

BHUTAN CAS COMPLETION REPORT REVIEW

The FY00 CAS was well aligned with the Government's development goals, but its implementation differed considerably from plan: the envisaged large program of AAA and program lending did not materialize (para. 3). There was a misunderstanding from the outset about what assistance the Government wanted from the Bank. The Bank pursued four objectives during this period: improving macroeconomic stability and public expenditure management (para. 6), supporting education development (para. 7), improving forestry management (para. 8), and improving infrastructure (para. 9). This review agrees with the CASCR that, overall, the outcome of the Bank assistance program since FY00 has been moderately satisfactory. Bank assistance addressed all important development issues, and the implementation of Bank assistance followed more closely government preferences and complemented the assistance of other donors (para. 11). The CASCR provides a detailed account and balanced assessment of Bank assistance during FY00-05 (para. 12). This OED assessment offers three findings: in a small country the Bank needs to be selective in its interventions, it needs to focus on partnerships and it is not necessary to take the lead; and the Bank needs to compensate for its lack of field presence (para. 12).

1. The *Bhutan Country Assistance Evaluation* (Report No. 30737 dated November 23, 2004) reviewed the Bank's country assistance during the period 1993-2003. Many of the points made in this note are discussed more fully in the CAE.

Government Objectives, CAS Objectives, and Overview of Implementation

2. The Bank's assistance strategy has always been aligned with the government's development goals. The FY00 CAS stated that IDA's mission is "to help Bhutan manage its considerable natural, institutional, cultural and environmental assets in ways that can translate economic growth into rapid and inclusive social transformation and improvements in living standards." The FY00 CAS also stressed the Bank's limited role as a small player in this heavily-aided country, and proposed to continue to give priority to analytical and advisory activities (AAA) while engaging in selective lending. At the same time, the CAS reflected a willingness to engage more actively in Bhutan. The CAS stated that the Bank's comparative advantage was in transferring knowledge and ideas rather than finance, and it proposed a large program of AAA. Two new projects in infrastructure (urban development and rural access roads) were approved at the time of the CAS, thus extending the Bank's previous concentration in education and forestry, and the CAS expressed a willingness to provide economy-wide lending, though no additional projects were programmed for the CAS period (FY00-02).

3. As the CASCR shows (see Tables B and C of that document), the Bank's actual program was quite different from the CAS. The government was not prepared for program lending, and Bank involvement in many of the proposed studies did not materialize. Since FY00 CAS lending has totaled US\$66.2 million, as four new projects for an additional

US\$44.2 million were approved during FY03-05. (Commitments during the entire period FY84-99 totaled US\$41.9 million). The program diverged from the CAS proposals for two reasons. First, there was a misunderstanding at the outset about what assistance the government wanted from the Bank. The government declined several Bank studies because alternative support from ADB was available and because multiple donor involvement is burdensome. More generally, the government is wary of taking on too many studies which, even if free, have a high opportunity cost in terms of scarce senior official involvement. Second, as noted in the CASCRC, circumstances changed. Because of the declining prospects for, and variability of, bilateral grants, the government now wishes to borrow more from IDA.

4. IDA's flexibility on its assistance in face of changing demands and circumstances was appropriate and the AAA done by the Bank was relevant and generally of high quality. The unforeseen projects were also relevant and responsive to the government's concerns. But design, implementation, and efficacy would have benefited from a longer lead time and prior agreement on the upcoming program. Preparation of some projects was rushed, as was the case with two infrastructure projects in FY00, and sector work has not preceded project design and implementation (see para 2.9 and Annex E in CAE). A CAS progress report or new CAS should have been prepared earlier.

CAS Implementation by Objective

5. The CASCRC has helpfully retrofitted a CAS Completion Results Matrix, in recognition that the CAS "was not explicitly a results-based document, focusing on the inputs and processes rather than on the outcomes toward which Bank assistance was to contribute during the CAS period." To some extent, even objectives needed to be retrofitted because of unforeseen changes in the Bank's program. This note largely follows the CASCRC in its organization of discussion by objective and outcome.

Objective I. Improving Macroeconomic Policy and Public Expenditure Management

6. Bhutan's achievements in fiscal management and provision of social services have been substantial. In most years there has been a surplus of domestic revenue over recurrent expenditure, though the overall fiscal balance has fluctuated sharply in recent years because of volatility of aid flows (see Annex Table 1), thus underlining the need for better expenditure management. Education and health account for 35 percent of recurrent spending and 25 percent of overall budget outlays. The Bank has made limited but increasing contributions to economic policy through its AAA. The government turned to ADB rather than the World Bank for studies on the financial sector and poverty, and has only recently taken up the Bank offer for AAA on public expenditure management. The latter is potentially very important, however, and in the last five years the Bank has also carried out (in collaboration with the government and other donors) a Private Sector Survey, a Country Financial Accountability Assessment, and an informal analysis of the macroeconomic impact of the hydropower boom. Overall, the Bank's objectives in this area were partially achieved.

Objective II. Supporting Education Sector Development

7. Almost half of the Bank's lending commitments in Bhutan have been for education, and the Bank is one of the main donors in the sector. Access to education has continued to expand rapidly during the past five years, the proportion of girls has risen to 47 percent in primary and 45 percent in secondary; and the quality of education is high by regional standards. While problems remain – access for children in remote areas, retention rates, and maintenance of quality in the face of rapid expansion – progress has been significant, and the Bank's contribution has been substantial. Most Bank funding has gone for school construction, important because grant funds are not easily available, but the Bank has also supported numerous improvements in curriculum and other areas. The main shortcoming of Bank support for education has been the lack of formal, up-front sector work. Development of Monitoring and Evaluation (M&E) systems has also lagged and project implementation has been affected by construction delays (Education II was extended two years beyond its original closing date). The design of the new education project has taken into consideration the weaknesses of the earlier projects by addressing the mathematics curriculum, improving M&E, and conducting tracer and other studies to evaluate the relevance of the curriculum to the local labor market. The main strengths of Bank support for education have been its continuous involvement in the sector and its effective cooperation and division of labor through co-financing from the Swiss Development Corporation in the first two education projects. It remains to be seen how well the Bank will be able to coordinate with other donors in the latest project without formal co-financing. IDA's objectives in education have been achieved.

Objective III. Improving Forestry Management

8. After completion of the Bank's Third Forestry Project in FY02, the government decided not to borrow again for forestry. OED rated the project outcome moderately unsatisfactory – the only project outcome ever rated less than satisfactory in Bhutan. The objectives of introducing financially self-sustaining commercial forestry into Eastern Bhutan and rationalizing the economic and financial incentive framework through changes in price policy and forest legislation were not achieved. Decisions to ban the export of unprocessed logs (1999) and semi-finished products (2000) changed market conditions radically and only 84 percent of the logs harvested during the project period were ever sold. The Bank might have had more impact if it had done more systematic sector work at an earlier stage (see Annex B in the OED CAE) and enforced project conditionality more strictly. The social forestry and reforestation components of the project were unsuccessful, due in part to the reluctance of the Department of Forestry Services to cede responsibilities to local communities, as well as the lack of a clear policy on grazing that has impeded the natural regeneration of forests. Implementation was adversely affected by frequent turnover of Bank staff and inadequate supervision. Given the sub-national nature of the project, the Bank had limited influence on national forest policies. The Third Forestry Project was the only project to be closed and rated during the CAS period. The CASCR argues correctly that this rating does not reflect the Bank's overall assistance strategy in Bhutan for the period, but it is an appropriate indicator of the outcome in this sector.

Objective IV: Improving Infrastructure

9. The two infrastructure projects approved in FY00 (Urban Development and Rural Access Roads) were relevant to the Bank's objective of supporting inclusive social transformation and improvement in living standards, but both experienced implementation delays because of hurried processing and inadequate preparation. The roads project introduced (in conjunction with co-financing and technical assistance from the Netherlands) the important concept of Environmentally Friendly Construction methods, which has since been adopted on all feeder roads in Bhutan. Implementation has gradually improved and, while the closing date of the roads project has been extended by 14 months, both projects are currently rated as proceeding satisfactorily. The Transport Sector Note completed in FY04 should have preceded lending, but it has provided a useful sector perspective for the future. On balance, the Bank's objectives in infrastructure have been largely achieved.

Overall OED Assessment

10. The outcome of the Bank assistance program since FY00 has been moderately satisfactory. Bank assistance addressed important development issues, followed government preferences and complemented other donors. The outcome of lending by sector was mixed. With respect to economic policy advice, proposed assistance on fiscal management and later, private sector development, were both relevant, but the ambitious expansion of proposed AAA was unrealistic and insufficiently selective. More generally, the proposal to act primarily as a knowledge bank in Bhutan was inconsistent with what the Bank was actually doing (expanding lending) and not that relevant to Bhutan's needs or the Bank's (or Bhutan's) capacity. In practice, however, the areas of assistance accepted by the government continued to be relevant.

Assessment of the CAS Completion Report

11. The CASCR provides a detailed account and balanced assessment of Bank assistance during FY00-05. It has made a commendable effort to provide an ex post strategic rationale and results framework. This effort was largely successful, though the document might have done more to highlight the potential trade-off between responsiveness and selectivity on the part of the Bank. The lessons drawn by the CASCR are useful and consistent with those of the CAE.

Lessons

12. Several lessons from the CAE are applicable to this CAS period.
- It is essential to remain selective and focused. It is a mistake to try to be a "full service bank" in a small country. Sector work enhances focus and effectiveness.
 - Partnerships are especially important in a small country, and it is not always necessary for the Bank to lead.
 - The Bank needs to develop ways to compensate for its lack of field presence. It could usefully follow the example of ADB in having annual rolling program consultations and making better use of UNDP facilities to improve coordination with other donors based in Bhutan.

Annex Table 1: Economic and Social Indicators 1999-2004

Series Name	Average 1999-2003										Middle Income		
	1999	2000	2001	2002	2003	2004	Bhutan	Bangladesh	India	Nepal		South Asia	Low-Inc
GDP growth (annual %)	7.0	7.0	7.0	6.7	6.7	..	6.9	5.2	5.8	3.7	5.4	5.0	3.7
GNI per capita, Atlas method (current US\$)	470	520	560	590	630	..	554	382	472	232	458	398	1,780
GNI per capita, PPP (current international \$)	..	..	..	..	..	..	..	1,692	2,552	1,356	2,360	1,900	5,338
GDP per capita growth (annual %)	3.9	3.9	4.0	3.8	3.9	..	3.9	3.3	4.1	1.3	3.6	3.1	2.7
Agriculture, value added (% of GDP)	35.8	36.4	34.8	33.7	33.2	..	34.8	24.1	24.1	40.6	24.4	26.4	10.0
Industry, value added (% of GDP)	35.2	34.8	36.9	39.4	39.5	..	37.2	25.8	26.3	21.9	25.9	26.6	36.1
Services, etc., value added (% of GDP)	29.1	28.8	28.2	26.9	27.3	..	28.0	50.1	49.6	37.5	49.7	47.0	53.9
Exports of goods and services (% of GDP)	29.8	25.9	24.1	21.8	..	..	25.4	14.2	13.8	20.7	15.1	20.1	30.9
Imports of goods and services (% of GDP)	47.8	54.8	48.7	42.7	..	..	48.5	19.7	14.8	30.2	16.8	22.5	28.7
Current account balance (% of GDP)	3.0	(2.7)	(7.5)	(6.9)	..	..	(3.5)	(0.1)	0.1	(0.0)	..	..	..
Total debt service (% of exports of goods and services)	5.4	4.8	4.2	4.6	..	..	4.8	7.7	15.0	6.7	14.8	12.6	20.3
External debt (% of GNI)	49.2	47.7	55.4	70.6	72.2	..	59.0	33.4	20.9	53.7	26.2	44.1	39.8
Aid per capita (current US\$)	86	66	73	86	88	..	80	8.6	1.2	16.7	3.8	10.8	8.6
Official development assistance and official aid (current US\$ mill)	66.8	53.3	60.5	73.5	77.0	..	66	1,144	1,421	393	5,443	24,624	25,031
Total reserves in months of imports	18.2	14.8	14.2	16.2	..	..	15.8	2.1	8.2	7.0	7.6	7.0	6.8
Current revenue, excluding grants (% of GDP)	18.6	20.6	19.4	17.5	..	..	19.0	9.3	12.6	10.9	12.8	13.1	17.1
Expenditure, total (% of GDP)	38.0	38.0	42.4	33.7	..	..	38.0	12.7	16.5	17.0	17.1	17.1	20.6
Overall budget balance, excluding capital grants (% of GDP)	..	..	..	..	..	..	..	(3.1)	(5.2)	(5.5)	..	..	..
Gross domestic savings (% of GDP)	25.0	19.5	27.4	32.4	..	..	26.1	17.5	22.0	14.2	20.6	19.5	26.7
Gross capital formation (% of GDP)	43.0	48.4	52.0	53.3	..	..	49.2	23.0	23.1	23.8	22.3	21.8	24.5
Inflation, consumer prices (annual %)	6.8	4.0	3.4	2.5	1.6	..	3.6	3.9	4.1	4.3	..	..	..
Immunization, DPT (% of children ages 12-23 months)	88.0	92.0	88.0	86.0	95.0	..	89.8	83.4	64.6	73.4	66.2	61.7	88.6
Life expectancy at birth, total (years)	..	..	..	63.2	63.5	..	63.4	62.2	63.4	60.0	63.0	58.1	69.6
Mortality rate, infant (per 1,000 live births)	..	77.0	..	..	70.0	..	73.5	50.0	65.5	65.0	66.7	79.8	29.8
Improved sanitation facilities (% of population with access)	..	..	..	70.0	..	..	70.0	48.0	30.0	27.0	34.6	35.5	61.1
Improved water source (% of population with access)	..	..	..	62.0	..	..	62.0	75.0	86.0	84.0	83.7	-74.9	83.0
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	..	..	..	..	40.3	58.3	42.3	56.7	59.2	88.3
School enrollment, preprimary (% gross)	..	..	..	..	..	..	..	21.6	26.9	12.4	28.8	23.1	40.0
School enrollment, primary (% gross)	..	..	..	..	..	..	..	98.1	99.1	118.4	95.1	91.4	112.7
School enrollment, secondary (% gross)	..	..	..	..	..	..	..	46.4	49.0	45.5	47.4	43.5	71.8
Population, total (in millions)	0.8	0.8	0.8	0.9	0.9	..	0.8	133.4	1,032.1	23.6	1,377.7	2,229.3	2,936.5
Population growth (annual %)	2.9	2.9	2.8	2.7	2.6	..	2.8	1.7	1.6	2.3	1.8	1.9	0.9
Urban population (% of total)	6.9	7.1	7.4	7.7	7.9	..	7.4	25.6	27.9	12.2	27.8	29.6	51.3

Source: World Bank Sima Database as of August 2, 2005

Annex Table 2: OED Project Ratings for Bhutan, Exit FY2000-2005

Exit FY	Project Name	Outcome	Inst. Dev. Impact	Sustainability
2002	Third Forestry Development Project	Mod. Unsat.	Modest	Non-Evaluable

Region	Total Evaluated (No)	Outcome % Sat (No)	Inst Dev Impact % Subst (No)	Sustainability % Likely (No)
Bhutan	1	0.0	0.0	
SAR	137	83.9	48.2	83.1
World Bank	1,520	77.7	51.5	75.3

Source: WB Business Warehouse as of Sept. 21, 2005

Annex Table 3: Analytical and Advisory Work, FY2000-2005

Document Title	Date	Report No.	Document Type
Country Assistance Strategy Document			
Bhutan - Country assistance strategy (Vol 1) Bhutan - Country assistance strategy (English)	02/22/2000	20158	Country Assistance Strategy Document
Bhutan - Country assistance strategy (Vol 1) Bhutan - Country assistance strategy (English)	11/29/1999	19906	Country Assistance Strategy Document
Poverty Reduction Strategy Paper			
Bhutan - Poverty Reduction Strategy Paper (PRSP) and joint staff advisory note (English)	12/02/2004	30716	Poverty Reduction Strategy Paper (PRSP)
Country Assessments			
Bhutan - Country financial accountability assessment (English)	02/01/2002	29201	Country Financial Accountability Assessment
Economic and Sector Reports			
Bhutan - Transport Sector Note (English)	08/16/2004	28522	Sector Report
Bhutan - Private sector survey (Vol 1) Bhutan - Private sector survey (English)	06/14/2002	24975	Sector Report
Working Papers			
Bhutan - sustainable development through good governance (English)	05/01/2004	30821	Working Paper

Source: World Bank Imagebank as of May 16, 2005

Annex Table 4: Portfolio Status Indicators, FY2000-2005

Country	Fiscal year					
	2000	2001	2002	2003	2004	2005
Bhutan	# Proj	4	4	3	3	6
	Net Comm Amt	41.5	41.5	36.1	36.1	79.9
	# Proj At Risk	0	0	0	0	0
	% At Risk	0	0	0	0	0
	Comm At Risk	0.0	0.0	0.0	0.0	0.0
	% Commit at Risk	0.0	0.0	0.0	0.0	0.0
Bangladesh	# Proj	24	25	24	24	26
	Net Comm Amt	2,504.3	2,361.6	2,266.1	2,142.5	2,318.1
	# Proj At Risk	4	5	4	6	3
	% At Risk	17	20	17	25	12
	Comm At Risk	439.4	168.5	354.7	710.4	325.3
	% Commit at Risk	17.5	7.1	15.7	33.2	14.0
India	# Proj	75	74	67	68	61
	Net Comm Amt	13,075.3	13,304.7	12,832.0	12,854.3	12,638.7
	# Proj At Risk	20	6	5	8	9
	% At Risk	27	8	7	12	15
	Comm At Risk	3,724.9	1,020.0	943.5	1,154.7	1,102.0
	% Commit at Risk	28.5	7.7	7.4	9.0	8.7
Nepal	# Proj	9	8	8	10	12
	Net Comm Amt	261.4	221.3	225.5	303.2	424.5
	# Proj At Risk	5	1	2	2	1
	% At Risk	56	13	25	20	8
	Comm At Risk	158.5	5.0	126.3	78.0	75.6
	% Commit at Risk	60.6	2.3	56.0	25.7	17.8

Source: World Bank Business Warehouse as of Sept. 21, 2005

Annex Table 5: Net Disbursements and Charges Summary Report, FY2000-2005

FY	Gross Disb	Repay	Net Disb	Interest	Fees	Net Transfer
2000	2.0	0.3	1.7	0.2	0.0	1.6
2001	4.7	0.3	4.5	0.2	0.0	4.3
2002	6.0	0.2	5.7	0.2	0.0	5.5
2003	5.9	0.3	5.6	0.3	0.0	5.4
2004	8.1	0.4	7.7	0.3	0.1	7.3
2005	10.5	0.6	9.9	0.4	0.2	9.3
Total	37.3	2.0	35.2	1.6	0.3	33.3

Source: Client Connection Sept. 21, 2005

Annex Table 6: Millennium Development Goals

	1990	1994	1997	2000	2003
Goal 1: Eradicate extreme poverty and hunger					
Percentage share of income or consumption held by poorest 20%	..	..	..	..	..
Population below \$1 a day (%)	..	..	..	..	..
Population below minimum level of dietary energy consumption (%)	..	..	..	..	..
Poverty gap ratio at \$1 a day (incidence x depth of poverty)	..	..	..	..	..
Poverty headcount, national (% of population)	..	..	..	..	..
Prevalence of underweight in children (under five years of age)	..	..	..	18.7	..
Goal 2: Achieve universal primary education					
Net primary enrollment ratio (% of relevant age group)	..	..	..	..	..
Primary completion rate, total (% of relevant age group)	..	22	37	41	46
Proportion of pupils starting grade 1 who reach grade 5	..	..	87.5	91	..
Youth literacy rate (% ages 15-24)	..	..	..	..	..
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliament (%)	2	..	2	2	9
Ratio of girls to boys in primary and secondary education (%)	..	..	82.3	85.6	..
Ratio of young literate females to males (% ages 15-24)	..	..	..	..	..
Share of women employed in the nonagricultural sector (%)	11.9	..	..	..	..
Goal 4: Reduce child mortality					
Immunization, measles (% of children ages 12-23 months)	93	81	84	76	88
Infant mortality rate (per 1,000 live births)	107	93	..	77	70
Under 5 mortality rate (per 1,000)	166	133	..	100	85
Goal 5: Improve maternal health					
Births attended by skilled health staff (% of total)	..	14.9	..	23.7	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	420	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Contraceptive prevalence rate (% of women ages 15-49)	..	18.8	..	30.7	..
Incidence of tuberculosis (per 100,000 people)	207.8	171.1	147.8	127.7	110.4
Number of children orphaned by HIV/AIDS	..	..	..	..	..
Prevalence of HIV, total (% of population aged 15-49)	..	..	..	..	..
Tuberculosis cases detected under DOTS (%)	..	27.6	22.5	29.3	32.1
Goal 7: Ensure environmental sustainability					
Access to an improved water source (% of population)	..	..	..	..	62
Access to improved sanitation (% of population)	..	..	..	..	70
Access to secure tenure (% of population)	..	..	..	..	..
CO2 emissions (metric tons per capita)	0.2	0.3	0.5	0.5	..
Forest area (% of total land area)	64.2	..	..	64.2	..
GDP per unit of energy use (2000 PPP \$ per kg oil equivalent)	..	..	..	..	..
Nationally protected areas (% of total land area)	..	..	..	..	25.1
Goal 8: Develop a global partnership for development					
Aid per capita (current US\$)	78.2	108.9	94.2	66.2	88.1
Debt service (% of exports)	5	9	6	5	5
Fixed line and mobile phone subscribers (per 1,000 people)	3.7	8.1	10.4	21.5	45.2
Internet users (per 1,000 people)	..	..	..	3.4	20.4
Personal computers (per 1,000 people)	..	..	3.9	7.6	13.6
Unemployment, youth female (% of female labor force ages 15-24)	..	..	..	..	..
Unemployment, youth male (% of male labor force ages 15-24)	..	..	..	..	..
Unemployment, youth total (% of total labor force ages 15-24)	..	..	..	..	..
Other					
Fertility rate, total (births per woman)	..	..	5.8	..	5.1
GNI per capita, Atlas method (current US\$)	490	380	460	520	630
GNI, Atlas method (current US\$) (billions)	0.3	0.3	0.3	0.4	0.6
Gross capital formation (% of GDP)	32	47.4	34.1	48.4	53.3
Life expectancy at birth, total (years)	..	..	60.7	..	63.5
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	..	..
Population, total (millions)	0.6	0.7	0.7	0.8	0.9
Trade (% of GDP)	60.5	68.2	76.1	80.7	64.6

Source: World Development Indicators database, April 2005