work	Low cost design has been forwarded to RAMS office for future reference
	Use the services of the Project Engineer to assist in low cost design of the marketing Infrastructure	The Dzongkhags has been informed to use the design of marketing infrastructure developed by Project Engineer
	Include the shortfall in the target for construction of collection points during the FY 2008-2009 into 2009-2010 by seeking supplementary budgets	Not implemented
Zero Energy Cooling Chambers	Build a cooling chamber each in Samdrup Jongkhar and Pemagatshel Dzongkhags with technical assistance from the DOA and study the efficacy of this intervention.	At Samdrup Jongkhar vegetable market one unit of cooling chamber has been constructed. This type of cooling chamber is expected to be useful at household level..
Buyers' Sellers' Meet Event	Include the activity of supporting trial marketing of citrus through Tamabil Route in the AWPB for 2010-11	RAMCO with Bhutan Exporters' Association (BEA) has explored this new route. Budget allocated in the AWPB 2010-2011 to conduct trial marketing of citrus through the new route.
Rural Financial Services		
	An amendment to the BDFCLSA to be signed between BDFCL and MOF, and copies to be sent to IFAD and the PFO	Not implemented
	Compile data as per the templates provided by the MTR and transmit data relating to 2007, 2008 and up to 30.6.2009 to the PFO and IFAD. Thereafter reporting shall be on a quarterly basis.	
	Exact amount of reimbursements to be claimed to be informed to BDFCL after receiving information as per the MIS formats provided.	Implemented
	Submit WA to IFAD based the information provided by IFAD.	Implemented
	Use projections of the BDFCL branches for allocating disbursement targets in the coming AWPB	Loan projected branch wise and prepared work plan prepared as per the allocation.
	Submit audited extract of the ledger account related to AMEPP disbursements and repayments up to the period 31.12.2009	Not implemented
	Submit these audited ledger extracts for the subsequent periods on a yearly basis within six months from the end of the calendar year that is by end June every year.	Not implemented
Infrastructure Development		
	Provide a copy of the variation order and the contract log in respect of road works exceeding the original contract price (up to 20%)	The variation order could not be pursued as yet. PFO still sorting out the variations.

Component & Activity	Agreed Action	Follow-up actions taken
	along with the WA.	
	Obtain prior permission from IFAD to issue variation orders (above 120% of the contract price and not exceeding 135%) with BOQs and cost estimates in respect of Sam-FR-03.	Variation orders for roads are still under process
	Obtain prior approval from IFAD for using force account procedures by submitting a justification for selecting this procedure along with the design report that includes BOQ, the rates and the resulting cost estimate for all works proposed to be taken up under force account procedure. This condition of prior approval from IFAD will be applicable only to works expected to cost more than the prior review threshold of USD 100,000. Thereafter, a force account monitoring form will have to be sent to IFAD along with the WAs	No new roads to be taken up by force account. Daifam – Serthi farm road which was having problem with the contractor has been taken up on force account basis.
	Amend the conditions of PFA to allow prior approval of procurement using force account procedures for works estimated to cost more than USD 100,000	Implemented
	In case works estimated to cost less than the prior review threshold of USD 100,00 are to be taken up on force account basis, no prior approval from IFAD is necessary and PFO will have to submit a force account monitoring form while submitting WAs	Action initiated
	Institute a system of joint quarterly monitoring visit by the PFO and Dzongkhag Engineers. Submit a monitoring report to Dzongkhags and PFO on the findings and recommendations, which need to be followed up and implemented.	Implemented
	Take assistance from the Engineering Division of DOA to prepare TOR for engaging Engineers at the Dzongkhag level as per the PSC decision.	Action taken and therefore Trashigang district has recruited one site supervisor after preparing TOR in consultation with DoA engineers.
	Advertise the requirement, evaluate the proposals received and sign contract with the selected Engineer/s and send a signed copy of the contract to IFAD.	Implemented
Monsoon Restoration and Maintenance	Workout allocation for monsoon restoration, structures and routine maintenance by Dzongkhag based on the total allocation indicated above for this purpose.	Budget allocation for monsoon restoration, structures and maintenance for S/Jongkhar and Pemagatshel has been coordinated and designed. Work carried out and completed
	Prioritize the demand for structures received from the Dzongkhags within the total availability of funds for this activity during 2010-2011	AWPB for 2010-2011 has been based on the dzongkhags' prioritisation and fund allocation
	Use community contracting procedures for routine maintenance and building small structures	New guidelines prepared and sensitization done. Proposals are already being scrutinized.
Provision of Base Course for Nogma-Janchuling FR	Provide approval for using funds allocated for monsoon restoration to Lhuentse Dzongkhag for taking up the work of laying base course for Nogma-Janchuling FR subject to availability of funding from RGOB for monsoon restoration of other roads.	Work completed using the monsoon restoration budget for laying base course as recommended by supervision mission
Sam-FR-02 Gaylongkhar-Tokapu	Terminate the contract for construction of Gaylongkar-Tokapu Road taking into account the procedures set out in the Contract Agreement dated 18.12.2008.	Contractor has been terminated and work carried out by force account as instructed by IFAD. However, it has been suspended as per the instruction of IFAD.

Component & Activity	Agreed Action	Follow-up actions taken
	In case of termination of the contract and settlement, a report with settlement details will have to be sent to IFAD	All reports furnished to IFAD
Tra-FR-04 Khilampoto- Berduma	Request Dzongkhag to issue a notice to the contractor to start the construction work without any further delay and also inform him of the Dzongkhag's right to terminate the contract with liquidated damages and forfeiture of performance security.	As per the recommendation of IFAD, the contractor has been notified and warning letter has been issued but now the progress is quite good.
	It is necessary to obtain prior approval from IFAD to issue variation orders beyond 15% of the original contract price in respect of farm road contracts signed after May 2009	Preparation of variations are under process
Programme Implementation Performance		
	Finalize the report related to Monitoring Visit by the PFO team and circulate it to the Dzongkhags to invite comments	The monitoring report is being finalized and circulated to all the program parties
	Write letters to the Dzongkhags to resolve the issues identified in the Monitoring Report with options available for resolving these issues.	Report is sent to districts along with the findings and recommendations
	Complete the biannual Monitoring Visits to cover all other programme Dzongkhags	Couldn't conduct biannual monitoring visits as we were busy preparing AWP&B, conducting PSC & PCCM. However, conducted monitoring in BOF/MIF activities and also re-sensitized Dzongkhags on progress report format and informed them on the need of monitoring
	Undertake a consultative meeting with the technical departments, RAMS, BDFCL and SNV to identify the priority areas for undertaking studies	Not implemented PCCM and PSC forums used for this purpose
	Explore the possibility of getting SNV Support to provide a local consultant to help prepare TORs for these case studies /surveys and help conducting a case study to train staff of PFO and RAMS and share the draft of these TORs with IFAD	SNV has allocated 1 month local consultancy to undertake case studies with PFO
	Finalize TOR and undertake the case studies/surveys	Planned for next year
	Train and sensitize the Geogs RNR Extension Officers on the new M&E system and associated progress reporting formats	Geog RNR Extension Officers were trained on the new M&E system and associated progress reporting format from 15/11/09 to 26/11/09
	Incorporate into the M&E manual & the progress reporting formats, the simplified outcome indicators from the revised post MTR log frame, & submit revised version to the Dzongkhags.	The simplified outcome level indicators from the revised post MTR log frame have incorporated into the M&E manual and progress reporting formats and distributed to all the Dzongkhags
	Prepare information as per Appendix 5 of the supervision report pertaining to previous financial years and provide the same to the future supervision missions.	Prepared all the information as per Appendix 5 of the supervision report 2009
	Coordinate regular collection of outcome level indicators agreed upon between the Mission, the PFO and the Dzongkhags, and include the same in the Annual Progress Reports to be submitted every September	The available outcome level data is collected from the Dzongkhags and have been compiled during the recent re-sensitization workshop (22/08/2010) to (1/09/2010)
	The DCPO to lead the joint monitoring mission (together with PFO Sector Heads, RAMS, Dzongkhag and Gewog staff) twice a year and submit progress reports (i.e. around March and September)	Did not undertake biannual monitoring visits.

Component & Activity	Agreed Action	Follow-up actions taken
	Organize consultations between AMEPP, PDD and GNHC to integrate AMEPP related outcome and impact indicators into the national M&E system	Not implemented
	Use also data from the case studies/surveys and other data sources for reporting results of outcome level indicators in the RIMS report for November 2010.	Not implemented
Gender focus	Collaborate with National Commission for Women and Children and SNV to identify gender related issues in some of the selected Gewogs of the programme area and the interventions required by conducting a review of the situation	In collaboration with SNV, conducted 3 days gender sensitizing workshop at Trashiyangtse in 2009. As a follow- up to the workshop, a review meeting has been conducted with the same participants in Nov.2009 at S/Jongkhar. PFO has written to NCWC to identify gender related issues in the field.
	Include the budget for undertaking the interventions in the selected Gewogs in the AWPB for 2010-2011	Not implemented
Partnerships	Undertake a joint identification of the TA requirements from SNV beyond June 2010	RAMCO in collaboration with SNV has identified TA requirements from SNV till Dec 2010. Beyond 2010, SNV's involvement on TA support has been reflected in MAGIP.
Fiduciary Aspects		
	Engage a Software programmer to write a programme to facilitate Dzongkhags and the PFO to: prepare WAs, maintain contract logs and prepare expenditure details by both categories and components.	Not implemented
	Engage a Senior Accountant qualified in handling financial management of donor funded projects to establish a simple accounting system with monthly reconciliation at the PFO level.	Not implemented
	Provide soft copies as well as hard copies of the monthly BAS generated SOEs in excel format generating a monthly SOE at the PFO level (to be checked thoroughly by the PFO) until software for this purpose is designed, tested and installed	Implementing agencies (Dzongkhags) started sending soft copy of BAS generated monthly accounts statements and hard copies too. Due to incapacity of IT knowledge and time constraint, software could not be build for preparing of Withdrawal Application.
	Instruct Dzongkhags to apply correct financing percentages for each source of funding to ensure that replenishment to the special Account is correctly made	Accurate funding percentages were instructed to Dzongkhags during our visit to them. Farm Roads: RGOB 25% and IFAD 75%, O&M: 20%RGOB and 80% IFAD
	Submit one WA per month to IFAD irrespective of the amount for easy comparison with the Dzongkhag SOEs. (See paragraph 3 of Schedule 2 of the PFA)	Project Accountants started preparation of WA monthly basis from Dec-2010. Inadequacies persit.
	IFAD to send Historic Transaction Report to the PFO every 3 months. PFO to use the Report to reconcile with PFO accounts	IFAD had issued Historic Transactions based on the request by Program Director in March, 2010.
	Permission to be accorded by IFAD so that the PFO is not required to send records evidencing payment under SOE below USD 20,000 (para 4 or Schedule 2 of the PFA)	Implemented
	PFO accountants to check the payment log before claiming contractor expenditure from IFAD.	Payment logs are crosschecked and being sent to IFAD with Was whenever there are expenditures incurred. Inaccuracies persit.
	IFAD to reduce its requirement for an 18 month procurement plan to a 12 month procurement plan if permitted within its own regulations	Not approved by IFAD
	Ensure that the inventory records include the exact type and model	All the inventory records including type and model of each item purchased

Component & Activity	Agreed Action	Follow-up actions taken
	of each item purchased and show separate costs for transportation and other costs	are maintained in stock ledger by store officer
	Verify and rectify the entries in the IFAD books and consider the possibility of releasing the balance amount of USD 16,500 to RGOB	Action from IFAD required
	Submit to IFAD the Audit Report for 2008-2009 related to PFO by December 31, 2009 along with a separate management letter on the adequacy of the accounting and internal control system, an opinion on the grant account and review of assets.	Audit Report audited for the 01/07/2008-30/06/2009 has been sent to IFAD in the month of December, 2009. Internal control as such exists here, accountant prepares vouchers and Sr. Finance officer signs the cheques.
	Submit to IFAD the Audit Reports for 2008-2009 related to all eastern Dzongkhags along with a letter to IFAD stating amongst others that the audit included a review of transactions under AMEPP.	Audit reports of six eastern districts have not been sent to IFAD.
	Submit Audit Report of BDFCL for the calendar year 2009 to IFAD	Not yet submitted
	Submit a letter to MOF setting out the audit requirements	Implemented
	Verify existence of assets of AMEPP including bank balances in the Special Account and amounts outstanding in the account pre financed by RGOB	Not implemented
	Include in the 2008-2009 PFO audit report also an opinion on the Grant operations	Not implemented
	Verify the expenditure under AMEPP (see (d) above) as necessary to ensure reliability	Not implemented
Sustainability	Expedite the on-going activities with regard to preparation of the guidelines for registration of the groups with a step-wise graduation process to become cooperatives	Guidelines under preparation
	Write letters to the Dzongkhags drawing their attention to the revised maintenance guidelines of the MOA and to sign handing over agreements with the Geogs for completed roads.	Revised maintenance guidelines of MoA has been distributed to Geogs extension staff by the department and Dzongkhag head quarters were distributed from PFO office and some Dzongkhags have send MOU

**Appendix 3: Financial: Actual financial performance by financier;
disbursements by category and by Component**

Table 3A: Financial performance by financier as at 30 July 2010

	Approval	Disbursements (USD	Per cent disbursed
	(USD '000)	'000)	
Financier			
IFAD loan	13,807.00	9,657.52	69.95
IFAD Grant	100.00	96.50	96.50
Co-financer-SNV	1,619.00	1,619.00	100.00
Government	3,053.00	3,951.16	129.42
Beneficiary	974.00	-	
Total	19,553.00	15,324.18	78.37

Note: (i) Appraisal exchange rate 1 USD=45 BTN has been applied

(ii) IFAD Loan and Government disbursement is based on mission's recalculation of the project expenditures of July 2006 to June 2010. In addition to the counterpart funding salaries budgeted under the budget code no. 0002 (RGOB contribution) of the PFO and Dzongkhags also accounted on Government financing.

Table 3B: IFAD Loan Disbursements (SDR, as at 09-11-2010)

	Category Description	Original Allocation	Current Allocation	Disbursement	Balance	Percent disbursed	W/A Pending	Outstanding disbursement of July 2006 to June 2010 expenditures	Balance after disbursement of WA Pending	Projected Percent disbursed
I (a)	Civil works – Buildings, Road Construction, Engineering Fees and Skilled Labour	3,680,000.00	4,100,000.00	2,051,421.75	2,048,578.25	50.03	890,965.31	2,942,387.06	1,157,612.94	71.77
I (b)	Irrigation Development, Studies and Skilled Labour	380,000.00	323,000.00	158,575.05	164,424.95	49.09	(4,372.60)	154,202.45	168,797.55	47.74
I (c)	Civil Works-RNR Infrastructure (Earthquake Response)	-	150,000.00	-	150,000.00	-	-	-	150,000.00	-
II	Goods	670,000.00	1,800,000.00	591,090.71	1,208,909.29	32.84	541,126.36	1,132,217.07	667,782.93	62.90
II (b)	Seeds and Storage Equipment (Earthquake Response)	-	175,000.00	-	175,000.00	-	102,590.63	102,590.63	72,409.37	58.62
III	Training	1,420,000.00	1,195,000.00	616,694.01	578,305.99	51.61	229,244.73	845,938.74	349,061.26	70.79
IV	Incremental Credit	710,000.00	635,000.00	615,854.13	19,145.87	96.98	(5,415.27)	610,438.86	24,561.14	96.13
V	Rural Support Funds	610,000.00	603,000.00	268,435.76	334,564.24	44.52	(143,109.74)	125,326.02	477,673.98	20.78
VIII	Incremental operating and Maintenance costs	310,000.00	269,000.00	169,022.61	99,977.39	62.83	237,789.91	406,812.52	(137,812.52)	151.23
	Unallocated	1,470,000.00			-			-	-	
		9,250,000.00	9,250,000.00	4,471,094.02	4,778,905.98	48.34	1,848,819.32	6,319,913.34	2,930,086.66	68.32
	Initial Deposit-Special Account	-	-	947,649.19	(947,649.19)	100.00		947,649.19		100.00
	Initial Deposit-Special Account Earthquake	-	-	321,731.31	(321,731.31)	100.00		321,731.31		100.00
	Total	9,250,000	9,250,000	5,740,474	3,509,525	62.06	1,848,819	7,589,293	2,930,086	82.05

Note: Exchange rate for conversion from BTN to USD is taken from RMA website as at 15 Nov. 2010 and USD to SDR is taken from IMF website as at 15 Nov. 2010.

Table 3C: IFAD Grant Disbursements (SDR, as at 15-11-2010)

	Category Description	Original Allocation	Current Allocation	Disbursement	Balance	Per cent disbursed	W/A Pending
VI	Technical Assistance	70 000		12 874.99	57 125 01	18.39	10 596.76
		70 000		12 874.99	57 125 01	18.39	
	Advance to Revolving Fund	0.00	0.00	40 492.85	-40 492.85	100	
	Total	70 000	0.00	53 367.84	16 632.16	76.24	

Appendix 4: Compliance with Financing Agreement Covenants: Status of Implementation

Section	Covenant	Compliance Status
2.02	<i>Account and Withdrawals</i> The Fund shall open a Loan Account and a Grant Account in the name of the Borrower	Complied
2.03	<i>Special Account</i> The Borrower shall open and thereafter maintain in its Central Bank, a Special Account denominated in USD, for the purpose of financing the Programme.	Complied
2.05	<i>Use of Proceeds</i> The Borrower and each Programme Party shall use the proceeds of the Loan and the Grant exclusively to finance Eligible Expenditures in accordance with this Agreement and the General Conditions.	On going
3.02	<i>Annual Work Plans and Budgets</i> The PFO shall prepare a draft annual work plan and budget (AWPB) for each Programme Year. The PFO shall submit the draft AWPBs to the PCC for its review, after which the PCC shall submit them to the PSC for its approval. When so approved, the Lead Programme Agency shall submit each draft AWPB to the Fund and the Cooperating Institution, for their respective comments and approval, no later than 60 days before the beginning of the relevant Programme Year.	Ongoing
3.03	<i>Programme Account</i> The Borrower, through MOF, shall open and thereafter maintain in a bank proposed by the Borrower and accepted by the Fund, an account denominated in BTN for Programme operations (the "Programme Account"). The PFOR shall be fully authorised to operate the Programme Account.	Complied
4.01	<i>Monitoring</i> The PFO shall establish, as soon as practicable but in no event later than 90 days after the Effective Date, and thereafter maintain an appropriate information management system in accordance with the Fund's "Guidelines for Project Monitoring and Evaluation" to enable it to continuously monitor the Programme in accordance with paragraph 2 of Schedule 3A and Section 8.02 (Monitoring of Project Implementation) of the General Conditions based on indicators agreed by the Borrower and the Fund	Complied
4.02	<i>Progress Reports</i> The PFO shall submit to the Fund and the Cooperating Institution semi-annual and consolidated annual progress reports on Programme implementation, as required by Section 8.03 (Progress Reports) of the General Conditions, no later than ten (10) weeks after the end of each six-month and annual period during the Programme Implementation Period.	On going
4.03	<i>Mid-Term Review</i> The Borrower, through the Lead Programme Agency, the Fund and the Cooperating Institution, shall jointly carry out a review of Programme implementation no later than thirty-six (36) months after the Effective Date (the "Mid-Term Review")	Complied
5.01	<i>Financial Statements</i> The PFO shall prepare six-monthly and consolidated annual financial statements of the operations, resources and expenditures related to the Programme required by Section 9.02 (Financial Statements) of the General Conditions in respect of each six-monthly and annual period during each Fiscal Year and deliver such financial statements to the Fund and the Cooperating Institution within ten (10) weeks after the end of each such period.	Not being complied
5.02	<i>Audit Reports</i> (a) Within 90 days after the Effective Date, the Borrower shall designate the Office of the Auditor General of the Borrower or shall appoint, with the prior approval of the Fund, other independent auditors selected by the Borrower in accordance with the procedures and criteria set forth in the Fund's "Guidelines on Project Audits (Borrowers' Use)", to audit the consolidated financial statements, referred to in Section 5.01, relating to the Programme	Complied
	(b) The Borrower shall have the consolidated financial statements relating to the Programme audited each Fiscal Year by such auditors in accordance with the International Standards on Auditing, as may be amended from time to time. In accordance with Section 9.03 of the General Conditions, in addition to the audit report on the consolidated financial statements, the auditors shall provide: (i) an opinion on the certified statements of expenditure and the operation of the Special Account and the Grant Bank Account; and (ii) a separate management letter, addressing the adequacy of the accounting and internal control systems. The PFO shall deliver the above-mentioned items to the Fund and the Cooperating Institution within six months of the end of each such Fiscal Year. The PFO shall submit to the Fund the reply to the management letter of the auditors within one month of receipt thereof.	Being complied but need improvements on quality and time factors
Sch 2 Clause 4	<i>Statements of Expenditure</i> Withdrawals from the Loan Account and the Grant Account may be made against certified statements of expenditures in respect of Eligible Expenditures in such amounts	Being complied but need improvement on

	as the Fund may designate from time to time by notice to the Borrower. The records evidencing such expenditures need not be submitted to the Fund, but shall be retained by the Borrower for inspection by the representatives of the Fund and the Cooperating Institution, in accordance with Sections 4.07 (Statements of Expenditure) and 10.03 (Visits, Inspections and Enquiries) of the General Conditions.	accuracy
Sch2 Clause6	<p><i>Conditions Precedent to Withdrawals</i></p> <p>(a) No withdrawals shall be made in respect of expenditures under the programme from either the Loan or the Grant until the AWPB for the first Programme Year, shall have submitted to and approved by the Fund in accordance with Section 3.02.</p> <p>(b) No withdrawals shall be made in respect of expenditures under the under Category IV (Incremental Credit) until:</p> <p>(i) the Credit By-laws shall have been approved by the Fund in draft; a copy of the Credit By-laws as adopted by the PSC, substantially in the form so approved and certified as true and complete by a competent officer of the Borrower, shall have been delivered to the Fund; and</p> <p>(ii) The BDFC Subsidiary Agreement, approved by the Fund, shall have been duly entered into between the Borrower and BDFC; a copy thereof, certified as true and complete by a competent officer of Borrower, shall have been delivered to the Fund; the signature and performance thereof by the Borrower and the BDFC have been duly authorised or ratified by all necessary corporate, administrative and governmental action; and all conditions precedent to the effectiveness thereof shall have been fulfilled.</p> <p>(c) No withdrawals shall be made in respect of expenditures under the category I (Civil Works) in an individual Programme District until the District Transport Master Plan (DTMP) for such Programme District shall have been prepared by the respective District Administrations and approved by the Lead Programme Agency and the Ministry of Works and Human Settlement of the Borrower, <i>except</i> with respect to expenditures related to the preparation of such DTMP and for buildings and irrigation development.</p>	<p>Complied</p> <p>Complied</p> <p>Complied</p>
Sch 3 Clause 9.4	<p><i>Revolving Fund</i></p> <p>In consultation with the Cooperating Institution, BDFC shall establish and maintain a Revolving Fund into which all net revenues from credits extended to Programme beneficiaries financed (directly or indirectly) by the Loan shall be deposited.</p>	Not Complied
Sch3 Clause 9.5	<p><i>Component accounting</i></p> <p>All the inflows and outflows related to the on-lending activities to Programme beneficiaries shall be recorded in a dedicated ledger system entirely separate from all other BDFC operations and activities, although actual recording shall follow existing BDFC procedures.</p> <p>The proceeds of the BDFC Loan shall be used only for credit lending to Programme beneficiaries. Any related expenses, including defaults, overheads, administrative expenses, etc. shall be covered by the interest spread obtained by the BDFC under its overall lending programme.</p>	Not being complied
Sch3 Clause 9.6	<p><i>Monitoring and Reporting</i></p> <p>BDFC shall maintain a separate management information system that shall monitor the use of Loan proceeds used by it under the Programme and for its own capacity building under the Rural Financial Services Component.</p>	Not being complied
Sch3 Clause 10.1	<p><i>Programme Implementation Manual</i></p> <p>The Lead Programme Agency shall prepare a draft Programme Implementation Manual (PIM). The Lead Programme Agency shall submit the draft PIM to the PSC for review and approval; once so approved, the Lead Programme Agency shall forward the draft PIM to the Fund and the Cooperating Institution for their comments and approval.</p>	Complied
Sch 4 Clause 1	<p><i>Procurement</i></p> <p>Procurement of goods and civil works financed by the Loan and the Grant shall be subject to the provisions of the "Guidelines for Procurement under Financial Assistance from the International Fund for Agricultural Development" (1982) in accordance with Part B and Part C of the Schedule</p>	On going compliance
Sch 4 Clause2	<p>Procurement of consultant services financed from the proceeds of the Loan and the Grant shall be undertaken in accordance with procedures approved by the Fund in accordance with Part D of the Schedule.</p>	On going compliance

Appendix 5: Physical Progress Measured Against AWPB and Appraisal Targets

Outputs by component	Indicator	(Physical) Targets			Appraisal (Global) / (MTR target)	Cumulative (So far)	%
		AWP&B (planned)	Actual (achieved)	%			
Sub-Component 1.1. Crop production							
1.1.1. 900 farmers assisted in seed potato production in 450 acres.	No. of farmers assisted in Potato Seed production.	207	738	357%	900	738	82%
	Area under Potato Seed production.	97.5	3.3	3%	450	31	7%
1.1.2. 600 farmers assisted for maize seeds production in 300 acres.	No. of farmers assisted in maize production	124	324	261%	600	324	54%
1.1.3. 4200 farmers trained in orchard development.	No. of farmers trained in orchard development	940	1681	179%	4,200	1681	40%
1.1.4. 138,000 citrus seedlings distributed.	No. of citrus seedlings distributed	20905	23,632	113%	138,000	23632	17%
1.1.5. 8 private citrus nurseries established	No. of private nurseries established	1		0%	8		0%
1.1.6. 3300 farmers supported for temperate fruit production.	No. of farmers assisted for temperate fruit production	786	829	105%	3,300	829	25%
1.1.7. 165,000 temperate fruit tree seedlings distributed.	No. of fruit tree seedlings distributed	41460	55686	134%	165,000	55686	34%
1.1.8. 6 private/community managed fruit tree nurseries established.	No. of private fruit nurseries established.	1	2	200%	6	2	33%
1.1.9. 2760 farmers assisted to make compost pit with citrus orchard	No. of compost pits constructed under the orchard	409	252	62%	2,760	252	9%
1.1.10. 60 sprayers supplied to RNR Centers.	No. of sprayers distributed	29	69	238%	60	69	115%
1.1.11. 2660 farmers supplied with 26600 vegetable seed packets.	No. of farmers supplied with vegetable kits	6,265	54,179	865%	2,660	54179	2037%
1.1.12. 96 drip/sprinkler irrigation systems supplied.	No. of drip /sprinkler irrigation systems supplied	19	26	137%	96	26	27%
1.1.13. 24 water harvesting technology piloted.	No. of water harvesting technology piloted	6	0	0%	24	0	0%
1.1.14. 336 farmers assisted in cluster in chili production in 84 acres.	No. of farmers assisted in Chilli production.	101	308	305%	336	308	92%
	Area under Chilli production (Acre).	5		0%	84		0%
1.1.15. 800 farmers supported for mushroom production.	No. of farmers supported for mushroom production	139	123	88%	800	123	15%
1.1.16. 348 farmers supported in mustard production in 87 acres.	No. of farmers assisted in mustard production.	44		0%	348		0%

Outputs by component	Indicator	(Physical) Targets			Appraisal (Global) / (MTR target)	Cumulative (So far)	%
		AWP&B (planned)	Actual (achieved)	%			
	Area under mustard production (Acre).	7		0%	87		0%
1.1.17. 640 farmers assisted in kidney bean production in 160 acres.	No. of farmers assisted in kidney bean production.	130	368	283%	640	368	58%
	Area under kidney bean production (Acre)	17.5		0%	160		0%
1.1.18. 1900 farmers participated in the management of 190 acre of sloping agricultural land.	Acres of land under improved management (RIMS)	NA	NA	NA	190	NA	NA
1.1.19. 140 acres of degraded watersheds planted with trees for improved soil and water conservation purposes	Acres of degraded land with soil and water conservation measures (RIMS)	26	64.61	249%	140	64.61	46%
1.1.20. 140 extension staff trained in farm business management.	No. of extension staff trained, by topic (RIMS)	60	27	45%	140	27	19%
1.1.21. 24 extension staff trained in mushroom production.	No. of EA and district staff trained, by topic	18	1	6%	24	1	4%
1.1.22. 24 extension staff trained in fruit nursery raising	No. of EA trained in fruit nursery	11	30	273%	24	30	125%
1.1.23. 24 extension staff trained in installation and management of drip/sprinkler irrigation systems	No. of EA trained in drip/sprinkler irrigation system	13		0%	24		0%
Sub-Component 1.2 – Livestock production							
1.2.1. 1900 households supported to develop pasture in 950 acres.	No. of acres under pasture development	204	633.52	311%	950	633.52	67%
1.2.2. Farm boundary plantation with fodder trees in 1330 acres.	No. of acres of farm land under farm boundary plantation	260	137590.54	52919%	1,330	1375.9	103%
1.2.3. 116 new Community Animal Health Workers (CAHWs) trained.	No. of new CAHWs trained, by topic (RIMS)	78	10	13%	116	10	9%
1.2.4. 260 CAHW provided with refresher training.	No. of former CAHWs trained, by topic (RIMS)	71	88	124%	260	88	34%
1.2.5. 284 CAHW equipped with basic veterinary kits and back up drugs, and providing vaccination services.	No. of animals vaccinated* (RIMS)	551530	83979	15%	559,670	83979	15%
	No. of CAHWs provided with supply kits	72	109	151%	284	109	38%
1.2.6. 42 Mithun bull supplied.	No. of improved breed of bulls (Mithun) distributed	11	6	55%	42	6	14%
1.2.7. 530 Jersey bulls supplied.	No. of improved breed of bulls (Jersey) distributed	95	74	78%	530	74	14%
1.2.8. 20 new AI Centers establishes.	No. of artificial insemination centers established	4	2	50%	20	2	10%
1.2.9. 16,800 animals artificially inseminated.	No. of cows artificially inseminated				1,680		

Outputs by component	Indicator	(Physical) Targets			Appraisal (Global) / (MTR target)	Cumulative (So far)	%
		AWP&B (planned)	Actual (achieved)	%			
1.2.10. 2,850 dairy farmers trained in group mobilization.	No. of farmers trained, by gender and topic (RIMS)	545	575	106%	2,850	575	20%
1.2.11. 570 dairy farmers trained in farm business management and book keeping.	No. of dairy farmers trained in farm business management	135	314	233%	570	314	55%
1.2.12. 1240 farmers supported in dairy cow transportation.	No. of farmers supported for cow transportation	280	100	36%	1,240	100	8%
1.2.13. 1500 farmers supported for construction of hygienic cow sheds	No. of cow sheds supported for construction	370	299	81%	1,500	299	20%
1.2.14. 36 entrepreneurs trained in commercial poultry raising	No. of commercial poultry raising farms established	14	63	450%	36	63	175%
1.2.15. 2560 piglets and 42,000 chicks/pullets supplied (transported) to farmers in the remote geogs	No. of piglets.chicks/pullets supplied	7115	6423	90%	44,560	6423	14%
1.2.16. 150 farmers trained in warm water and 20 farmers in cold water fish production, management and bookkeeping, including facilitating lending from BDFC for construction.	No. of farmers trained	41	0	0%	150	NA	NA
1.2.17. 36 farmers trained in dairy product diversification in Nepal or India.	No. of faarmers trained in dairy	18	1	6%	36	1	3%
1.2.18. 8 groups supported to establish milk booths.	No. of milk booths supported	4	3	75%	8	3	38%
1.2.19. 12 groups supplied with deep freezers and power tillers for milk and milk products transportation.,	No. of groups supported with power tiller (for milk transportation)	6	3	50%	12	3	25%
1.2.20. 50 butter churners supplied.	No. of butter chruners supplied	11	7	64%	50	7	14%
1.2.21. 2516 farmers supplied with stainless steel milking cans.	No. of farmers provided with milk cans	404	130	32%	2,516	130	5%
1.2.22. 170 sets of cheese molds supplied.	No. of farmer groups supported with dairy equipments by type and quantity.	36	5	14%	170	5	3%
1.2.23. 98 sets of chill packs supplied.	No. of chill packs supplied	22	64	291%	98	64	65%
1.2.24. 10 meat shops improved	No. of meat shop simproved	6	1	17%	10	1	10%
1.2.25. 140 livestock extension agents trained in business planning and scheme preparation.	No. of EAs trained	69	67	97%	140	67	48%
Component 2							
2.1 600 zero energy cooling chambers constructed and plastic crates distributed	No. of Zero energy colling chambers constructed	255	7	3%	600	7	1%
2.2 90 Personnel (largely engineers) trained in construction of zero energy cooling chambers	No. of persons (farmers, Dzongkhag staff and RAMS staff trained in various skills, by type & gender) (RIMS)	NA	NA	NA	90	NA	NA
2.3 30 Village Produce Stores established	No. of marketing infrastructure constructed, by type (RIMS)	25	4	16%	30	4	13%

Outputs by component	Indicator	(Physical) Targets					
		AWP&B (planned)	Actual (achieved)	%	Appraisal (Global) / (MTR target)	Cumulative (So far)	%
2.4 18 Existing sale points converted to organized outlets	No. of marketing infrastructure constructed, by type (RIMS)	12	4	33%	18	4	22%
2.5 435 Storage silos constructed in remote regions	No. of storage silos constructed	235	88	37%	435	88	20%
2.6 Market information system developed and 48 geog-level price boards established and updated on a daily basis. Market information collected from Auction Yards and Market Sheds, analysed and shared for community benefit	No. of gewogs with market information	40	18	0.45	48	18	0.375
2.7 8 market research and market studies done jointly with RAMS	No. of market research studies completed	8	0	0%	8	0	0%
2.8 12 District Marketing Officers trainings organised	No. of DMOs trained	6	0	0%	12	0	0%
2.9 936 people trained in value chain development in identified produce	No. of persons trained in value chain development				936		
2.10 10 workshops organized for multi-stakeholder planning	No. of workshops organised	5	0	0%	10	0	0%
2.11 30 "Godfathers" identified and trained to coach interested entrepreneurs for agri-business promotion	No. of god fathers identified and supported.	0	0	0%	15	0	0%
2.12 18 BOF proposals funded based on yearly targets decided	No. of BOF interventions approved	-	4	-	18	10	56%
2.13 96 MIF proposals funded based on yearly targets decided	No. of MIF interventions approved	-	25	-	96	55	57%
2.14 12 Annual district-level agriculture fairs organized	No. of annual agriculture fairs held	6	2	33%	12	2	17%
2.15 48 Drudgery reduction interventions carried out in business model	No. of drudgery reduction interventions implemented.	22	10	45%	48	10	21%
2.16 6 Private sector/banks/commission agents workshops organized	No. of private sector/bank/commission agent workshops organised	3	0	0%	6	0	0%
2.17 2 Private sector participation events initiated	No. of private sector participation events organised	1	0	0%	2	0	0%
2.18 2 Exposure visits carried out for 6 businessmen each	No. of exposure visits organised	1	0	0%	2	0	0%
2.19 1 Store room constructed at Samdrup Jongkhar Market Shed location	No. of on-farm (HH), Dzongkhag level storage facilities constructed (RIMS)	0	0	0%	1	0	0%
2.20 2 Officers trained per Dzongkhag in auction practices	No. of officers trained in auction practices	12	0	0%	12	0	0%
2.21 2 Buyer-Seller meets carried out	No. of Buyers and Sellers meetings organized	2	0	0%	2	0	0%
2.22 3 NTFP dryer facilities established	No. of NTFP drier facility established	3	0	0%	3	0	0%
2.23 6 DMOs and RAMS equipped with computer and printers	No. of sets of computer and printer supplied	6	0	0%	6	0	0%

Outputs by component	Indicator	(Physical) Targets					
		AWP&B (planned)	Actual (achieved)	%	Appraisal (Global) / (MTR target)	Cumulative (So far)	%
2.24 6 DMOs of RAMS provided mobility	No. of motorcycle supplied	6	0	0%	6	0	0%
2.25 3 Citrus waxing machines established for demonstration purposes	No. of citrus waxing machine supplied	3	0	0%	3	0	0%
Component 3							
3.1 Loans in the amount of BTN 30,000 disbursed as loans AMEPP beneficiaries in the Eastern Region	Total amount disbursed in million(RIMS)	-	10.27	-	-	49.92	-
	Percentage of disbursement to women	-	54%	-	-	58.70%	-
	Cumulative Repayment Rate	-	86%	-	-	86%	-
	Portfolio at Risk	-	26%	-	-	26%	-
Component 4							
4.1 Farm Road Construction	No. of km of Farm Road constructed	56	53.9	96%	248	155	63%
4.2 PTT Construction	No. of Km of PTT constructed	0	0	0	19	31.4	165%
4.3 Irrigation canal construction	No. of Km of Irrigation canal constructed	0	0	0	99	87.1	88%

Appendix 6: RIMS Table

Impact and Outcomes	Indicators (with global target if available)	Achievem ents (as per M&E data)	RIMS Rating	
			(by Proje ct)	(by supervis ion mission)
Impact level				
Overall Goal	Reduction (%) in the prevalence in child malnutrition (RIMS) (in % of children affected, by gender)			
To enhance the livelihood means of poor rural households in six districts of the Eastern region and reduce their poverty	Reduction (%) in the prevalence in child malnutrition (RIMS) (in % of children affected, by gender)			
	Supported households (in %) with enhanced food security (RIMS)			
Project Purpose (Immediate Objectives)	Outcome indicators		4	4
To increase the production levels and productivity of farm-based activities and improve farmers and livestock owners’ access to markets on a sustainable basis	Average increase (in%) in volume of sales from RNR products: rice	16.78%		
	Average increase (in%) in volume of sales from RNR products: maize	4.36%		
	Average increase (in%) in volume of sales from RNR products: potato	37.36%		
	Average increase (in%) in volume of sales from RNR products: citrus	53.13%		
	Average increase (in%) in volume of sales from RNR products: mustard	166.27%		
	Average increase (in%) in volume of sales from RNR products: chili	-15.34%		
	Average increase (in%) in volume of sales from RNR products: beans	59.11%		
	Average increase (in%) in volume of production generated for major crops rice	-3.3%		
	Average increase (in%) in volume of production generated for major crops maize	-6.20%		
	Average increase (in%) in volume of production generated for major crops potato	-6.66%		
	Average increase (in%) in volume of production generated for major crops citrus	7.27%		
	Average increase (in%) in volume of production generated for major crops mustard	-18.66%		
	Average increase (in%) in volume of production generated for major crops chili	-2.09%	4	4

	Average increase (in%) in volume of production generated for major crops beans	18.52%		
	Average increase (in%) in volume of sales from RNR products: milk (kg)	105.97%		
	Average increase (in%) in volume of sales from RNR products: butter (kg)	2.56%		
	Average increase (in%) in volume of sales from RNR products: cheese (kg)	-5.75%		
	Average increase (in%) in volume of sales from RNR products: eggs (no)	-16.66%		
	Average increase (in %) in volume of Production generated for major Livestock produces : milk (kg)	-4.91%		
	Average increase (in %) in volume of Production generated for major Livestock produces: butter (kg)	-3.55%		
	Average increase (in %) in volume of Production generated for major Livestock produces: cheese (kg)	-12.18%		
	Average increase (in %) in volume of Production generated for major Livestock produces: eggs (no)	-16.38%		
Component 1 – On-farm production	Outcome indicators			
To enhance the productivity of crops and livestock farm-based activities	No. of HH using improved varieties recommended by RNR Research Centers, by gender & varieties (RIMS) (to be integrated in PLAMS)	29486		
	Increase (in %) in acreage of land through soil and water conservation activity (RIMS) (to be integrated in PLAMS)			
Component 2 – Marketing and enterprise promotion			4	4
To help address marketing constraints related to agriculture and livestock products and enhance value-addition to local produce	No. of enterprises operating after three years (RIMS) (to be integrated in PLAMS)			
	Increase (in %) in farmers supported with improved marketing infrastructure (to be integrated in PLAMS)			
	No. of operational BOF units against no. of BOF approved	6		
	No. of operational MIF units against no. of MIF approved	25	4	4
Component 3 – Rural financial services				
To improve access to financial services by farmers and small entrepreneurs for investment in productive activities	BDFCL Portfolio at risk for AMEPP loans (i.e. outstanding balance of overdue loans, in %) for loans not exceeding BTN 30,000 in the Eastern Region (RIMS)	15%	4	4
Component 4 – Infrastructure development	No. of roads in stable condition (operating) (RIMS) (to be integrated in PLAMS)	27		
To link remote communities to roads through the construction of farm-access roads	No. of Road Users Associations (RUA) operational against no. of RUA formed (to be integrated in PLAMS)	18	5	5

Appendix 7: Learning and Innovation

Learning: What has worked particularly well in this project during this period? What have been the reasons for this?

1. The programme intended to target poor households across all six eastern region districts. In the process, the programme supported livelihood activities that were being undertaken by these households and the level of investment per Gewog was low. This fragmented nature of implementing interventions had resulted in lack of impact at the field level. This issue was reviewed during MTR and it was decided to adopt a cluster approach coupled with value chain analysis to identify sectors that hold potential for marketing of the produce. The programme conducted value chain analysis and identified activities with potential and formed activity based farmer groups to undertake these activities with programme support. The formation of activity groups and development of activities in a cluster has worked well in this programme. The main reasons for this include: (i) identification of activities that generate products/produce that have demand in the market place and enhance cash income of the households through value chain analysis; (ii) reduction in transaction costs for the programme and district staff to reach the farmers for training and delivery of extension service due to formation of activity groups; (ii) ease of delivery of inputs; and (iii) development of economies of scale with regard to production that facilitates easy marketing of the produce.
2. Development of farm road access is another area that has performed well in terms of enhancing agricultural production and improving the living standards of remote households. Farm road access has reduced the transportation costs of agricultural inputs and has increased farm gate prices of various farm products due to reduction in transportation costs.

Learning: What has not worked so well? What have been the reasons?

3. The programme had expected that the community will contribute for farm road maintenance and rehabilitation of irrigation works. This expectation did not materialise. These expectations were not based on an assessment of the ability of the community to make these contributions. In the case of farm roads, RGoB until the recent revision of maintenance policy expected the community to undertake maintenance and RGoB did not make any allocation for this purpose. As a result of this, maintenance of most farm roads has remained a major issue. The communities are capable of undertaking minor maintenance of the farm roads that includes bush clearing and drain opening. It is unreasonable to expect communities to undertake major maintenance related activities.

Innovation: Describe any interesting innovation noted during supervision

4. The activity group approach started by the programme has started an innovation related to development of revolving fund amongst the members. These groups develop revolving funds by using two methods for resource generation: (i) revenue generated by activities developed using programme support is deposited into a revolving fund; and (ii) the members benefiting from the programme support repay the amount of support received into a revolving fund. The resources available in the revolving fund are used to provide loans to the needy members and also to provide support to other group members. This innovation is a step in the right direction to reduce dependence on government support.

Innovation: How might this be replicated by others, or upscaled here?

5. The MOAF has already taken note of this and has entrusted the task of registration of the farmer groups to the Department of Marketing and Cooperatives. Plans for developing capacity of the farmer groups are underway in order to facilitate orderly evolution into cooperatives.

Appendix 8: Audit Log

Summary Audit Table						
Audit 2005-2006 to 2008-2009						
Financial Year	Audit Observations as per Audit Report		Audit Observations Settled		Audit Observations Outstanding	
	Numbers	Value (BDT)	Numbers	Value (BDT)	Numbers	Value (BDT)
2005-2006	1	516,960.70	-	-	1	516,960.70
2006-2007	1	77,497.40	-	-	1	77,497.40
2007-2008	2	1,016,808.67	-	-	2	1,016,808.67
2008-2009	0	-	-	-	-	-
Total :	4	1,611,266.77	-	-	4	1,611,266.77

Detailed Audit Table									
Sl. No.	Financial year	Class: Serious / general	Audit Ref.	Audit observation	Total Amount per Observation (BDT)	Action taken by the project /PMU(Reply of para wise)	Present status (Auditors Validation Result)	Total amount not settled/ outstanding (BDT)	Remarks
1	2005-2006	General	AIN 6729	Overstatement of claims	516,960.70	To be Adjusted in WA-22			
2	2006-2007	General	AIN 7160	Overstatement of claims	77,497.40	To be Adjusted in WA-22			
3	2007-2008	General	AIN 8049	Over & understatement of claims (as detailed in table attached)	143,258.60	To be Adjusted in WA-22			
4	2007-2008	General	AIN 8049	In eligible claims	873,550.07	To be Adjusted in WA-22			

Appendix 9: Supervision Mission Schedule

19/10/2010	: Mission meets in Samdrup Jhongkar
10/10/2010	: Field Visit
11/10/2010	: Field Visit
22/10/2010	: Field Visit
23/10/2010	: Field Visit
24/10/2010	: Field Visit
25/10/2010	: Field Visit
26/10/2010	: Field Visit
27/10/2010	: Mission Visit to Pemagatsel
28/10/2010	: Field Visit
29/10/2010	: Mission Visit to Trashigang
30/10/2010	: Field Visit
31/10/2010	: Field Visit
1/11/2010	: Field Visit
2/11/2010	: Mission Travel to Trashiyangtse
3/11/2010	: Field Visit
4/11/2010	: Field Visit
5/11/2010	: Field Visit
6/11/2010	: Field Visit
7/11/2010	: Mission Travel to Mongar
8/11/2010	: Field Visit
9/11/2010	: Field Visit
10/11/2010	: Mission Travel to Lhuntse
11/11/2010	: Field Visit
12/11/2010	: Field Visit
13/11/2010	: Travel to Thimpu
14/11/2010	: Travel to Thimpu
15/11/2010	: Meetings in Thimpu
16/11/2010	: Meetings in Thimpu
17/11/2010	: Pre-wrap up meeting
18/11/2010	: Wrap up meeting
19/11/2010	: Finalization of contract log
20/11/2010	: Mission departs from Thimpu

Appendix 10: Implementation Support

Financial Management (on the job) training: November 2010

Annex 1: On-farm Production, Marketing and Enterprise Development

I. Introduction

1. The review of the On-farm and Marketing and Enterprise components was carried out by the FAO member³ of the Supervision Mission (SM), who was assisted by the Agricultural and Marketing and Enterprise officers of the Project Facilitation Office (PFO)⁴. Together they visited 4 Dzongkhags (Trashiyangtse, Mongar, Lhuentse and Trashigang), a number of Gewogs, and villages, interacting with the respective District Agriculture/Livestock/Forestry Officers (DA/L/FO); Extension Agents (EA A/L/F); and farmers. In Mongar intensive interaction was with the Coordinator⁵ of the Regional Agricultural Marketing and Cooperative services (RAMCO). The main findings of the mission are provided in the main text of the Aide Memoir with indications on the actions to be taken. Here, further insights are provided as well as a detailed reporting on information collected during the field visits. The programme output actual progresses provided in this report have been derived from the Annual Progress Report (July 2009-June 2010) prepared by the PFO.

2. Given that the calculation of achievements on outcome indicators of Programme Purpose are mainly tied the agricultural production and marketing related components of the project, a recommendation was made that applies to the Monitoring and Evaluation (M&E) system of the project. It was discussed with the PFO M&E officer⁶ as well as during the Wrap Up meetings, to supplement the use of the Royal Government of Bhutan (RGOB) district statistical data on production and sales with more AMEPP-related information. RGOB data capture the global picture including farming activities beyond programme scope. It is proposed to have the Dzongkhag officers and Extension Agents collect, within their routine Gewog-level monitoring activities, and exclusively from the individual and group farmers who have been targeted by programme activities, information related to the RIMS selected crops. Information for each relevant crop would be derived through two simple questions asked to the farmers: actual area cropped in 2005 and in 2010; and actual sales in 2005 and in 2010. Volume of production would be calculated by using statistical information of Gewog crop yields for the respective years (2005 and 2010) with the corresponding areas declared by the farmers (see draft questionnaire in attachment).

3. With respect to the component-related (1 and 2) outcome indicators: (a) the "increase (%) in acreage of land through soil and water conservation activity" can be derived by using project-related information on how much area was covered by SALT activities; and (b) the "increase in farmers supported with improved marketing infrastructure", should come from information compiled and analysed by RAMCO using all data available on users of collection points, market sheds, etc. and also on telephone traffic reported by Bhutan Telecom on the Interactive Voice Responding System (IVRS).

II. On-farm Production

4. The Mid Term Review (MTR) intended moving ahead the programme from a fragmented output-oriented delivery mode to one that attempts emphasizing more on outcomes. More focus is set on the delivery of a mix of training, resources to enhance production of food and mainly cash crop, and improved marketing capacity building. Indeed, such programme strategy of a cluster approach and with provision of a package of practices utilising to the extent possible farmer groups as a medium, has improved delivery of services from the district administrations and also impact at the group/household level. This strategy has also reduced the transaction costs for delivery of services, identified crops/activities that have market potential and reduced costs to source inputs. At times, it is noted that programme effects have gone even beyond target groups, and an emulation of practices has involved neighbouring households. This is certainly a major achievement of the programme that would merit further investigation during the Impact Case Studies to be done. However, as it has been indicated in a farmer groups' study (see below), and as further observed by the mission, the great majority if not all farmers, totally lack business and enterprise management skills. This issue, if not remedied, carries a high risk of weakening the sustainability of programme achievements and outcomes.

5. The Annual Work Plan (AWP) of Fiscal Year (FY) 2009-2010 has been carried out in line with the MTR-restructured sub-components and activities. Some departure from individual physical

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set targets and from the specific component budget is mainly due to: (a) a lower demand or quantitative requests made by the Dzongkhags on certain inputs; and (b) a lower (or higher) actual unit cost of the investment/development items. Accordingly, the budget allocated was minor (to that in the MTR) by 8% for the agricultural crop-based activities and by 7% for the livestock undertakings; while it was in line for the forestry-land management activities. However, expenditures were significantly curtailed by the deferred replenishment of funds (which became available only in September 2009) that also affected time-bound provisions. Due to this, actual progress of the component was only 65% and respectively, 67% (crop based), 73% (livestock), and 36% (forestry).

6. Support to Farmer Groups Mobilization. The programme with the support of SNV conducted a study on farmers groups to ascertain the functioning, resources, capacity and activities of the farmer groups of the eastern districts. The findings of this study indicate: (i) better performance of dairy groups due to immediate cash income; (ii) limited support for group development from extension agents; and (iii) limited capacity of farmer groups due to limited institutional linkages. The Ministry of Agriculture and Forestry (MOAF) has established the Department of Agricultural Marketing and Cooperatives (DAMCO) to support farmer group/cooperative development. There exist 157 farmer groups in the eastern districts which includes 15 women groups. DAMCO has registered 5 farmer groups and 2 primary cooperatives. DAMCO intends to support these farmer groups/cooperatives for which a cooperative development fund is under consideration. A capacity building master plan for the registered farmer groups and cooperatives has been prepared. DAMCO is in the process of preparing training manuals covering three categories of capacity building needs: (i) cooperative act, generalities of cooperatives, cooperative rules, registration and monitoring; (ii) feasibility and business planning; and (iii) operation of cooperatives and formal farmers' groups. Government support now flows to the farmers in the form of grant. A trend of dependence on government support is also developing. Some of the farmer groups however convert the government support into a revolving fund. It is observed that some groups use the capital in their accounts or even access loans from Bhutan Development Financing Corporation (BDFC), for on-lending operations to non-group members at a slightly higher interest rate (+1-2%). A strategy to fine tune and replicate this system to other farmer groups with capacity building for financial management will have to be developed.

7. Potato Development and Maize Seed Production. Maize seed has been distributed well over the set target due a higher than foreseen demand (2.6 times [234 farmers] the annual target farmers received training and 3.3 times the target quantity of seeds was distributed). Differently, the seed potato distribution activity has suffered due to delayed availability of funds which enabled late procurement of seed potato (to be procured preferably in June or July). Although 738 farmers were exposed to training (3.6 times the annual target), only 34% of the annual target of seed potato distribution was achieved. The programme has supported potato growers by establishing seed potato growers in the high altitude to produce seed that is free from disease and pest. Indeed, issues on pest management are growing that need more attention and action by the DAOs and EAs. Training is highly required also in terms of business management as farmers lack knowledge of their costs of production and for calculating produce breakeven prices.

8. Potato is emerging as a key crop in the areas where farm road connectivity has been established, and in all cases as the major cash earner for the involved farmers. RGOB statistics indicate that potato sales volume has increased by about 37% as against a reduction in production by about 7%. However, the potato growers met by the mission all indicate that potato production has increased several folds from the areas connected by the farm road and wherever the programme has provided support (including seed and collection sheds). This is also because the intensity of this crop within farmers' cropping pattern has also improved (doubled or tripled).

9. Farmers claim rightly that there is now a growing need to look at the storage facilities. Presently, they store their produce in unsuitable areas below their houses and the harvest is subject to all sorts of deteriorations. The programme in consultation with RAMCO should modify the "collection shed" design available (to fit the new but increased average storage needs), and provide the potato growers that have been targeted with such facilities at their villages. It is advisable that a selected number of farmers and district and RAMCO/PFO/DOA officials pay an exposure visit to study the design and cost of investment of potato cool storages across the border in India and the feasibility of establishing such units in the eastern districts with potential. The farmers/traders from across the border store after buying potato during the season at low price, and sell at higher price during off-season. Action is also required to sensitise farmers interested to set up processing facilities (e.g. potato chips making) on the opportunities offered by the programme (e.g. Micro-Initiative Fund-MIF).

10. **Fruit tree production.** Both sub-tropical and temperate fruit tree programs have progressed well (+15% and +39% seedlings distribution over respective targets thanks also to lower actual unit costs; 1681 citrus farmers [137%] and 929 temperate fruit farmers [118%] trained). Despite being a long-term investment and income generator, farmers appreciate enhancing their orchard areas as they see it as a way to decrease the holding areas which they are obliged to leave fallow due to wild animal encroachment. However, farmers have not undertaken nursery business due to availability of seedlings from government-managed facilities. More training is required in terms of tree husbandry and in particular on pruning techniques. This should be done through the staff capacity development budget, which has been under spent (only 40%).

11. **Vegetables, Early Chilli, Mushrooms, Oil seeds and Rajma.** Except for mushrooms and rajma which were significantly less demanded by the farmers (requiring more labour, cost-sharing and higher entrepreneurship skills) other programs have all over performed in terms of training (983 vegetable farmers: 168%; 308 chilli farmers: 300%) and seed distribution (by 8 times vegetables; 4 times chilli; and 9 times oil seeds, thanks to lower unit costs). Provision of plastic tunnels has been though less than target as unit costs revealed to be higher and because vegetable and chilli farmers use these structures only for their nurseries and when they are organized in groups. This is due to the fact that fields are far away from their homesteads, and greenhouse management requires more labour (that is in shortage). It is noted that all vegetable farmers greatly lack business management and marketing skills.

12. **Pilot programs.** Low-cost sprinklers (hose and movable single sprinkler head) have been in high demand and widely distributed to vegetable growers (+137% of the target). On the contrary, it is reported that the Renewable Natural Resources Research Centres (RNR-RC) did not develop suitable Water Harvesting technologies to be tested with the farming community.

13. **Forestry-Land Management Program.** Sloping Agriculture Land Technologies (SALT) and Soil and Water Conservation management through supply of shrubs, fruit tree seedlings and plantation campaigns in degraded watersheds were in high demand and advanced generally well due to substantially lower unit cost of the provisions. The programme budget utilisation has been though penalised by the late availability of funds, and two Districts did not include such activities in the AWP (Trashiyangtse and Trashigang). Nevertheless, the programme was able to double the target acreage under water conservation measures in degraded areas. Most of these interventions are related to water source protection and cover a small area around it that contributes to mitigating the drying up of irrigation (and drinking water) networks. This intervention needs further improvement and activities related to this include: (i) planting new seedlings; (ii) developing a cost effective system of watering the seedlings; (iii) surveying the micro-water shed around the water source; (iv) preparing a development plan for the micro-watershed in collaboration with other departments. This needs to be integrated into the district budgets of 2010-2011 (and further). The mission noted that there is a good opportunity to collaborate with the GEF-supported Sustainable Land Management project that is administered by the World Bank.

14. **Feed and Fodder; Livestock health programs.** On-farm pasture development including under the orchard farm area, is a highly relevant program that enables livestock producers to improve their otherwise deficient animal feeding capacity of the improved and more demanding breeds (mainly Jersey milk cows), which are rapidly growing in numbers. The programme was able to triple the annual target area under pasture development. The Community Animal Health Workers (CAHWs) initiative which appeared to be a success story is showing inherent weakness. RGOB policies are against the payment of incentives even on a project-basis as it would not be sustainable and would also be unequal in other regions of the country where no incentives are recognised to CAHWs.

15. **Livestock breeding.** Support to Artificial Insemination (AI) in terms of frozen semen and liquid nitrogen supply, is highly relevant and ought to be continued particularly with mobile units. There however appears to be little scope to create new AI centres. Support to supply of Mithun bull is also less required (amply covered through AI) than that of Jersey bulls.

16. **Livestock program: Dairy production.** Dairy group mobilization is highly requested as shown by the over performance of this activity (575 group members mobilized: 105% of annual target; 314 group members trained on management/bookkeeping: 232% of annual target). More attention is required by supporting the groups which show some evidence of sustainability. It is noted that production support has been provided to groups with low technical and management know-how, which had no previous experience in Dairy activities. Such groups after being assisted in terms of shed facilities, feed and fodder seedlings and milk cow transportation costs, are still underperforming with little signs of future potential. The program rightly foresaw providing

business management training attached to such support. The programme should sensitise the Dzongkhags on the importance of this training activity which should be made compulsory wherever production support is provided.

17. The SM of 2009 had recommended undertaking a thematic study to identify the gaps in support (water, equipment, packaging, herd size reduction, milk yield increase, local feed formulation and management of savings fund) for dairy groups and to recommend a strategy to address these gaps. The Department of Livestock has undertaken a dairy plant location study in October 2010. It is recommended that this report is carefully analyzed and if required integrations be made that are relevant for the eastern region farmers. This is considered important as these activities need to be integrated into the regular budget of RGOB or into the forthcoming IFAD-supported Market Access and Growth Intensification Project (MAGIP).

18. **Livestock program: Poultry, Piggery Production, Fisheries.** The programme supported 8 poultry groups with 107 members during 2009-10. During the programme period until June 2010, 27 poultry groups with 317 members were supported. Each member was provided with layer chicks, materials for construction of poultry shed, grower feed up to 30-40% of production level and training in poultry management through the regular and the MIF interventions. The programme supported 8 piggery groups with 93 members during 2009-10. The programme provided piglets, construction materials, feed for one cycle and training to each member of the piggery group. The programme adopted a group approach to develop a critical mass of interventions in a location for delivery of inputs, training and veterinary service. The interventions were implemented at the household level so as to place the responsibility of the day to day management of the units at the hands of households.

19. The poultry and piggery interventions were directed towards poorest households on remote Gewogs. Although it is premature to make an evaluation, first indications show that the households are expected to benefit substantially from the poultry and piggery units. There are areas that require further refinement of this approach so that the households take full benefit of the intervention. They include: (i) planning for the second cycle of production with funds from first cycle production; (ii) construction of compost pit to make best use of the manure from poultry/piggery units; (iii) training on local feed formulation using locally available ingredients and of feed concentrate in remote locations; and (iv) coping with exigencies related to mortality of birds/pigs and inability to buy feed due to household emergencies. The SM of 2009 had recommended a thematic review of the poultry intervention and this has not been conducted so far. The necessity to conduct this review remains relevant as these activities need to be integrated into the regular budget of RGOB or into MAGIP. This review may conveniently be made during the foreseen MIF Impact Case Study.

20. No fisheries-related initiatives were undertaken during the FY 2009-2010 as this program is taken care directly by the Department of Livestock (DOL).

21. **Livestock marketing.** Dairy production marketing (training, processing equipment, cans, material, etc.) progressed with a mixed picture differing from places to places and depending on maturity of the beneficiary groups. The most requested activity was the training in business management (1390 farmers trained over a target of only 77) which confirms the high need for this pursuit. Meat and fish marketing promotion due to cultural beliefs and high unit costs have made no progress and it is questioned if the programme should make further efforts in this direction.

III. Marketing and Enterprise Development

22. The marketing and enterprise development (MED) related program is implemented directly by the districts, by RAMCO and by the PFO (only for MIF and Business Opportunity Facility-BOF). Overall, progress is 67% of allocated budget and specifically, MED routine activities reached 38%; RAMCO-activities, 40%; MIF, 83%; and BOF 128% (the two latter will be however financially accounted for in the 2010-2011 AWP).

23. **Market Infrastructure.** The progress of this sub-component has been minimal. The main reason for this was non-inclusion of marketing related activities in the approved district budget for 2009-10. The allocation was subsequently obtained through the process of supplementary budget, and only three districts have benefited (Mongar, Trashiyangtse, and Sandrup Jonkar). Only some 3% of Zero Energy Cooling Chambers (lowest demand) and 14% temporary village stores (due to late release of funds) have been implemented. Otherwise 44% of 500kg grain silos have been distributed. With regard to organised sales points 4 out of a target of 15 have been realised. Since RAMCO had however included a budget for this activity, the districts have subsequently requested

RAMCO to provide support for market infrastructure. This does not allow for sound planning. It is necessary to prioritise the needs of the districts based on market potential and remoteness. In addition, costs and design will have to be downscaled by using community contracting methods so as to build more number of market infrastructures using the available financial resources.

24. **God Father support.** The progress with regard to implementation of this activity has been below expectations in 2009-10. The SM of 2009 had made recommendations to link up selected educated unemployed youth but this did not materialize despite efforts from RAMCO. The SM of 2009 had also recommended training of educated youth in Rural Development Training Centre (RDTC) for preparing them to receive support under MIF. PFO has written to all the districts to nominate youth (school drop-outs) for training in the RDTC. The districts have accordingly sent 34 nominations. PFO will organise a training programmes in RDTC for these persons in January 2011. The training by RDTC will cover the technical aspects related to the selected vocation (poultry, vegetable, piggery and dairy activities) but also processing, and marketing. The courses will be for a month and students will be then attached as apprentices to lead farmer businesses. Eventually, they would be enabled to prepare MIF proposals to be submitted to the Committee. For this activity the amount of 375,000 BTN will be used to pay the fees of RDTC and some compensation to the lead farmers.

25. **Business Opportunity Facility.** The progress with regard to implementation of this activity during 2009-10 has been considerable. The PFO approved 6 BOF proposals and disbursed BTN 5.4 million (to be accounted in the 2010-2011 AWP) compared to approval of only 4 proposals during the first four programme years. Three initiatives are meant to advance hygienic production of Yak dairy products, one is a woman-owned hatchery of Day-old-chicks, and two others (one woman-owned) regard oil extraction, rice hulling and maize processing in flakes and flour. Average investment is 0.93 million BTN. BOF procedures have been revised by the PFO as recommended by SM 2009. Steps have been taken to ensure submission of a simple feasibility report with an action plan containing activities and time frame for completion. BOF proposals are considered only after receiving clear recommendation from the districts. PFO has devised a format for monitoring implementation progress. These progress monitoring reports are submitted quarterly by the districts to the PFO. Verification by PFO on funds approved is required in one case.

26. Of the four proposals supported by the programme prior to June 2009, two were not operational during the SM of 2009. They were: (i) maize processing facility in Pemagatsel; and (ii) food processing facility (noodles and biscuits) in Samdrup Jongkhar. The Pemagatsel unit became fully operational six month ago. The Samdrup Jongkhar unit sought changes in the plan to include baking machinery instead of noodle manufacturing machinery. This was approved by the district and the PFO. This unit has become fully operational in October 2010. The food processing facility (noodles and biscuits) supported under BOF in Lhuentse was not fully functional at the time of SM 2009. The issue of incomplete utilization of BOF funds by this unit was raised by the Royal Audit Authority (RAA) in 2008-2009 audit report. RAA has indicated that this unit will have to refund BTN 100,617 by October 2010. In the event of non-compliance, a penalty of 24% will levied. PFO has written to the entrepreneur to refund the amount. The entrepreneur is yet to comply with the same. In the event of non-compliance, the PFO will confiscate the equipments and auction the same to recover the dues as stipulated in the BOF guidelines. The demand for MIF is much more than the BOF. It is observed that the PFO rejects MIF proposals due to inadequate AWP allocations. PFO has the flexibility to change the MTR allocations for activities within a component based on the demand while preparing the AWPB. It is even possible to reallocate resources between MIF and BOF after AWPB approval by requesting IFAD to seek reallocation between BOF to MIF within the approved overall AWPB budget.

27. **Micro-Initiative Fund.** Implementation performance of this activity has improved substantially. The demand potential is high but awareness among farmers of this facility is still insufficient. Twenty four out of 25 initiatives related to this support are directed towards livestock related activities (18 poultry, 6 piggery, and 1 early chilli). It is noted that there is a lack of 'creativity' among district officials in assisting farmers at identifying other opportunities that could be financed through the MIF. The mission observed in few occasions that diverse MIF proposals could have emerged: (a) the manufacturing of wood crafts by Community Forest Management Groups (CFMG) in Trashiyangtse or in Trashigang and (b) the processing of potato chips in Lhuentse.

28. The average investment is about BTN 135,000. PFO has approved the 25 MIF proposals in 2009-10 and disbursed in total BTN 3.33 million (to be accounted in 2010-2011 AWP). Although promising, an evaluation of these MIF undertakings is premature as they have all been implemented (delayed availability of funds) in May, June and July 2010. The programme supported

80 MIF proposals with a cumulative disbursement of BTN 9.03 million until end June 2010. PFO has established a quarterly progress monitoring system. The districts send these progress monitoring reports every quarter. In addition, the PFO officials undertake field visits to assess the progress in implementation of MIF activities. The MIF grant approval committee started meeting twice a year. It is necessary that RAMCO sensitise the registered farmer groups/cooperatives to obtain support from MIF for their activities.

29. A number (about 100) of new MIF initiatives are in the pipeline to be included in FY 2010-2011. Although MIF operations are supposed to target poorest households and to alleviate poverty, careful evaluation on actual return to labour of the investment is warranted.

30. **RAMCO supported activities.** The Market Information System and further trial market related activities have been programmed in FY 2010-2011. RAMCO has completed all studies foreseen in the AWP. Value chain analyses (dairy, beekeeping, arecanut, ginger); a production and marketing study on Rajma; a study to link vegetables growers to the market; and a case study of a citrus marketing group were presented widely to stakeholders. However actual dissemination of relevant information to farmers has still to come. RAMCO is in the process of forming a Potato Value Chain forum, which will certainly serve the purpose for this group of producers. A similar initiative should be promoted for off-season vegetable growers and for fruit producers. RAMCO has contributed to the establishment of the so-called Interactive Voice Responding System (IVRS). This system enables farmers to access relevant and up-to-date marketing and price information through a simple telephone call. More effort is required to raise the awareness on the existence of this facility.

31. The Capacity building/extension activity carried out by RAMCO has been very relevant and is highly demanded. Trainings of potato production and marketing; marketing of citrus; food safety in butter and cheese production; trade shows; seed distribution for off-season vegetables; workshops on Amla processing, have all regarded a substantial number of farmers. This activity should continue in FY 2010-2011 based on a needs assessment study followed by a planning and programming of a capacity building program. Food safety issues in poultry farming and specifically in egg production should be taken on board RAMCO's capacity building activities.

32. With regard to Agribusiness promotion RAMCO has been able to conduct only two fairs which have revealed to be expensive undertakings. Buyers and sellers linkages have proven difficult as it has not been easy to find interested buyers.

VI. Outcome Monitoring

33. The programme is yet to supplement the use of RGOB district statistical data on production and sales with more AMEPP-related information. RGOB data capture the global picture including farming activities beyond programme scope. It is necessary to have the districts officers and Extension Agents collect, within their routine Gewog-level monitoring activities, and exclusively from the individual and group farmers who have benefited from programme activities, information related to the RIMS selected crops. Information for each relevant crop would be derived through two simple questions asked to the farmers: actual area cropped in 2005 and in 2010; and actual sales in 2005 and in 2010. Volume of production would be calculated by using statistical information of Gewog crop yields for the respective years (2005 and 2010) with the corresponding areas declared by the farmers. A format for data collection is provided as Attachment 1

34. With respect to the component-related (1 and 2) outcome indicators: (i) the "increase (%) in acreage of land through soil and water conservation activity" can be derived by using project-related information on how much area was covered by SALT activities; and (ii) the "increase in farmers supported with improved marketing infrastructure", should come from information compiled and analysed by RAMCO using all data available on users of collection points, market sheds, etc. and also on telephone traffic reported by Bhutan Telecom on the IVRS.

V. Field Visits Reporting

MIF and BOF

MIF: 1st Case
D: Transhiyangtse
G: Bundeling
V: Tsaling
Programme grant: 80,000 BTN

35. This initiative was established in May 2010. Beneficiaries are 3 individuals (one woman and two men). They submitted their proposals individually in November 2009, and later on decided to group together forming the *Tung Tung Konda*. Each farmer received 50 eight-week chicks; 'grower feed' to bring chicks at 22 weeks; cement, wire mesh and GI sheets to build the poultry pen. Farmers contributed with their own work and other building material. The grant feed provided is meant to enable a 30-40 percent production capacity. However, at 28 weeks chick age and with a 65 percent production level (30 eggs per day) they are still providing the residual grower feed while further 3 fifty-kilo bags are remaining. Medicines and vaccines are provided free of charge by the Dzongkhag administration. The farm is at about 1 hour walk from farm road and this makes all transport costs higher than in other instances. Two farmers have merged also their production structure and efforts. One of the three, the nearest to the road, is responsible for marketing the eggs which are being transported daily to the market. Eggs are sold at 10 BTN each, and 2 BTN per egg are kept in the group's common account. The interviewed farmer appears not to be aware of the cost of the 'layer feed' bag he will soon need to purchase (@1250 BTN per 50-kg bag) from the local Commission agent. He is using about 6 kg of feed per day for 47 producing chicks (94% survival rate). For the time being, each member sells about 20 eggs daily, the remaining is kept for home consumption. Last month he claimed earning 5000 BTN from egg sales. He plans, as do the other two group members, to expand the activity and to double the current production capacity. To this end he is saving money from the sales. He however does not know exactly how much capital is required but is aware from where he will source the 8-weeks chicks (Mongar Government Farm). In this village, other farmers did not want to undertake this enterprise which is interpreted as not in line with their cultural beliefs. However, it was reported that the success of this group is likely to attract few more farmers in poultry farming. Farmers have all small holdings of 2 to 3 acres and the household size is considerable (10 members). Crop production is mainly subsistence-based while some vegetable growing is done to generate income. The interviewed farmer earns 10,000 BTN from the single summer vegetable cycle. His egg production is thus an important and continued income source (around 7-8000 BTN monthly at current production level). A household like his, with 3 work-force members should easily manage a 100 layer production model. The interviewed farmer certainly requires assistance to upgrade his business and management skills (e.g. awareness of costs of production, book keeping). The other farmer, the one who markets the eggs, shows more advanced entrepreneurship capacity.

MIF: 2nd Case
D: Transhiyangtse
G: Khangang
V: Nomaring
Programme grant: 80,000 BTN

36. A similar initiative visited, with the same investment pattern (involving as well 3 HH), was promoted by the proactive EA who is also showing a good monitoring capacity with tidy records. At this level of production the farmers are selling about 60-70 percent of the eggs produced (@ 10 BTN ea.) with an average earning of about 2500 BTN per month. They also claim to make savings in a group account of 1500 BTN per month each. Again, on suggestion of the EA, they intend setting up a loan scheme open to other villagers and would practice an interest rate (@ 10-11 %) discounted with respect to that of the commercial banks and of BDFC. They all want to double the scheme and seem to be aware of the investment required. Their farm sizes range from 1 to 3 acres and the other sources of income are sales of potato, vegetables and maize, as well as off-farm operations. At least for one farmer, potato is a major enterprise in terms of income but he also buys soybean grain produced by other farmers, which he then sells directly in Sandrup Jonkar. These are young farmers with good entrepreneurship attitude but all need business management skills' improvement. This is a village housing 22 HH (5-6 members ea.). Further 8 HH now intend applying to the programme to seek MIF support.

MIF: 3rd Case
D: Transhiyangtse
G: Ramgar
V: Lamnang
Programme grant: 60,000 BTN

37. A third example visited actually belongs to the previous fiscal year and to pre-MTR situation with a proposal submitted by a group of 6 HH in October 2008. Due to avian influenza breakout, the initiative was frozen and funds were actually released in August 2009 while construction was completed in June 2010 and 5 weeks chickens were procured only in July 2010. In this case the enterprise is undertaken jointly by the group with care-competencies arranged in

shifts of daily efforts by a 3-member task force changing each month. This group received jointly 100 chicks (98% survival rate) of Rhode Island Red breed which are presently (at 21 weeks age) producing 20 eggs per day. Such eggs are not sold yet but are being cumulated to a critical mass of about 100 before a group member brings them to a local dealer at an agreed purchase price of 10 BTN per egg. It was observed that the group members are not fully aware of egg shelf life and minimum food safety standards. With regard to pricing, this seems to be dictated by a private larger scale producer (with about 700 layers). Reasoning on demand / supply pricing opportunity and cost of production is not there. They also claim not to have received advanced technical training on poultry management. They have just started plans for mounting a group account. Nevertheless, they plan to upscale the production system to about 200 layers as soon as possible, which is possible with the physical structure of about 70 square meters that has been realised through the programme (they just need to extend the roofing with CGI sheets over 50 percent of the pen). Undoubtedly, this business is vital for their income because as of now the only other source is from off-farm activities which in average bring not more than 20-25,000 BTN per HH per year. In fact, the average farm size is only of 2 acres (0.6 acre wetland) and a considerable proportion of land (0.5 acres) is left fallow due to wild animals' encroachment.

MIF: 4th Case
D: Transhigan
G: Samkar
V: Pam

38. The dairy group was established in the 2006-2007 fiscal year. The grant provided to the group consisted in construction material, a refrigerator, milk cans, a cream separator and a lactometer. Initially, the group totalled 22 members but gradually grew up to 50 (according to the group bylaws the newcomers contributed with BTN 5000 each). A further Dzongkhag grant has allowed for the purchase of other materials and equipment. In total the group now holds 72 milking cows (Jersey crossbred) which produce about 10 litres daily (the evening milking of 3 litres is kept for home consumption). When the group was formed the 22 members were producing for sale only 45 litres of milk per day. Currently, the enterprise has advanced significantly and the 50 members bring in about 360 litres every day to the collection point. Sufficient land has been purchased also for future up-scaling purposes and investment made for plant electrification. Present business is for fresh milk collection and re-selling. Out of the 360 litres, 95 litres are sold in town (Trashigan) to a retailer, 195 litres are sold to another group who process into cheese and butter, and about 70 litres are processed directly by the group chairperson into butter (providing 4 kg daily of butter). In terms of pricing, the group members get 20 BTN for each litre contributed. The chairperson who takes care of product marketing fetches 27 BTN for each milk litre sold to the town retailer and 190 BTN for each kilo of butter; but the milk that is provided to the other group is sold at cost (20 BTN/litre). The group has three accounts: one to tackle for recurrent costs (but is used only for extraordinary expenses) and is fed with 100 BTN monthly by each member; another account is for individual savings; and a third is fed by profits of an on-lending scheme to villagers at a higher interest rate (15-16%) of a loan taken by the group through BDFC (at 12% i.r.). The chairperson has informed on the intentions to expand activities and to move to further value addition activities (cheese and butter) as a group. Should the group be able to present a viable business plan, the possibility of using the project's BOF initiative could be examined positively by the PFO and the Committee. In all cases, the group needs capacity building on business management.

MIF Opportunity: Amla
D: Mongar
G: Dramatse
V: five

39. A Cost-benefit/value chain analysis by SNV identified Amla (a fruit from *Phyllanthus imbilica*) as one of the potential NWFP for improving the income levels of farmers in the eastern Dzongkhags. During the financial year 2008-2009, the programme supported two Community Forestry Management Groups and one Farmers Group in Mongar Dzongkhag by providing training in sustainable harvesting and drying. These groups require support for buying drying machine and packaging materials. The group of Mongar that brings together 114 households has been assisted in preparing a MIF proposal which is now being evaluated. The group has been trained (by SNV, RAMCO and Department of Forestry) on sustainable harvesting, processing, drying and marketing. Last year the group earned 62 000 BTN (from 2 500 kg fresh / 550 kg dried seed). The harvesting potential of the area is estimated in 6 tons per year (1320 kg dry) and thus able to provide about 149 000 BTN. Harvesting is not an issue while drying requires time and effort. Harvesting time is

in January/February which coincides to a time when other farming/agricultural activities are in low demand of labour. Each member of the group would provide 2 person days to harvest the annual quota (@ about 25 kg/day). Much more effort and time is required to deseed the Amla fruit (calculated in about 25 person months for the entire harvest of 6 tons). The current price of a dried Amla seed kilo is of 109 BTN that is dictated by the market of neighbouring countries. Interested purchasers exist and are Bio-Bhutan, the Institute for Traditional Medicine, and Incense Plant. However, given the size of the group (114 members) the operation will bring only a very marginal additional income to each member (about 1300 BTN per year).

BOF: Daphney paper plant
D: Transhiyangtse
G: Bumdeling
V: Phantig
Investment: 300 000 BTN

40. The plant is successfully run by a highly entrepreneurial operator, which employs two full-time workers and engages some 80-90 Daphney bark collectors belonging to a Community Forest Management Group. Production capacity is 110 sheets of paper per day for 10 working months per year. Average daily bark processed is eight kilos. A kilo of bark that is paid 25 BTN to the collectors enables 6-9 sheets of paper which in turn are sold at 10-20 BTN each. Workers salary is 5000 BTN/month. Other main expenses include cost for electricity, raw and operations material, and bank loan repayment (for his contribution). The owner is engaged 100 per cent on this activity and he plans to expand. He has started to differentiate his offer of products (note books, packaging paper, art paper, etc.). His market is Thimpu and his yearly declared net profit is of about 100 000 BTN.

VI. Vegetables, Potato and Orchards

Vegetables: 1st Case
D: Transhiyangtse
G: Bumdeling
V: Phanting

41. This is a group of vegetable growers (7 females and 3 men) that in the past and for 5 consecutive years used to cultivate a common piece of land but that eventually turned back to individual vegetable growing each on 20 to 30 decimals of their landholdings. The growers have been granted by the programme each with a pack of vegetable seeds which enables them to cultivate for two seasons (from September to January and from March to June). They also received training particularly, in nursery management but also in potato cultivation, which is their other source of income. The growers sell their produces by hand carrying baskets to the market or at times and depending on vegetable type, use the collection point which has also been provided through the programme. The winter vegetables (off season to the Indian product) fetch good prices while the summer vegetables come when the market is invaded by the much cheaper Indian produces. At times the producers are obliged to barter their output with other products of their need. They have a plan to constitute marketing sub-groups of cohesive membership.

Vegetables: 2nd case (early chili)
D: Transhiyangtse
G: Ramgar
V: Ramgar

42. Early chilli growing is practiced on wetland holding area after paddy harvesting. A group of 8 growers is established (2 women and 6 men) since 2006. The initiative started among a few households some years ago on a small scale for home consumption but now involves about 100 families. The individual area has gradually increased from about 10 decimals to 20 and in some cases reaches 40 decimals (0.4 acres). The interviewed group was established in 2007 by the programme which provided them with training (plant protection and nursery management), plastic tunnels, and improved seeds. In 2009 the programme supported the group also with trial sales (by hiring a cold storage van) in Thimpu, Mongar and Bumtang. Yields have almost doubled. Although they are perfectly aware of the advantages of using HYV seeds they claim that certified seeds are too expensive and crop failure risk is high. Chilli is plucked three times (April, May and June) and the first fetches highest price (@ 90 BTN/kg as compared to 25 BTN/kg in June). The second pluck in May (@ 40 BTN/kg) is the highest in volume and by then 60% of the harvest is completed. The tunnels are used for the nursery growing in January and cannot be used for crop growing as fields are too far and plastic house management requires continuous work. Plant protection is the major

issue and requires skills and time. Labour shortage and distance of the fields impedes further expansion of the wetland area that can be dedicated to this venture. Availability of irrigation water is another problem. Involved farmers request more training in pest management, and in seed production.

Vegetables: 3rd case
D: Mongar
G: Drepory
V: Laptsha

43. The village hosts 72 households. Two vegetable groups have been targeted by the programme: one of 10 members (7 female) and another of 8 members (7 female). Both have been established in 2008. The programme has provided them with training (technical, bookkeeping and leadership skills), seeds, sprinkler irrigation facilities and a group-common greenhouse (10 by 5 meters – metal structure) for the nursery. Vegetable growing is carried out throughout the year. The groups had received previous assistance and support from the Wengkhar RNR-RC with a nursery greenhouse (of wooden structure). They strategise their vegetable cropping pattern by discussing with the EA that provides marketing information that in turn is derived from interaction with RAMCO. The two groups fetch better and indeed high prices (60 BTN) through the vegetables that are sold off-season while the produces that are made available in late spring/summer cannot compete with the Indian products that flood the market at very low prices (5-10 BTN). Overtime and thanks to the farm road they have escalated their vegetable growing area from 10 to 20 and now to about 33 decimals. Further expansion is still possible by 10-15 decimals. Most of the holding area that is used for vegetable crops is within their dryland portion as the wetland is too far from their homesteads for this labour-intensive undertaking. Average landholding size is 1-4 acres per household. Maize used to be an important cash crop which is more and more being substituted by potato. The latter has in fact doubled its cropping intensity while Maize is steadily decreasing its importance. In terms of income, Maize procures some 5000 BTN; potato around 15 000 BTN and vegetable sales provide 15-25 000 BTN. As a result of the two groups' success in income generation, other households (7-10) in the village have also increased their vegetable areas and production. The groups are interested to start procuring quality seeds (for the types where this is possible) to neighbouring households. They have also started and intend increasing side-production of vegetable seedlings produced in the greenhouse to be sold to other households. The farmers appear not to be aware of the IVRS facility to access vegetable related marketing information (a live test was carried-out during interview). A calculation of the average breakeven price made together with the farmers shows that sales below 30 BTN per kg of vegetables do not provide adequate return to costs of production and labour efforts. Farmers need to be made more aware on what and when to grow based on their comparative advantages and competitiveness.

Orchard
D: Transhiyangtse
G: Khangdang
V: Serpang

44. Five small orchards of about 0.2 acres have been established in this village of eighteen households. Targeting was based on availability of land and on interest to dedicate part of the holding to this undertaking. 1-2 years seedlings to be planted with a 5 x 5 meters spacing were provided of different temperate fruit tree seedlings species (apple, pear, peach, apricot, almond and walnut). In the case of walnut trees an 8 by 8 meter spacing has been adopted. Training has been on land preparation, pruning and grafting. However, it is noted that a pruning issue on tree form exists and that more training of the EAs is warranted. The trees have started bearing fruit but production is still home consumed. However, the involved farmers (both male and female) indicate that some trial marketing among villagers shows preference for apples and peaches. The village is served by a farm road. For the time being their income comes from potato and vegetable sales but they are confident that fruit marketing will become another important source. For this reason they intend expanding their orchard area and plan to use the land that at present is left fallow because of wild boar encroachment and labour shortage. Indeed also tree crop management has peaks of labour demand some of which (e.g. pruning) however coincide at a time of the calendar when farmers are less engaged with other works. A woman farmer of this village is in the initial making of a contract farming operation with a EU-based private company that is promoting hazelnut production and marketing in the region.

Potato growers
D: Lhuentse
G: Gangzor
V: Shamling

45. Out of 22 households, 18 are involved in potato growing. Training, seed potato and a collection shed has been provided by the programme. The farm road was constructed in 2002 (SEZAP). Before the road potato was grown only for home consumption, while chilli was the only cash crop (in a small scale). Average landholding size is 3 acres. Potato is now grown on 33 decimals from the one to two decimals it was prior to the road. This crop has almost totally substituted chilli (also due to pest management issues). A calculation of the average breakeven price made together with the farmers shows that sales below 6.7 BTN per kg of potato do not provide adequate return to costs of production and labour. They have two main selling period: one at main harvest time (in June) and another in November and December. In June the market price goes down to 5 BTN per kg but in December they are able to fetch 15 BTN per kilo. Should they have better storage facilities instead of the inappropriate under-house basement which is presently used, the farmers would certainly be in a better position to sell when prices are higher. The collection shed provided by the programme is a great improvement but it is small compared to the current production capacity of the village and it can only work as a stand-by area to gather the produce which can be loaded by a 5-ton truck that middlemen drive here to buy the potato. The possibility of applying to the programme supported MIF for potato processing (e.g. potato chips making) was discussed.

VII. Dairy

Dairy producers
D: Lhuentse
G: Gangzor
V: Jalamzur/Tongling

46. The group of 10 members was originally formed by women but subsequently, management was taken up by the husbands. The programme has provided the group with a power tiller, a collection point, materials to build 10 cow sheds, fodder plant seedlings to each member and support for dairy cow (10) transport. None of these farmers had livestock raising or any dairy experience before. They were all crop-subsistence based farmers. Dairy production was considered an opportunity for them to make some cash income. However, at the beginning (the first year) the productivity enabled them to produce enough for their home needs and a surplus of milk was available, which was brought to Lhuentse town. Subsequently, cow productivity lowered due to inappropriate feeding capacity and cow reproduction phasing. The production pattern of the group shows dubious signs of sustainability. Technical and business management training is badly needed.

Attachment 1

AMEPP Sample Survey Form

Dzongkhag:
Geog:
Village:
Sample No.:

Name of Farmer/Name of Group :
Age :
Sex :

(in case of group) Number of members by sex:

Distance from nearest motorable road:

Crop	TO BE COLLECTED IN FIELD				TO BE CALCULATED IN OFFICE			
	Area in 2005	Area in 2011	Sales volume in 2005 (%)	Sales volume in 2011 (%)	Yield in 2005 (from RNR stats)	Yield in 2011 (from RNR stats)	Production in 2005	Production in 2011
Paddy								
Maize								
Potato								
Mustard								
Chili								
Vegetables (1 winter example for all)								
Vegetables (1 summer example for all)								
S.trop. Fruit (one example for all)								
Temp. Fruit (one example fro all)								

Livestock products	TO BE COLLECTED IN FIELD			
	Prod. in 2005 (lt./kg/n.)	Prod. in 2011 (lt./kg/n.)	Sales volume in 2005 (%)	Sales volume in 2011 (%)
Milk				
Butter				
Cheese				
Eggs				

Annex 2: Infrastructure Development – Farm Roads

I. Overall Progress

1. The target for construction of Farm Roads (FR) and Power Tiller Track (PTT) as per the Appraisal report was 155 km of FR and 240 km of PTT. Subsequently, RGOB changed its strategy and discontinued construction of PTTs. During MTR, the target for FR and PTT construction was revised to 248 km and 19 km respectively. The progress at the time of the mission is summarised Table 1 below and the details are provided on Table 3.

Table 1: Achievement of FR/PTT construction as at 30.6.2010

Details	Achievement
No. of stretches of FR completed	18
Length of FRs completed (km)	154.781
No. of FR stretches to be completed	7
Length of FRs to be completed (Km)	87.080
Of the length of FRs to be completed formation cutting completed (km)	69.310
Balance formation cutting of FRs to be completed (km)	17.770
No. of PTT stretches completed	4
Length of PTTs completed (Km)	31.35

II. Variation Orders

2. The PFO had requested IFAD approval for deviation in excess of the permissible limits prescribed without IFAD approval in respect of six FRs: (i) MON-FR-01; (ii) SAM-FR-03; (iii) PEM-FR-01; (iv) PEM-FR-03; (v) TRA-FR-04; and (vi) TRA-FR-02. IFAD is yet to approve an additional deviation of 15% which will be over and above the permissible deviation without IFAD approval which is 20% in case FRs/PTTs that are part of waiver and 15% for FRs/PTTs for which IFAD NOCs have been obtained. In case of PEM-FR-01 and TRA-FR-04, approval for additional deviation is not required as the total expenditure is within the deviation limits that does not require IFAD approval. IFAD will not be able to give no-objection in respect of SAM-FR-03 and PEM-FR-03 as these FRs have been completed and IFAD's no-objection has not been obtained prior to signing variation orders. IFAD has no objection to approve additional 15% deviation in respect of MON-FR-01 and TRA-FR-02 as these road works are on-going.

3. The mission undertook an extensive analysis of the deviation in each FR/PTT. This analysis indicated that that the PFO has not sought approval from IFAD for deviation beyond the permissible deviation limit in respect of LUN-FR-02 and LUN-FR-03 wherein the total deviation is 44.88% and 51.13% respectively. In respect of these FRs, PFO could have requested IFAD for approving an additional deviation of 15% over and above the 20% deviation permissible without IFAD approval. Similarly, total deviation in respect of PEM-FR-02 is 35% and PFO could have requested IFAD for approving an additional deviation of 15% over and above 15% deviation permissible without IFAD approval. These requests at this stage cannot be considered as these FRs have been completed. In addition, the total deviation in respect of MON-PTT-04 and YANG-PTT-04 has been 23.43% and 35% and it is possible to approve additional deviation of 15% as these contracts are below the threshold for IFAD review.

III. Performance Audit Report

4. A Performance Audit of the Farm Road construction activities in Bhutan was conducted by the RAA and a draft report was submitted to the MOAF in January 2010. The main recommendation include the need to : (i) proper planning and prioritization; (ii) comply with the technical specifications; (iii) conduct impact assessment studies; (iv) train district engineers on farm road construction; (v) hand over of farm roads to beneficiaries; (vi) use of EFRC methods; (vii) monitor and supervise in a timely manner by the district officials; (ix) make judicious use of scarce resources; (x) upgrade select roads into feeder roads; (xi) establish a dedicated division for farm roads; (xii) prepare an inventory of farm roads; and (xiii) ascertain huge variation in cost of construction of farm roads.

IV. Status of FRs/PTTs

5. **Samdrup Jongkar: Kawaipani-Martshalla Farm Road – 12.98 km - SAM-FR-01:** This farm road construction was contracted to M/S Rigsar Construction on 29/4/2007 for BTN

8,888,888. This farm road was part of ex-post review and waiver from IFAD. Work on this farm road has been completed with a deviation of 9.2%. Until June 30, 2010, a total of BTN 9,702,795.11 has been paid to the contractor. There is no outstanding issue in respect of this contract.

6. **Samdrup Jongkar: Narphung-Gomdar Farm Road - 11.532 km - SAM-FR-03:** This farm road construction was contracted to Gomphal construction on 13/7/2006 for BTN 7,999,161.22. This contract was part of ex-post review and waiver by IFAD. During construction, deviation of about 180% over and above the contract price was experienced due to rocky terrain. The farm road work has been completed on 30/4/2009. The contractor was in total paid BTN 22,399,153.07 of which BTN 8,739,910.17 from RGOB resources (financing code 0001) and the balance BTN 13,659,242.90 was paid from programme resources (Special Account and RGOB contribution). Taking into account 20% deviation permissible without IFAD approval as it is part of waiver, the eligible expenditure for reimbursement from the AMEPP will be BTN 9,598,993.46. PFO has requested for a deviation of 15% over and above the eligible 20% deviation. As the farm road work has been completed and the request for additional deviation was not sent prior to signing the variation order, it is not possible to approve additional deviation.

7. The district has paid BTN 13,659,242.90 to the contractor using programme funds against the eligible expenditure of BTN 9,598,993.46. It is recommended that BTN 4,060,249.44 spent over and above the eligible expenditure will be deducted from the BAS expenditure statement.

8. **Samdrup Jongkar: Orong-Ooling Farm Road – 12.69 km - SAM-FR-04:** This farm construction contracted to M/S Gomphel construction on 21/4/2009 after prior review and obtaining NOC from IFAD for BTN 12,526,235. Work on this farm road is ongoing and the deviation is expected to be within 15% after adding essential structures. The contract amount is expected to be revised to BTN 14,405,170.25. Until June 30, 2010, a total of BTN 6,412,192.60 has been paid and the balance payable taking into account 15% deviation is BTN 7,992,977.45. IFAD will reimburse 75% of this amount.

9. **Samdrup Jongkar: Kawaipani-Martshalla Bridge:** This bridge construction was contracted to Rubthen Construction on 4/2/2008 for BTN 3,567,000. The contract amount is below IFAD threshold for prior review. The bridge was completed with a deviation of 0.83%. The district administration imposed a penalty of BTN 359,655 and deducted it from the payment. This amount will have to be deducted from the BAS expenditure to arrive at the eligible expenditure.

10. **Pemagatshel: Ngnanshing – Woongchelo Farm Road – 10.03 km - PEM-FR-01:** This farm construction was contracted to M/S Yangkhel Construction on 6/10/2006 for BTN 13,720,000. This farm road was part of ex-post review and waiver from IFAD. Work on this farm road has been completed with a deviation of 102%. Taking into account BTN 14.00 million contributed by KR-II (JICA revolving fund), the deviation is only 0.11% of the contract amount. Until June 30, 2010, a total of BTN 13,745,560 has been paid (excluding KR-II payment) and hence there is no need to approve an additional 15% deviation.

11. **Pemagatshel: Gayzor – Resinang Farm Road – 6.00 km - PEM-FR-02:** This farm construction was contracted to M/S Yangkhel Construction on 20/3/2008 after prior review and obtaining NOC from IFAD for BTN 9,787,375.16. Work on this farm road has been completed with a deviation of 19.9% as against permissible deviation of 15%. The contractor has been paid BTN 11,734,463.07 whereas the eligible expenditure is only BTN 11,255,481.43. BTN 478,981.54 spent over and above the eligible expenditure will be deducted from the BAS expenditure statement.

12. **Pemagatshel: Kherigongpa-Gongpawoong Farm Road –8.959 km-PEM-FR-03:** This farm road construction was contracted to Rigsar Construction on 29/5/2007 for BTN 6,495,215.84. This contract was part of ex-post review and waiver by IFAD. During construction, deviation of about 63.2% over and above the original contract price was experienced due to rocky terrain. The farm road works have been completed and was handed over on 25/12/2007. Taking into account 20% deviation permissible without IFAD approval as it is part of waiver, the eligible expenditure for reimbursement will be BTN 7,794,259.01. It is recommended that BTN 1,406,210.99 spent over and above the eligible expenditure be deducted from the BAS expenditure statement.

13. **Pemagatshel: Nganglam-Rinchenzor Farm Road – 20.92 km - PEM-FR-04:** This farm construction was contracted to M/S Druk Phunsum Construction on 13/4/2009 after prior review and obtaining NOC from IFAD for BTN 12,118,123. Work on this farm road is ongoing and the deviation is expected to be within 15% after adding additional 5 km of formation cutting to link the Tsaishingzor village. The contract amount is expected to be revised to BTN 13,935,841.45. Until

June 30, 2010, a total of BTN 5,694,449 has been paid and the balance payable taking into account 15% deviation will be BTN 8,241,392.45. IFAD will reimburse 75% of this amount.

14. Trashigang: Kurichilu-Lumang Farm Road-8.5 km-TRA-FR-01: This farm construction was contracted to M/S Rigsar Construction on 3/10/2006 for BTN 11,275,148.60. This road was part of ex-post review and waiver from IFAD. Work on this farm road has been completed with a deviation of 14.1% which is below the permissible deviation of 20% without IFAD approval as it is part of waiver.

15. Trashigang: Lumang – Dungmangma Farm Road – 6.7 km - TRA-FR-02: This farm construction was contracted to Etho Mehto Construction on 28/6/2008 after prior review and NOC from IFAD for an amount of BTN 7,860,419.14. This road construction is ongoing and gradient correction is required in about 1 km stretch. A variation order has been issued for BTN 5,603,407.77 revising the contract amount to BTN 13,463,826.91. The estimated deviation is 71% of the original contract amount. The permissible deviation without IFAD approval in this case is 15%. A total amount of BTN 8,707,884 has been paid to the contractor. PFO has requested for approval for approval of an additional deviation of 15% on 15/10/2010.

16. It is recommended that IFAD approve an additional deviation of 15% of the contract amount in addition to the permissible deviation of 15%. Taking this into account, the eligible expenditure for reimbursement will be BTN 10,218,544.88. Of this BTN 8,707,884 has been paid and the balance payable by IFAD will be BTN 1,132,995.66 and from RGOB contribution (0002) will be BTN 377,665.22. In addition, BTN 3,245,282.03 will be required from RGOB resources (0001) to complete this contract.

17. Trashigang: Ronthung- Shinchengongpa PTT – 9.5 km - TRA-PTT-03: This PTT was contracted to M/S Tenzin Galey Construction on 28/2/2008 for BTN 2,119,407. This contract is below threshold for prior IFAD review. A final measurement order for BTN 261,402 was issued revising the contract amount to BTN 2,380,809. This PTT has been completed and BTN 2,380,809 has been spent with a deviation of 12.33% which is below the permissible deviation without IFAD approval.

18. Trashigang: Khilampokto- Berduma Farm Road – 10.0 km - TRA-FR-04: This farm construction was contracted to Etho Metho Construction on 25/5/2009 after prior review and NOC from IFAD for an amount of BTN 12,554,402.52. This road construction is ongoing. A variation order has been issued for BTN 1,108,628 revising the contract amount to BTN 13,663,030.52. The estimated deviation is 8.83% of the original contract amount which is below the permissible deviation of 15% without IFAD approval.

19. Trashigang: Khangma-Youngphupam Farm Road – 8.5 km - TRA-FR-05: This farm construction was taken up on force account basis on 15/1/2007. The estimated amount for construction was BTN 11,900,000. This force account works is part of ex-post review and waiver. The farm road has been completed and BTN 9,093,820.76 has been spent which is less than the estimated amount.

20. Trashigang: Drokphu – Udzonrong Farm Road – 10 km - TRA-FR-06: This farm construction was taken up on force account basis on 27/2/2007. The estimated amount for construction was BTN 15,240,000. This force account works is part of ex-post review and waiver. The farm road has been completed and BTN 9,819,118.10 has been spent which is less than the estimated amount.

21. Trashigang: Khaling-Jerilemi PTT – 8.0 km - TRA-PTT-07: This PTT was contracted to M/S Three Star Construction on 21/1/2009 for BTN 1,286,000. This contract is below threshold for prior IFAD review. A final measurement order for BTN 80,939 was made revising the contract amount to BTN 1,366,939. This PTT has been completed and BTN 1,366,939 has been spent with a deviation of 6.3% which is below the permissible deviation without IFAD approval.

22. Trashigang: Kharza - Durung Farm Road – 8.5 km - TRA-FR-08: This was originally envisaged as a PTT and subsequently upgraded to farm road. The construction was taken up on force account basis on 2/8/2008. The estimated amount for construction was BTN 3,600,000 and a cost revision to the estimate was made for BTN 264,548.68 revising the estimated amount to BTN 3,864,548.68. The estimated cost of this force account works is below the IFAD threshold for prior review. The farm road has been completed and BTN 3,864,548.68 has been spent on this farm road with a deviation of 7.3% which is below the permissible deviation without IFAD approval.

23. Trashigang: Yangtse: Ngakharzom – Changmadung Farm Road – 8.58 km - YANG-FR-01: This farm road was contracted to M/S Kuenlay Construction on 5/4/2007 for BTN 11,016,287.80.

This contract is part of ex-post review and waiver by IFAD. This farm road has been completed and BTN 10,910,041.8 has been spent which is below the contract amount.

24. Trashy Yangtse: Changmedung-Tokaphu Farm Road – 7.3 km - YANG-FR-02: This farm road was contracted to M/S Kuenlay Construction on 28/1/2008 for BTN 7,235,181.35 after prior review and NOC by IFAD. This farm road has been completed and BTN 7,270,090 has been spent which is below the contract amount. The district administration has recovered BTN 258,854.10 as liquidated damages and this amount will be deducted from the BAS expenditure statement.

25. Trashy Yangtse: Lichen – Tonsen Farm Road – 5.0 km - YANG-FR-03: This farm road was contracted to M/S Sangay Norbu Construction on 2/6/2008 for BTN 3,375,000. This is below threshold for IFAD prior review. In spite of this PFO obtained NOC from IFAD. A variation order was issued for BTN 130,623 revising the contract amount to BTN 3,505,623. This farm road has been completed and BTN 3,505,623 has been spent. The deviation is only 3.87% which is below the permissible deviation of 15% without IFAD approval. The district administration has recovered BTN 249,778.33 as liquidated damages and this amount will be deducted from the BAS expenditure statement.

26. Trashy Yangtse: Dungzam- Chen PTT – 7.6 km - YANG-FR-04: This PTT was contracted to M/S Sangay Norbu Construction on 5/4/2007 for BTN 1,919,554.81. This is below threshold for IFAD prior review. A variation order was issued for BTN 671,749.19 revising the contract amount to BTN 2,591,304. This farm road has been completed and BTN 2,591,304 has been spent. The deviation is about 35%. Additional deviation of 15% over and above 15% deviation does not require IFAD approval as this contract is below IFAD threshold for review. With the approval of additional deviation, the eligible expenditure will be BTN 2,495,421.25 which is less than the amount spent (BTN 2,591,304) on this PTT. As a result, BTN 95,882.75 will be deducted from BAS expenditure statement.

27. Mongar: Dremtse-Narang Farm Road-13 km- MON-FR-01: This farm road construction was contracted to M/S Gomphel Construction on 1/6/2007 for BTN 8,880,000. This road works is part of ex-post review and waiver by IFAD. The road works are on-going and the district administration has spent BTN 13,845,200 from programme funds (Financing code 1964 and 0002) excluding BTN 5,720,000 spent from RGOB (Financing code 0001). The eligible expenditure taking into account 20% deviation without IFAD approval will be BTN 10,656,000. PFO has requested IFAD for an additional deviation of 15% and IFAD has agreed for the same subject to availability of funds.

28. It is recommended that IFAD approve additional 15% deviation and this will result in total eligible expenditure of BTN 11,988,000. This amount is more than the amount already paid using programme funds and hence BTN 1,857,200 will be deducted from the BAS expenditure statement. In addition, RGOB requires BTN 4,934,800 from its own resources to complete this road.

29. Mongar: Tinkarbi-Silambi Farm Road (Phase 1)- 10.9 km-MON-FR- 02: This farm road has been taken up on force account basis. This was part of ex-post review and waiver by IFAD. Works started on 25/4/2007 and the road has been completed on 30/6/2010. The estimated amount for road construction was BTN 15,250,000. The total expenditure on this road works was BTN 12,281,653.58 which is below the estimated amount.

30. Mongar: Tsamang-Banjar Farm Road- 10 km-MON-FR-03: This road works was taken up on force account basis. This road works was part of ex-post review and waiver from IFAD. The cost of construction was estimated at BTN 13,500,000. The work on this farm road is on-going and 8 km of formation cutting has been completed. BTN 3,984,336.19 has been spent on this road and BTN 9,515,663.81 is available for further expenditure. No deviation is expected and the estimated amount is adequate for completing the road works.

31. Mongar: Kilikhar-Laptsa PPT-6.25 km- MON-PTT-04: This PPT was contracted to M/S Three star construction on 7/4/2009 for BTN 2,278,000. This works is below threshold for IFAD Review. The road construction has been completed and BTN 2,811,836 has been spent on this road. The total deviation is 23.44% of the original contract price. The deviation permissible without IFAD approval is 15%. IFAD approval for an additional deviation of 8.44% over above the permissible deviation of 15% is not required as the total contract amount is below threshold for IFAD review. As result, the total eligible expenditure will be equivalent to the actual expenditure made (BTN 2,811,836) for this road.

32. **Lhuentse: Autsho-Tsochin Farm Road-10 km-LUN-FR-01:** This farm road works was contracted to M/S Jabab Construction on 15/11/2007 for BTN 10,738,000. This farm road works was part of ex-post review and waiver. The construction of this farm road has been completed and BTN 12,787,022 has been spent. The total deviation is 19.08% which is below the deviation permissible without IFAD approval.

33. **Lhuentse: Nogma-Janchuling Farm Road – 5 km – LUN-FR-02:** This farm road was contracted to M/S Tacho Construction on 3/1/2007 for BTN 5,690,000. This road works was part of ex-post review and waiver. This road has been completed and a total deviation of 44.88% was experienced taking the total expenditure under this contract to BTN 8,243,606. It is not possible to approve additional 15% deviation as the road works has been completed. As a result, BTN 1,415,606 will be deducted from BAS expenditure statement.

34. **Lhuentse: Khomazam-Khoma Farm Road – 5 km – LUN-FR-03:** This farm road was taken up on force account basis on 25/4/2007. The estimated amount was BTN 6,677,000. This road works was part of ex-post review and waiver. This road has been completed and a total deviation of 51.13% was experienced taking the total expenditure for this road to BTN 10,091,014.90. It is not possible to approve additional deviation at this stage as road works have been completed. As a result, BTN 2,078,614 will be deducted from BAS expenditure statement.

35. **Lhuentse: Khardung-Lagay Farm Road-8km-LUN-FR-04:** This farm road works was taken up on force account basis on 20/12/2007. The estimated cost construction was BTN 10,629,000. This farm road works was part of ex-post review and waiver. The construction of this farm road has been completed and BTN 8,973,985.40 been spent which is less than the estimated amount.

36. **Lhuentse: Menji-Chingling Farm Road- 10 km-LUN-FR-05:** This farm road works was taken up on force account basis on 1/11/2007. The estimated cost construction was BTN 14,717,000. This farm road works was part of ex-post review and waiver. The construction of this farm road has been completed and BTN 12,698,617.15 has been spent which is less than the estimated amount.

V. Problematic Cases

37. **Samdrup Jhongkar: Geylongkhar-Tokapu Farm Road - 13.7 km - SAM-FR- 02:** This farm road construction was contracted to M/S K. Gangri Constructions on 17/1/2007 for BTN 9,889,899.55. This contract was not part of the waiver provided by IFAD due to deficiencies observed in the contract during ex-post review and IFAD did not agree to reimburse expenditure related to this farm road. Subsequently, based on the request by MOAF coupled with amendment to the contract to rectify the deficiencies, IFAD agreed to reimburse 75% of the contract amount of BTN 9,889,899.55 after completion of road works. The district administration has in total paid BTN 6,109,893.93 to the contractor and the contractor has completed only 3.5 Km of preliminary formation cutting due to rocky terrain. The contract was terminated on 6/11/2009 due to inability of the contractor to complete works as planned and the district administration has taken up this activity under force account. The contractor took up the case of contract termination, seizure of performance security and imposition of liquidated damages to the court and the court in its judgement has ordered the contractor to pay BTN 559,165.93 to the district administration. There is a discrepancy in the judgement related to calculation of the amount payable by the contractor which should have been BTN 695,563.98. The contractor has filed an appeal at the high court.

38. The road construction work is progressing satisfactorily after takeover of the works under force account. About 5.5 km of the farm road is now ready. The district administration has engaged machinery on hire and an Engineer from PFO has been deputed to oversee the construction works. It is expected that the entire stretch of 13.7 km will be completed by February 2012. The district administration used BTN 4,917,226.87 from the programme funds to fund force account works.

39. Meantime, the issue of delay in construction was raised by the local Members of the Parliament. IFAD on 20th July 2010 sent a letter to the MOAF informing of its inability to accept any payment made under this contract as eligible expenditure. It was also indicated that all previous expenditure reimbursed by IFAD against this contract will be recovered by IFAD from future withdrawal applications. The Royal Audit Authority (RAA) conducted a Special Audit of this road works. Main findings of this audit include: (i) flaws in verification of certificates related to financial capacity of the bidder during bid evaluation; (ii) defective contract agreement; (iii) delays in taking

timely action to terminate the contract; (iv) inadequate feasibility study; (v) wrong calculation of liability of the contractor; and (vi) inadequate supervision by Kingkhor Consultancy.

40. Meantime, the government has entrusted the task of ascertaining the reasons for delay and suggesting improvements to the procurement process to the Public Accounts Committee (PAC). During the visit of the mission, the PAC fact finding team was in Samdrup Jhongkar for a public hearing. In response to the letter of 20th July 2010 of IFAD, the MOAF has requested IFAD to reconsider its decision and has sent a copy of the Special Audit Report for this road prepared for this farm road contract. The mission while recalculating the amount to be reimbursed by IFAD deducted BTN 11,027,120.80 from eligible expenditure to arrive at correct amount to be reimbursed so as to be in line with the IFAD stand of deducting the amount paid under the contract for construction of this FR from future withdrawal applications.

41. **Mongar: Tinkarbi(Broksar)-Silambi (Phase 2)- 10 Km-MON-FR-05:** This road works was advertised after getting IFAD approval for the tender documents. The tender was advertised on 3/12/2009. The bid submitted by M/S Gomphel Construction was the lowest evaluated bid which was 25.98% less than the estimated amount. A contract was signed with M/S Gomphel Construction on 2/4/2010 for BTN 22,126,553.80. The district administration and the PFO did not obtain IFAD no-objection to the evaluation report before signing the contract for this farm road works. PFO sent the documents for IFAD approval after signing the contract. IFAD on account of this did not agree to provide no-objection and to reimburse expenditure under this contract. MOAF has requested for reconsideration of IFAD's stand and the options suggested by MOAF require termination of contract signed with M/S Gomphel Construction. At this stage it may be difficult to terminate the contract as this action is likely to be challenged in the court. The district administration has indicated that the contract was signed with a view to quickly start with the construction work due to impending closure of the programme and also due to public pressure to complete the farm road. At this stage, three options can be considered by MOAF: (i) cancel the contract with M/S/ Gomphel constructions. Settle the dues of the contractor using RGOB resources. Take up the farm road works on force account basis and use IFAD (75%) and RGOB (25%) resources to finance eligible expenditure; (ii) select one or two roads constructed with RGOB resources using force account procedure up to an expenditure limit of BTN 22.00 million and treat it as AMEPP road and submit expenditure details for reimbursement of this expenditure; and (iii) take up a new stretch farm road construction up to an expenditure limit of BTN 22.00 million either on force account or on contract basis. IFAD prescribed procedures will have to be followed.

VI. Earthquake Interventions

42. IFAD had reallocated SDR 325,000 for earthquake rehabilitation from out of AMEPP funds as per the amendment signed to the Programme Financing Agreement. SDR 150,000 and SDR 175,000 were allocated under Category I(c)-RNR infrastructure (earth quake response) and Category II(b) - Seeds and Storage Equipment (earth quake response) respectively. Thereafter IFAD released USD 490,000 (SDR 321,731.31) into the Earthquake Special Account. The Department of Public Accounts on 7/6/2010 released BTN 16,922,000 to PFO. Of this amount, PFO procured goods worth BTN 7,180,231.50. The balance amount of BTN 9,741,769 is available with PFO. PFO has started process of seeking requisitions from the districts. All districts except Trashigang have submitted requisitions and PFO is in the process of releasing advances. The districts will complete implementation and settle the advances to enable PFO to prepare WA related to this expenditure.

VII. RGOB Commitment for On-going Farm Road

43. Eight FR stretches are under construction. IFAD's commitment for construction of these farm road stretches is detailed in Table 2 below. Of these eight stretches, IFAD has declined to finance Tinakarbi-Silambi-Phase 2 (MON-FR-05). RGOB requires BTN 22.13 million to complete this road. It is necessary that the PFO release funds based on the commitments indicated below. In respect of Geylongkar-Tokaphu (SAM-FR-02), IFAD will reimburse costs only after completion of the road and till such time RGOB will have to bring in required resources for completion of this road. RGOB will have to bring in BTN 35.42 million in addition to RGOB contribution of BTN 10.9 million. Total IFAD commitments beyond 30th June 2010 will be BTN 32.8 million.

Table 2: Financial Commitments for Ongoing farm roads

Name of the Farm Road	Code	Commitments beyond 30 June 2010		
		IFAD	RGOB-0002	RGOB 100%-0001-Beyond 30
Dremtse-Narang	MON-FR-	0.00	0.00	4,934,800.00
Tsamnag-Banjar	MON-FR-	7,136,747.86	2,378,915.95	0.00
Nganglam-Rinchenzor	PEM-FR-	6,181,044.34	2,060,348.11	0.00
Orong-Ooling	SAM-FR-	5,994,733.24	1,998,244.41	0.00
Lumang-Dungmangma	TRA-FR-	1,132,995.66	377,665.22	3,245,282.03
Khilampoto-Berduma	TRA-FR-	4,932,772.89	1,644,257.63	0.00
Sub-Total		25,378,293.99	8,459,431.32	8,180,082.03
Tinakarbi-Silambi-Phase 2	MON-FR-			22,126,553.80
Geylongkhar-Tokaphu	SAM-FR-	7,417,424.66	2,472,474.89	5,110,100.85
Sub-total		7,417,424.66	2,472,474.89	27,236,654.65
Grand-Total		32,795,718.65	10,931,906.21	35,416,736.68

VIII. Participatory Impact Assessment

44. The mission conducted a participatory assessment of the impact of farm road. The farm road user group members were asked four questions related to changes in benefits accruing to their family after farm road construction in respect of physical asset, improvements in income and increase in production of cash crop. The results obtained are provided below in respect of four farm road stretches. The results indicate substantial benefits accruing to the

1) Kawaipani-Martshalla Farm Road:

Year of completion: May 2008

Indicator	Number of households reporting:			
	Substantial Improvement	Moderate Improvement	Marginal Improvement	No improvement
Number of respondents	28			
Improvement in the homestead infrastructure	6	10	8	4
Increase in household furniture/equipments/durables	8	12	5	3
Increase in cash income	10	14	4	0
Increase in production of cash crops (potato, fruits, vegetables, ginger, kidney bean and pulses)	10	12	6	0

2) Changmedung-Tokaphu Farm Road:

Year of completion: October 2008

Indicator	Number of households reporting:			
	Substantial Improvement	Moderate Improvement	Marginal Improvement	No improvement
Number of respondents	20			
Improvement in the homestead infrastructure	4	8	6	2
Increase in household furniture/equipments/durables	6	10	3	1
Increase in cash income	8	10	2	0
Increase in production of cash crops (potato, fruits, vegetables, ginger, kidney bean and pulses)	10	8	2	0

3) Khangma-Youngphupam Farm Road

Year of completion: January 2008

Indicator	Number of households reporting:			
	Substantial Improvement	Moderate Improvement	Marginal Improvement	No improvement
Number of respondents	26			
Improvement in the homestead infrastructure	4	12	6	4
Increase in household furniture/equipments/durables	6	12	5	3
Increase in cash income	11	12	3	0

Increase in production of cash crops (potato, fruits, vegetables, ginger, kidney bean and pulses)	11	11	4	0
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4) Autsho-Tsochin Farm Road

Year of completion: October 2008

Indicator	Number of households reporting:			
	Substantial Improvement	Moderate Improvement	Marginal Improvement	No improvement
Number of respondents	21			
Improvement in the homestead infrastructure	3	9	6	3
Increase in household furniture/equipments/durables	5	9	5	2
Increase in cash income	8	10	2	0
Increase in production of cash crops (potato, fruits, vegetables, ginger, kidney bean and pulses)	8	10	2	0

Table 3: Details of targets and achievement

S. No.	Name of the Farm Road	Code	Target (Km)	Completed Length of Farm Road in Km 1/						Status
				S. Jongkhar	Pemagatshel	Trashigang	Trashi Yangtse	Mongar	Lhuentse	
1	Autsho-Tsochin	LUN-FR-01	10.000						10.000	C
2	Nogma-Janchuling	LUN-FR-02	5.000						5.000	C
3	Khomazam-Khoma	LUN-FR-03	5.000						5.000	C
4	Khardung-Lagay	LUN-FR-04	8.000						8.000	C
5	Menji-Chingling	LUN-FR-05	10.000						10.000	C
6	Tinakarbi-Silambi-Phase 1	MON-FR-02	10.900					10.900		C
7	Ngnangshing-Woongchelo	PEM-FR-01	10.030		10.030					C
8	Gayzor-Resinang	PEM-FR-02	6.000		6.000					C
9	Kerigongpa-Gongpawoong	PEM-FR-03	8.959		8.959					C
10	Kawaipani-Martshalla	SAM-FR-01	12.980	12.980						C
11	Narphung-Gomdar	SAM-FR-03	11.532	11.532						C
12	Kuruchilu-Lumang	TRA-FR-01	8.500			8.500				C
13	Khangma-Youngphupam	TRA-FR-05	8.500			8.500				C
14	Drokphu-Udzongrong	TRA-FR-06	10.000			10.000				C
15	Kharza-Durung	TRA-FR-08	8.500			8.500				C
16	Ngakharzom-Changmedung	YANG-FR-01	8.580				8.580			C
17	Changmedung-Tokaphu	YANG-FR-02	7.300				7.300			C
18	Linchen-Tonseng	YANG-FR-03	5.000				5.000			C
	Sub Total-Completed		154.781	24.512	24.989	35.500	20.880	10.900	38.000	
1	Dremtse-Narang	MON-FR-01	13.000					13.000		NC
2	Tsamnag-Banjar	MON-FR-03	10.000					8.000		NC
3	Nganglam-Rinchenzor	PEM-FR-04	20.920		20.920					NC
4	Geylongkhar-Tokaphu	SAM-FR-02	13.770	5.500						NC
5	Orong-Ooling	SAM-FR-04	12.690	12.690						NC
6	Lumang-Dungmangma	TRA-FR-02	6.700			6.700				NC
7	Khilampoto-Berduma	TRA-FR-04	10.000			2.500				NC
	Sub Total-Not completed		87.080							
	Total FR formation cutting		69.31	18.190	20.920	9.200	0.000	21.000	0.000	
	Balance FR formation cutting		17.770							
S. No.	Name of the PTT	Code	Target (Km)	Completed Length of PTT in Km						Status
				S. Jhongkar	Pemagatshel	Trashigang	Trashi Yangtse	Mongar	Lhuentse	
1	Ronthung-Shinchengongpa	TRA-PTT-03	9.500			9.500				C
2	Khaling-Jerilemi	TRA-PTT-07	8.000			8.000				C
3	Dungzam-Chen	YANG-PTT-04	7.600				7.600			C
4	Kilikhar-Laptsa	MON-PTT-04	6.250					6.250		C
	Total PTT Target		31.350							
	Total PTT Completed		31.350	0.000	0.000	17.500	7.600	6.250	0.000	
	Balance PTT for completion		0.000							

Table 4: Details of Deviation in respect of Farm Road and PTT Construction

Name of the Farm Road	Code	Status	IFAD Approval	Actual/ projected deviation	Deviation permissible w/o IFAD approval	Additional Deviation approved by IFAD	Additional deviation that do not require IFAD approval	RGOB share of deviation excluding RGOB contribution to AMEPP
Completed Farm Roads/PTTs within permissible deviation without IFAD approval								
Autsho-Tsochin	LUN-FR-01	C	Waiver	19.08%	20.00%	0.00%	0.00%	0.00%
Khardung-Lagay	LUN-FR-04	Cr	Waiver	-15.57%	20.00%	0.00%	0.00%	0.00%
Menji-Chingling	LUN-FR-05	C	Waiver	-13.70%	20.00%	0.00%	0.00%	0.00%
Tinakarbi-Silambi-Phase 1	MON-FR-02	C	Waiver	-19.46%	20.00%	0.00%	0.00%	0.00%
Ngnangshing-Woongchelo	PEM-FR-01	C	Waiver	0.11%	20.00%	0.00%	0.00%	101.9% (KR-II)
Kawaipani-Martshalla	SAM-FR-01	C	Waiver	9.20%	20.00%	0.00%	0.00%	0.00%
Kuruchilu-Lumang	TRA-FR-01	C	Waiver	14.10%	20.00%	0.00%	0.00%	0.00%
Khangma-Youngphupam	TRA-FR-05	C	Waiver	-23.58%	20.00%	0.00%	0.00%	0.00%
Drokphu-Udzongrong	TRA-FR-06	C	Waiver	-35.57%	20.00%	0.00%	0.00%	0.00%
Kharza-Durung	TRA-FR-08	C	Below Threshold	7.35%	15.00%	0.00%	0.00%	0.00%
Ronthung-Shinchengongpa	TRA-PTT-03	C	Below Threshold	12.33%	15.00%	0.00%	0.00%	0.00%
Khaling-Jerilemi	TRA-PTT-07	C	Below Threshold	6.30%	15.00%	0.00%	0.00%	0.00%
Ngakharzom-Changmedung	YANG-FR-01	C	Waiver	-0.96%	20.00%	0.00%	0.00%	0.00%
Changmedung-Tokaphu	YANG-FR-02	C	Waiver	0.48%	20.00%	0.00%	0.00%	0.00%
Linchen-Tonseng	YANG-FR-03	C	Below Threshold	3.87%	15.00%	0.00%	0.00%	0.00%
Completed Farm Roads/PTTs that require approval for additional deviation from IFAD								
Nogma-Janchuling	LUN-FR-02	C	Waiver	44.88%	20.00%	0.00%	0.00%	24.88%
Komazam-Khoma	LUN-FR-03	C	Waiver	51.13%	20.00%	0.00%	0.00%	31.13%
Kilikhar-Laptsa	MON-PTT-04	C	Below Threshold	23.43%	15.00%	0.00%	8.44%	0.00%
Gayzor-Resinang	PEM-FR-02	C	NOC	19.90%	15.00%	0.00%	0.00%	0.00%
Kerigongpa-Gongpawoong	PEM-FR-03	C	Waiver	41.65%	20.00%	0.00%	0.00%	21.65%
Narphung-Gomdar	SAM-FR-03	C	Waiver	180.00%	20.00%	0.00%	0.00%	160.00%
Dungzam-Chen	YANG-PTT-04	C	Below Threshold	35.00%	15.00%	0.00%	15.00%	5.00%
On-going Farm Road that are expected to be completed within the permissible deviation without IFAD approval								
Tsamnag-Banjar	MON-FR-03	NC	Waiver	0.00%	20.00%	0.00%	0.00%	0.00%
Nganglam-Rinchenzor	PEM-FR-04	NC	NOC	15.00%	15.00%	0.00%	0.00%	0.00%
Orong-Ooling	SAM-FR-04	NC	NOC	15.00%	15.00%	0.00%	0.00%	0.00%
Khilampoto-Berduma	TRA-FR-04	NC	NOC	8.33%	15.00%	0.00%	0.00%	0.00%
On-going Farm Roads require approval for additional deviation from IFAD								
Dremtse-Narang	MON-FR-01	NC	Waiver	175.90%	20.00%	15.00%	0.00%	140.90%
Lumang-Dungmangma	TRA-FR-02	NC	NOC	71.30%	15.00%	15.00%	0.00%	41.30%
Special Cases								
Tinakarbi-Silambi-Phase 2	MON-FR-05	NC						
Geylongkhar-Tokaphu	SAM-FR-02	NC						

Table 5: Expenditure and Commitment Details for Farm Roads/PTTs (Amount in BTN)

Name of the Farm Road	Code	Status	Total expenditure	Eligible Expenditure	Payments up to 30 June 2010				Commitments beyond 30 June 2010		
					IFAD share	RGOB Contribution 0002	RGOB-100%-0001	Other sources - KR II	IFAD	RGOB-0002	RGOB 100%-0001-Beyond 30 June 2010
Autsho-Tsochin	LUN-FR-01	C	12,787,021.50	12,787,021.50	9,590,266.13	3,196,755.38		0.00			0.00
Nogma-Janchuling	LUN-FR-02	C	8,243,606.00	6,828,000.00	5,121,000.00	1,707,000.00	1,415,606.00	0.00			0.00
Komazam-Khoma	LUN-FR-03	C	10,091,014.00	8,012,400.00	6,009,300.00	2,003,100.00	2,078,614.00	0.00			0.00
Khardung-Lagay	LUN-FR-04	C	8,973,985.40	8,973,985.40	6,730,489.05	2,243,496.35		0.00			0.00
Menji-Chingling	LUN-FR-05	C	12,698,617.15	12,698,617.15	9,523,962.86	3,174,654.29		0.00			0.00
Tinakarbi-Silambi-Phase 1	MON-FR-02	C	12,281,653.58	12,281,653.58	9,211,240.19	3,070,413.40		0.00			0.00
Kilikhar-Laptsa	MON-PTT-04	C	2,811,836.00	2,811,836.00	2,108,877.00	702,959.00		0.00			0.00
Ngnangshing-Woongchelo	PEM-FR-01	C	27,735,560.00	13,735,560.00	10,301,670.00	3,433,890.00		14,000,000.00			0.00
Gayzor-Resinang	PEM-FR-02	C	11,734,463.07	11,255,481.43	8,441,611.07	2,813,870.36		478,981.64			0.00
Kerigongpa-Gongpawoong	PEM-FR-03	C	9,200,470.00	7,794,259.01	5,845,694.26	1,948,564.75	1,406,210.99	0.00			0.00
Kawaipani-Martshalla	SAM-FR-01	C	9,702,795.11	9,702,795.11	7,277,096.33	2,425,698.78		0.00			0.00
Narphung-Gomdar	SAM-FR-03	C	22,399,153.07	9,598,993.46	7,199,245.10	2,399,748.37	12,800,159.61	0.00			0.00
Kuruchilu-Lumang	TRA-FR-01	C	12,864,456.32	12,864,456.32	9,648,342.24	3,216,114.08		0.00			0.00
Khangma-Youngphupam	TRA-FR-05	C	9,093,820.76	9,093,820.76	6,820,365.57	2,273,455.19		0.00			0.00
Drokphu-Udzongrong	TRA-FR-06	C	9,819,118.00	9,819,118.00	7,364,338.50	2,454,779.50		0.00			0.00
Kharza-Durung	TRA-FR-08	C	3,864,548.68	3,864,548.68	2,898,411.51	966,137.17		0.00			0.00
Ronthung-Shinchengongpa	TRA-PTT-03	C	2,380,809.00	2,380,809.00	1,785,606.75	595,202.25		0.00			0.00
Khaling-Jerilemi	TRA-PTT-07	C	1,366,939.00	1,366,939.00	1,025,204.25	341,734.75		0.00			0.00
Ngakharzom-Changmedung	YANG-FR-01	C	10,910,041.80	10,910,041.80	8,182,531.35	2,727,510.45		0.00			0.00
Changmedung-Tokaphu	YANG-FR-02	C	7,011,236.00	7,011,235.90	5,258,426.93	1,752,808.98		0.00			0.10
Linchen-Tonseng	YANG-FR-03	C	3,255,844.67	3,255,844.67	2,441,883.50	813,961.17		0.00			0.00
Dungzam-Chen	YANG-PTT-04	C	2,591,304.00	2,495,421.25	1,871,565.94	623,855.31	95,882.75	0.00			0.00
Dremtse-Narang	MON-FR-01	NC	24,500,000.00	11,988,000.00	8,991,000.00	2,997,000.00	7,577,200.00	0.00	0.00	0.00	4,934,800.00
Tsamnag-Banjar	MON-FR-03	NC	13,500,000.00	13,500,000.00	2,988,252.14	996,084.05		0.00	7,136,747.86	2,378,915.95	0.00
Nganglam-Rinchenzor	PEM-FR-04	NC	13,935,841.45	13,935,841.45	4,270,836.75	1,423,612.25		0.00	6,181,044.34	2,060,348.11	0.00
Orong-Ooling	SAM-FR-04	NC	14,405,170.25	14,405,170.25	4,809,144.45	1,603,048.15		0.00	5,994,733.24	1,998,244.41	0.00
Lumang-Dungmangma	TRA-FR-02	NC	13,463,826.91	10,218,544.88	6,530,913.00	2,176,971.00		0.00	1,132,995.66	377,665.22	3,245,282.03
Khilampoto-Berduma	TRA-FR-04	NC	13,663,030.52	13,663,030.52	5,314,500.00	1,771,500.00		0.00	4,932,772.89	1,644,257.63	0.00
Sub-Total			305,286,162.24	257,253,425.12	167,561,774.85	55,853,924.96	25,373,673.35	14,478,981.64	25,378,293.99	8,459,431.32	8,180,082.13
Tinakarbi-Silambi-Phase 2	MON-FR-05	NC	22,126,553.80								22,126,553.80
Geylongkhar-Tokaphu	SAM-FR-02	NC	26,027,120.80	9,889,899.55	0.00	0.00	11,027,120.40	0.00	7,417,424.66	2,472,474.89	5,110,100.85
Sub-total			48,153,674.60	9,889,899.55	0.00	0.00	11,027,120.40	0.00	7,417,424.66	2,472,474.89	27,236,654.65
Grand-Total			353,439,836.84	267,143,324.67	167,561,774.85	55,853,924.96	36,400,793.75	14,478,981.64	32,795,718.65	10,931,906.21	35,416,736.78

Annex 3: Financial Management

I. Preparation of AWPB for 2011-12

1. The reworked financial situation indicates that approximately BTN 201 million (including earthquake response and incremental credit allocation) will be available from IFAD loan for expenditure beyond 30th June 2010. PFO has an approved AWPB of BTN 96.20 million for 2010-2011 and is planning to revitalise BTN 34.80 million from the unutilised allocation of 2009-10 AWPB. Assuming utilization rate of about 60% in respect of AWPB allocation and 100% utilization of amount to be revitalized, there will be adequate funds (about BTN 90.5 million from IFAD loan) for preparing AWPB for 2011-12. MAGIP is expected to be on stream during 2011-12 and there are possibilities of financial management complications and work plan overlap. It is therefore appropriate that the AWPB for 2011-12 for AMEPP focus only on farm road construction/improvement/irrigation, MIF and BOF. In the event of the inability of the programme to spend about BTN 110.5 million during 2010-11, the balance will have to be added to the AWPB of 2011-12. It is suggested that the PFO prepare AWPB for 2011-12 based on the following broad allocation.

Focus Areas	Proposed Allocation (BTN Million)	IFAD Share (BTN Million)		RGOB Share (BTN Million)	
		%	Amount	%	Amount
Improvement and maintenance of farm roads	66.67	75	50	25	16.67
Irrigation	11.70	100	11.7	0	0.00
Engagement of Engineers	6.13	75	4.6	25	1.53
Rural Support Funds	9.00	100	9	0	0.00
Impact Assessment Studies	1.20	100	1.2	0	0.00
Outcome monitoring studies	1.50	100	1.5	0	0.00
RIMS Impact Survey	1.50	100	1.5	0	0.00
Project Completion Report	1.50	100	1.5	0	0.00
PFO Operating Expenses	5.75	80	4.6	20	1.15
Contingency	5.00	100	5	0	0.00
Total	109.95		90.60		19.35

II. Vehicle Procurement

2. PFO had signed an agreement on 25/7/2008 with the State Trading Corporation (STCB) for supply of 10 Toyota Hilux vehicles. The STC had provided a quotation of USD 214,000 for CIF Kolkata or BTN 11,315,250 for CIF Phuentsholing. This agreement also indicates that the price at the time of delivery shall be applicable which is subject to exchange rate fluctuation. After delivery, STCB submitted invoices in total amounting to BTN 11,547,330 (variation of BTN 232,080 compared to the price indicated in the agreement). Based on the request of PFO vide WA 9 and WA 14, IFAD released in total BTN 11,199,223.64. As per the costs indicated in the invoices a balance of BTN 348,106.36 is payable to STC. However, due to exchange rate fluctuation, STCB has received BTN 11,328,957.20 (BTN 129,733.56 in excess of WA request) and is requesting balance payment of BTN 218,372.80. This request for payment is pending for more than one year.

III. Disbursement

3. IFAD had allocated SDR 9.25 million for implementing AMEPP. As at 9th November 2010, IFAD had reimbursed SDR 4,471,094.02 (excl initial advance). The balance amount to be reimbursed by IFAD works out to approximately SDR 1,841,836.10 (including USD 69,226.97 or SDR 44,485.17 being the exchange variance) in respect of expenditure incurred until 30th June 2010. With the proposed disbursement, the total disbursement from the IFAD loan account will be SDR 6.32 million against the allocation of SDR 9.25 million. This means, the programme has utilized 68% of the IFAD loan amount during four years of programme implementation. The rate of utilization is as expected during the programme design. The balance available in the IFAD loan account is approximately SDR 2.94 million. The net amount available for expenditure including allocation for earthquake response and pending incremental credit disbursement for activities beyond 30th June 2010 will be BTN 201 million. This calculation is based on the prevailing exchange rate and is subject to change depending upon on exchange rate fluctuation.

1	IFAD Loan Allocation (SDR)	9,250,000.00
2	IFAD Reimbursement till date (SDR)	4,471,094.02

3	Balance in IFAD Loan Account (SDR)	4,778,905.98	
4	Balance to be disbursed by IFAD for expenditure up to 30/6/2010 (SDR)	1,841,836.10	
5	Balance available for program expenditure beyond 30/6/2010 (SDR)	2,937,069.88	(BTN 201 million)
	(i) Projected expenditure for 2010-11 (SDR)	1,609,688.88	(BTN 110 million)
	(ii) Projected expenditure for 2011-12 (SDR)	1,327,381.00	(BTN 91 million)

IV. Counterpart Funds

4. RGOB counterpart funds are released through the financing code 0002. The reconciliation of accounts and re-categorization of expenditure undertaken by the mission indicates that RGOB has released adequate counterpart funds to finance the programme activities. The total counterpart fund provided by RGOB for programme implementation is BTN 74.79 million (Annex 1, col. 5). Counterpart funds are released by the DPN on a quarterly basis based on the recommendation of PFO in line with the approved AWP&B. During 2009-10, there was a delay of four months to release the budget. RGOB has not yet released funds for programme activities of 2010-11 either from the RGOB contribution account or from the Special Account. This is on account of lack of adequate balance in the Special Account.

V. Withdrawal Application & SOE

5. The Mission reviewed the WAs which were prepared and sent to IFAD and noted that the statements of expenditure for WAs were prepared based on the monthly BAS statements received from six districts at PFO. Supporting documents for payments were properly documented in the districts and the PFO. Mission's review of four years' expenditures and re-classification of expenditures by category indicates that the previous WAs submitted to IFAD were not properly classified and claimed according to the Schedule 2 of Loan Agreement. This apart, inaccuracies and duplication in the contract log regarding details of payments made for each farm road/PTT works has made the task of verification for the purpose of reimbursement extremely difficult.

VI. Special Accounts Details (as at Nov. 15, 2010)

1. Statement of Special Account (IFAD Loan) [Account Number: 20723]

Date	WA	Received		Transferred		Balance	Eq. Local Currency
		Amount	Date	Amount	Rate		
20/09/2006	1	1,400,000.00				1,400,000.00	
			19/10/2006	1,223,883.24	45.22	176,116.76	55,344,000.00
			13/12/2006	79,906.12	44.74	96,210.64	3,575,000.00
			18/01/2007	31,248.58	44.13	64,962.06	1,379,000.00
			22/02/2007	20,154.33	44.06	44,807.73	888,000.00
			12/6/2007	43,931.20	40.7	876.53	1,788,000.00
28/06/2007	2	246,370.80				247,247.33	
			29/06/2007	247,247.33	40.77	-	10,080,273.64
24/07/2007	3	107,988.54				107,988.54	
			27/08/2007	49,763.62	40.19	58,224.92	2,000,000.00
			28/08/2007	48,911.71	40.89	9,313.21	2,000,000.00
3/9/2007	3	78,540.02				87,853.23	
			5/9/2007	64,561.92	40.86	23,291.31	2,638,000.00
1/10/2007	4	278,189.83				301,481.14	
			8/10/2007	152,311.31	39.38	149,169.83	5,998,019.50
			15/10/2007	140,163.10	39.24	9,006.73	5,500,000.00
8/11/2007	4	686,732.53				695,739.26	
			4/12/2007	88,193.56	39.47	607,545.70	3,481,000.00
			28/12/2007	456,361.32	39.3	151,184.38	17,935,000.00
			22/01/2008	106,932.45	39.38	44,251.93	4,211,000.00
12/2/2008	4	30,252.11				74,504.04	
			14/02/2008	38,524.02	39.67	35,980.02	1,528,248.00
			3/3/2008	35,050.25	39.8	929.77	1,395,000.00
6/5/2008	5A/6A	105,908.62				106,838.39	
			15/05/2008	106,838.39	42.39	-	4,528,879.35
12/6/2008	5A/6A	102,999.12				102,999.12	
			24/06/2008	100,326.64	42.86	2,672.48	4,300,000.00
23/12/2008	10A	650,000.63				652,673.11	
			5/1/2009	627,242.80	48.6	25,430.31	30,484,000.00
			5/3/2009	2,977.00	51.73	22,453.31	154,000.00
			9/3/2009	19,447.69	51.42	3,005.62	1,000,000.00
9/10/2009	10B	631,417.23				634,422.85	
			14/10/2009	543,079.10	46.02	91,343.75	24,992,500.00
			21/10/2009	26,977.40	46.0200	64,366.35	1,241,500.00
			19/11/2009	4,875.41	46.1499	59,490.94	225,000.00
			19/11/2009	19,342.36	46.5299	40,148.58	900,000.00
			12/2/2010	34,564.70	46.2900	5,583.88	1,600,000.00
			2/4/2010	4,217.14	44.58	1,366.74	188,000.00
15/04/2010	23A/24A	98,712.47				100,079.21	
			26/05/2010	96,485.69	47.52	3,593.52	4,585,000.00
26/05/2010	26A	54,750.41				58,343.93	
			9/6/2010	31,908.10	47.01	26,435.83	1,500,000.00
			16/6/2010	22,769.30	46.51	3,666.53	1,059,000.00
			29/6/2010	3,600.91	46.03	65.62	165,750.00
7/7/2010	27A/28A	149,109.96				149,175.58	
			28/07/2010	147,147.15	46.62	2,028.43	6,860,000.00
8/10/2010	10A/23B/24B/2	233,749.21				235,777.64	
		3,454,721.48		4,618,943.8			203,524,170.50

2. Statement of Special Account (IFAD Loan, Earth Quake Response) [Account Number: 20747]

Date	WA	Received		Transferred		Balance	Eq. Local Currency
		Amount	Date	Amount	Rate		
20/04/2010	25	490,000.00				490,000.00	-
			3/6/2010	360,349.23	46.96	129,650.77	16,922,000

3. Statement of Special Account (IFAD Grant) [Account Number: 20724]

Date	WA	Received		Transferred		Balance	Eq. Local Currency
		Amount	Date	Amount	Rate		
22/02/2007	1	80,000.00				80,000.00	-
			5/6/2007	77,200.00	46.96	2,800.00	