

Kingdom of Bhutan

Agriculture, Marketing and Enterprise Promotion Programme Project Performance Assessment

Executive Summary

1. **Background.** This project performance assessment (PPA) of the Agriculture, Marketing and Enterprise Promotion Programme (AMEPP) was carried out in 2013 by the Independent Office of Evaluation (IOE) with a view to providing inputs for the development of a new project for Bhutan. The assessment was affected by the ongoing Market Access and Growth Intensification Project in the same area, but the specific inputs and results of AMEPP were identified as far as possible.
2. **Programme description.** AMEPP covered six *dzongkhags*(districts) in Eastern Bhutan - Samdrup Jongkhar, Pemagatshel, Trashigang, Mongar, Trashigang and Lhuentse - from 2006 to 2012. The region is one of the poorest and most isolated in Bhutan, which is one of the most mountainous countries in the world; 70 per cent of the country is forested and there are numerous national parks and wildlife corridors. Most agriculture is carried out by smallholders on less than 5 acres (2 ha) of land per household, who face considerable difficulties in producing sufficient grain for food security or enough cash crops and livestock to move above the subsistence level.
3. **Programme design.** AMEPP aimed to "... improve livelihoods of the rural poor in the programme area on a sustainable basis by enhancing productivity, income growth and access to economic and social services". The total project cost of US\$19.6 million - US\$13.9 million of which representing IFAD's contribution - was allocated to the five project components, as follows: i) farm production, 12 per cent; ii) marketing and enterprise development, 14 per cent; iii) rural financial services, 7 per cent; iv) roads, 51 per cent; and v) project management, 16 per cent, including 3 per cent for a micro initiative fund targeting the poorest households and a business opportunities fund to assist in scaling up post-harvest enterprises. The SNV Netherlands Development Organisation (SNV) provided a co-financing grant of US\$1.6 million to support project management and the development of capacity for the implementation of the project.
4. **Relevance.** The relevance of the project was considered satisfactory. The design of the project was in line with Bhutan's Tenth Five-Year Plan (2008–2013) and IFAD's Strategic Framework (2011–2015). The components were appropriate to the target area and household needs at the time of design. The major investment in roads supported the Government's thrust to improve accessibility for the rural poor. AMEPP included interventions supporting various agricultural products and practices according to farmers' capabilities and resources, most of which were appropriate to the farming systems in the area. Strong points were the implementation of the project through existing extension networks and its alignment with government programmes. Greater focus on marketing would nevertheless have been beneficial, particularly towards the end of the project as access improved.
5. The decision to target the entire eastern region reflected the intention of IFAD and the Government to provide benefits across a significant proportion of the country, rather than to a limited area. Focusing on 220,000 beneficiaries translated necessarily in a less intensive targeting than would have been the case in a small project area. In addition, given Bhutan's cultural aversion to discriminate explicitly for or against specific strata of rural households, the project's targeting approach –

which divided the population into three wealth categories – was not culturally appropriate for community members to participate and for staff to implement. A less intrusive identification of target groups, e.g. through a discussion with local leaders and through self-targeting, would have been more suitable and cost-effective.

6. **Effectiveness.** The Micro Initiative Fund, the distribution of seedlings and improved access to markets helped to improve livelihoods in most communities in Eastern Bhutan. Even communities that were not directly assisted with the road improvements benefited from the development of alternative routes to be used in the case of road blockages and landslides, enhancing their access to markets. The spread of benefits across the target area was extensive: almost all households in all *gewogs* (blocks) received benefits, but the intensity was variable. Agriculture and marketing investments in individual *gewogs* were limited in that some households only received seedlings, while some only training. Nonetheless, the combined benefits of improved roads, increased availability of credit and agricultural support contributed to poverty reduction across the region. The effectiveness of the programme is therefore considered satisfactory.
7. **Efficiency.** From PPA mission findings, efficiency has been rated moderately satisfactory. The AMEPP economic internal rate of return (EIRR) was assessed at the time of completion to be 14 per cent. The PPA mission reconfirmed the analysis and assessed that the EIRR was valid and likely to be slightly higher than estimated. The unit costs for infrastructure development were comparable with those of government and other projects, but the total budget available was insufficient. Decisions therefore had to be made between the construction of a limited number of roads of high quality and more roads of lower quality: although the former was deemed more attractive, priority was given to increasing access over a larger area. Local funds were therefore used to upgrade roads once the cuttings had been stabilized. Actual programme management costs were high at 17 per cent - excluding the grants for the Micro Initiative Fund and Business Opportunities Fund - reflecting the high expenditure on fuel and other travel costs required to reach scattered habitations in the mountainous terrain. The fact that AMEPP had a full project team was advantageous in terms of the availability of technical and management support, but also contributed to the high management costs. Efficiency was considered moderately satisfactory by the PPA mission.
8. **Impact.** Overall, the impact of AMEPP on rural poverty was satisfactory. Improved road access helped to reduce the costs of production and marketing for many households, and as a result most reported a net increase in income, with groups gradually building up savings and assets. Income sources have diversified, rural finance has become more readily available, and income streams are now more reliable throughout the year. Human and social capital and empowerment have been enhanced through the formation of 533 groups and the provision of leadership, technical training and increased access to market information. Staff training and development have enhanced capacities in the region. Food security and agricultural productivity have improved, as farmers have increased production and diversity of food and cash crops by using better seed varieties, and as markets have become more accessible. Some farmers are being linked to schools to improve the quality and reduce the cost of produce for the school feeding programme. There has been limited impact on natural resources and the environment due to minimal budget for activities in this regard. There was little emphasis on institutional and policy development, but the work on enhancing guidelines for road construction, marketing support practices and monitoring and evaluation contributed to improved national systems.
9. **Sustainability.** The sustainability of the programme is assessed as moderately satisfactory. At the household level, the activities were based on current farm practices, and improvements have largely been sustained. Access to finance has

increased, and the Bhutan Development Bank has expanded its commitment to rural finance and its coverage in eastern areas. Most of the groups established in AMEPP continue to function, even though some operate at a basic level, and government extension services continue to support the targeted groups beyond the project period – but there is a high degree of dependence, and few of the groups would be independent in a sustainable manner should the support be reduced. The maintenance of infrastructure is a challenge to sustainability in that the farm roads constructed are basic and have little compaction or drainage. In cases where funds have been provided by the Market Access and Growth Intensification Project or other sources, roads have been upgraded to require less maintenance, but in most cases maintenance relies on community labour and inadequate community and local development funds. Nonetheless, the *gewogs* maintain the roads throughout the year. The sustainability of the project is affected by factors outside its control such as climate change and the population drift to towns. The movement of farming populations, particularly young people, from remote communities is resulting in a serious labour shortage and difficulty in cultivating the available farmland: the outcome is a decline in agricultural production.

10. **Innovation and scaling up.** The project design was a scaled up and improved version of the IFAD-supported Second Eastern Zone Agricultural Project, so it did not include a high degree of innovation. Several of the innovations tested – village-level volunteering for crop production and animal health, for example – were not sustainable because there was no ongoing financing mechanism, and there was little direct focus on scaling up of activities. Nevertheless, there has been replication of activities commenced under the project through farmers adopting new practices, beyond those who were directly trained. Consequently, innovation and scaling up is considered moderately satisfactory.
11. **Gender.** The project completion report results show that the participation of women in the project was split relatively equally between men and women¹ but that the number of female headed households were on the increase and consequently more attention should have been played to the participation of women in project activities. The proposed gender focal point within the districts has not continued beyond the programme period. In terms of achieving a more equitable balance in workloads the picture was mixed. Labour saving equipment (oil expeller, rice and maize crusher and thresher) contributed to reducing drudgery. Increased access to markets, health clinics and schools and general relief from carrying loads for development works were also important benefits but there were concerns that women seemed to carry a disproportionate share of the "voluntary" and unpaid labour required for the routine maintenance of farm roads. The gender dimension of the project was considered moderately satisfactory.
12. **Performance of partners.** The project partners Royal Government of Bhutan, SNV and IFAD have operated successfully, and the partnership has been continued in the follow-on project. In the early stages of AMEPP, the project was supervised by the United Nations Office for Project Services, but guidance was too rigid and insufficient to overcome initial implementation issues. In particular, there was low capacity for, and insufficient training and support on, financial management and procurement. This led to substantial delays in financing. The Government addressed the issue by prefinancing programme activities. The problem was resolved when IFAD commenced direct supervision in Bhutan in 2008. This led to a more responsive information flow between AMEPP, the Government and IFAD. The performance of IFAD and the Royal Government of Bhutan was considered moderately satisfactory and satisfactory respectively.

¹ On-farm production 52 per cent; Marketing and enterprise 34 per cent; Rural finance 37 per cent; Access infrastructure 53 per cent.

13. **Conclusion.** Overall, AMEPP was rated satisfactory. It had a positive impact on the eastern region of Bhutan; the broad target area and the focus on rural access were appropriate at the time of design and the objectives and strategies were relevant to the project area. The activities were largely effective in contributing to poverty reduction, and the impact of AMEPP was felt throughout the project area, although not at high intensity, except in areas where new roads were constructed. Some replication of improved agricultural practices, inputs and marketing has occurred, resulting in a stronger agricultural sector in the east. But the likelihood of sustainability is reduced by difficulties in road maintenance and factors such as a drift of population from rural to urban areas, increasing areas of fallow land, shortage of labour, crop damage by wildlife and climate change.
14. **Recommendations.** AMEPP has helped Eastern Bhutan to overcome its remoteness and lack of development and to initiate the development of a commercial agriculture sector that can help to lead the region out of poverty. It is therefore recommended that IFAD continue its support and extend it beyond the regional boundaries to assist in the development of value chains. Specific recommendations are to:
- increase on-farm and post-harvest enterprise development, for example by supporting improved business management practices, and increasing understanding of market fluctuations, viability and strategies for business adaptation;
 - facilitate private/public partnerships to shift the region's agricultural and enterprise sector towards a more commercial approach and reduce dependency on government services;
 - improve expertise in commercialization: each *dzongkhag* needs resources to extend businesses and markets to facilitate linkages between producers, sectors, emergent enterprises, value-chain actors and professional support systems;
 - enhance regional market centres, improve the planning of land use, support decentralization and facilitate access to credit with a view to creating a more vibrant and differentiated regional population; and
 - introduce environmental protection planning through building emergency-response reserves and risk-management mechanisms to prevent negative impact through potential losses, as a more commercial and asset-intensive approach is adopted in agriculture.