



Investing in rural people

Aide memoire

Kingdom of Bhutan

Commercial Agriculture & Resilient Livelihoods Enhancement Programme (CARLEP)

A. Introduction

1. A mission from the International Fund for Agricultural Development (IFAD)¹ undertook the fifth supervision of the Commercial Agriculture & Resilient Livelihoods Enhancement Programme (CARLEP) Project from the 24th of October to the 4th of November 2022. The objective of the mission was to review the overall performance of the Project, provide implementation support and review the progress on the recommendations of the 2021 Supervision Mission.

2. CARLEP aims to facilitate the transformation of a subsistence-based rural agricultural economy into a sustainable value chain and market driven productive sector by promoting climate smart approaches in agriculture, engaging private sector and strengthening capacities of communities and local institutions. The total project cost of US\$30.357 million is financed over seven years and is made up of the following financing: IFAD (US\$19.25 million), and the Adaptation for Smallholder Agriculture Programme (ASAP) (US\$5 million); RGoB (US\$5.64 million); and beneficiaries (US\$0.66 million). CARLEP became effective on 11 December 2015 and will be completed – as a result of the approval of the Additional Financing (AF) - in December 2025.

3. Prior to the mission, the CARLEP project team and main partners (ARDC, RLDC & RAMCO) prepared detailed Progress Reports, as well as several thematic reports relevant to project interventions, which facilitated the work of the supervision team. The mission undertook field visits to all the six Project's dzongkhags (districts) of Lhuentse, Mongar, Pemagatshel, Samdrup Jongkhar, Trashiyangtse and Trashigang.

4. The mission assessed that the CARLEP project is rated as Moderately Satisfactory. The project responded to most of the recommendations of the 2021 supervision mission and has been able to extend support to beneficiaries within the target areas. The overall programme outreach to date is 88.594% (25,670 HHs out of the total target of 28,975, with 12,227 males and 13,443 female HHs). Some key achievements include:

- 12 new groups were registered with RAMCO and 4 FGs were upgraded to cooperatives which benefitted 625 members;

¹ Mission composition: Rami Salman, Team Leader and Programme Management Specialist; Elin Kjellin, Financial Management Specialist; Tshewang Gyeltshen, Procurement Specialist; Mehry Ismaili, M&E and KM Specialist; Karan Sehgal, Renewable Energy Specialist; Thinlay Wangchuk, Agriculture and Land Management Specialist; Zahid Shakeel Qureshi, Infrastructure Specialist; Karma Yeshey, Gender and Social Inclusion Specialist; and Sonam Jatso, IFAD Country Programme Officer and Private Sector Specialist. Roshan Cooke, Country Director provided overall strategic guidance remotely.

- A total of 3123 HHs have benefited from the intensification and diversification of crops on 2551.5 acres of land.
- A total of 1.480 MT of Pioneer Hybrid Maize (P3502), 1.2 MT of Improved Maize (Yangtsepa), and 50kg of Wengkhar Hybrid Maize-1 were provided to 308 households in the region;
- 95 households (36 males and 59 females) living in the remote villages received support to establish poultry backyard farms;
- A total of 40 bee hive sets were supplied to 24 households for honey production and to increase on-farm diversity;
- 190 households in the programme areas adopted biogas technology;
- A total of 336 fruit orchards were established in five Dzongkhags;
- A total of 329 greenhouse sets were distributed to 326 households;
- 220 households (131 male; 89 female) received improved cattle breed subsidy support;
- 147 hygienic cow sheds have been constructed;
- 489 dairy farmers received training on dairy management and clean milk production;
- 188 acres of were propagated with fodder cuttings in fallow and marginal lands;
- A total of 7.2 km irrigation canals was renovated, irrigating over 235 acres of land and benefiting 124 households;
- A total of 142 households benefited from the construction of 10 multi-use dryland irrigation schemes;
- 248.1 km of electric fencing was installed, benefitting a total of 803 households, and 197 HHs benefitted from 201 acres of barbed wire fencing to protect against wildlife depredation of crops;
- 473 households benefited from the development of a total of 418.56 acres of land through terracing, land consolidation and fallow land reversion;
- A total of 622 chaff cutter sets were supplied to dairy farmers, 57% were women beneficiaries;
- 9 milk collection sheds, 3 milk chilling centres and 1 milk processing unit were constructed;
- 2 semi-commercial dairy enterprises have been developed;
- A total of 2 fruit nurseries and a processing enterprise have been supported.

5. This Aide Memoire reflects the Mission's key findings and recommendations which were shared with the Government at a wrap up meeting chaired by the Ministry of Agriculture & Forests on November 14th 2022. The Mission would like to record its appreciation for the support provided by the Ministry of Agriculture and Forests (MOAF), the Office of Programme Management (OPM), Agriculture Research and Development Center Mongar (ARDC), Regional Livestock Development Center (RLDC), Regional Agriculture and Marketing Cooperatives (RAMCO) and all the partners in facilitating the Mission's work.

B. Key mission agreements and conclusions

6. The *overarching agreements that emerged at the end of the supervision mission* revolve around: Revision of CARLEP matching-grant guidelines; Support to aggregators to ensure continued marketing services to farmers; Additional safeguards to ensure viability of Koufuku's dairy (KIL's) expansion plans; and Financial literacy of groups and cooperatives.

7. **Revision of CARLEP matching-grant guidelines:** The guidelines have been developed and approved in 2019. These guidelines are not in line with the RGoB Guidelines on Cost-Sharing Mechanism for the RNR Sector which define the government's support to producers and value chain intermediaries for the purpose of enhancing RNR goals and objectives such as increased food production, guaranteeing farmers' basic incomes and strengthening the RNR sector's contribution to the national economy. After almost 3 years of

introducing the CARLEP matching grants, the mission has observed that the guidelines have not been conducive to engagement of beneficiaries, and youth uptake proved to be very limited, mainly due to the proposed thresholds. The mission recommends the revision of the matching-grant guidelines to align them with the RGoB guidelines and revise thresholds to ensure success and uptake. Furthermore, the matching-grants could be used as collateral to link beneficiaries to credit schemes. The revised guidelines will serve as a dedicated instrument for youth to support their engagement in commercialization and off-farm enterprises.

8. *Support to aggregators to ensure continued marketing services to farmers:*

Aggregators are playing a vital role in the remote villages through buying various products such as vegetables, fruits, cereals, dairy and poultry from the farmers and selling them in the nearby markets and schools. In the absence of Aggregators, farmers in far-flung villages cannot sell their products due to limited quantity and long distance to markets. As such, the Aggregators are indispensable to these farmers in maintaining CARLEP commercialisation efforts. RAMCO has formed the Aggregator Cooperative in May 2022 consisting of 21 men and 1 woman with the objective to promote contract farming, market-based production, marketing within and between the Dzongkhags and export of vegetables to nearby Indian towns. Although the Aggregators were provided with a 10-year tax exemption, more needs to be done for them to ensure continued linkages with farmers. Therefore, to ensure sustainability, the Aggregators, need to be incentivised through delineation of their geographic operation area, organized to streamline their operations, and provided with packing materials such as plastic crates, gunny bags, cool packs for dairy products. Other incentives to be explored include a provident fund and access to credit to buy utility vehicles.

9. *Additional safeguards to ensure viability of KIL's expansion plans:*

Koufuku International Limited (KIL) has signed MoUs with MoAF and IFAD for expanding its activities to contribute to the development of the dairy value chain in Eastern Bhutan. The expansion plans include the establishment of a plant in Samdrup Jongkhar to produce extended shelf-life milk, gouda cheese and ice cream. The CARLEP Project has already issued an international tender in August 2021 for supply of dairy equipment for Milk Processing. As per the MoU, the project will be implemented by CARLEP and KIL on funding modality ratio of 70:30 respectively. All equipment funding, installation and trainings will be funded by CARLEP, while all civil construction works, access road, water supply, energy supply, fencing and water treatment will be funded by KIL (DHI). Some documentation, analysis and budget were shared with the team, but deemed incomplete. Hence, the mission recommends that prior to entering into such an undertaking, KIL prepares a detailed economic and financial feasibility analysis, including a market potential assessment and business competitiveness appraisal, in order to ensure a viable investment that will continue contributing to the livelihoods of dairy farmers in the Eastern dzongkhags.

10. *Financial literacy of groups and cooperatives:* The mission observed the need to increase substantially the financial literacy of all the existing FGs in the CARLEP area. Another observation is that it is extremely difficult for a farmer to join an already existing group as a new member as he/she is expected to pay all accrued monthly collections, which is a substantial amount. Therefore, many new groups are formed and the existing groups do not grow. Bigger groups will have more production and hence more bargaining power and savings. It will also be easier for an agency like RAMCO to manage a reduced number of groups. Financially literate group members will better understand the benefit of belonging to a bigger group. They will also make better decisions in further investing through accessing credit and act as a business enterprise rather than being dependent on grant financing to

expand their business. This action should be undertaken by a service provider under supervision of RAMCO and OPM, as detailed in the CARLEP Additional Financing project document.

C. Key Recommendations

11. The key actions/recommendations that emerged from the findings of the Supervision Mission are listed below. The supervision report includes detailed description of these findings.

Overview and Project Progress

Actions	Responsibility	Deadline	Status
CARLEP matching-grant guidelines Revise CARLEP matching-grant guidelines to ensure engagement of youth and support them in commercialization and development of on-farm and off-farm enterprises	OPM	Dec 2023	Agreed
Incentives to Aggregators Explore possible incentives to Aggregators to ensure their continued support to CARLEP commercialisation efforts	OPM / RAMCO	Dec 2023	Agreed
Safeguards to ensure viability of KIL's expansion plans Prepare a detailed economic and financial feasibility analysis, including a market potential assessment and business competitiveness appraisal, in order to ensure a viable investment	KIL	March 2023	Agreed
Financial literacy of the Farmer Groups (FGs) Deliver financial education and business literacy (FEBL) training to farmer groups to capacitate them to function as business enterprises and to access credit to expand their businesses.	OPM / RAMCO	Dec 2023	Agreed
Promote public-private partnership on fallow land Launch a pilot for converting fallow land into production through provision of infrastructure and services (water, fencing, electricity, etc) for lease to youth groups to engage in dairy and/or fruit and vegetable value-chains. This will enable the promotion of youth commercial enterprise development.	OPM / ARDC	December 2023	Proposed
Complete installation of biogas units in strategic areas Remaining biogas installations to be prioritized in areas where they can function more as demonstration sites where on-farm training can be conducted i.e. with lead farmers and/or at the Samdrup Jongkhar Initiative demo site	OPM	June 2023	Agreed
Improve hygiene and sanitary conditions at cattle sheds Upgrade and improve hygiene and sanitary conditions of cattle sheds by following standard construction design (shared previously); and allow provision for removal of cow dung leading to a nearby biogas plant. Also promote floor mats to avoid cow slippage and to provide better rest area.	OPM	February 2023	Agreed
Promote energy-sensitive investments in CSVs Where viable, all Climate Smart Villages (CSVs) to be supported with solar fencing, solar pumps, solar dryers and biogas digesters	ARDC / OPM		Agreed
Convert exclusive FGs to inclusive FGs Promote awareness, demonstrating appropriate quotas that a new member should pay and proportions of benefit that a new member should receive based on date of joining the FG to allow for existing FGs to have more members.	OPM / RAMCO	Dec 2023	Proposed
Health and safety requirements of LN plant Implement safety and security SOPs/protocols (use of Personal protective equipment (PPEs), including gloves, eye glasses	RLDC / OPM	March 2023	Agreed

etc.) and prepare emergency management plan for both existing and newly built plant (once operational).			
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Effectiveness and Development Focus

Actions	Responsibility	Deadline	Status
Review indicators and endline targets Review the targets of specific activities to be reflected in the revised COSTAB/AWPBs and interventions relevant to ASAP, and CARLEP additional financing	OPM	November 2022	Agreed
Capitalise on role of Lead Farmers Pilot the on-site training of young farmers on Lead Farmers' fields for a period of time to gain practical knowledge and later initiate new business ventures.	OPM / ARDC	Dec 2023	Proposed

Sustainability and Scaling-up

Actions	Responsibility	Deadline	Status
Quality assurance of supported interventions Take proactive steps to establish feedback loops for ensuring quality of implemented interventions are assessed and assured	OPM / Service providers	December 2023	Agreed
Scale-up Farmer Group Linkages with other institutions Develop partnerships and link remaining schools, colleges, hospitals, armed force, religious institutes with Vegetable/Dairy/Poultry Groups and Traders	OPM / partners	December 2023	Agreed

Environment, Natural Resources and Climate Change Adaptation

Actions	Responsibility	Deadline	Status
Expand permaculture in CARLEP target areas Identify farmers with diversified farming systems and liaise with IFAD projects in Nepal to provide training on introducing permaculture principles on their farm	OPM / ARDC / IFAD	December 2023	Agreed
Diversify the energy supply mix within the milk value chain Convert at least 3 milk chilling centres (MCCs) and integrate with solar energy for running the deep freezers, chillers, refrigeration and lighting systems	OPM / IFAD	December 2023	Agreed
Electric Fencing with more sustainable options Explore different options for making electric fencing more lasting and sustainable, considering the cost implications and relative effectiveness. These may include replacing/blending existing wooden poles with (i) HDPE, (ii) concrete; (iii) angle iron; (iv) reinforcing the wooden poles (binding 2/3 poles together); and (v) poles from plastic waste. Also, where feasible, solar energy should be utilized.	OPM	April 2023	Agreed
Sustainability of irrigation schemes Consider critical factors during survey and at design stage, including: (i) reliability of water source (both in terms of quantity and availability of year-round water); (ii) area to be irrigated (including fallow land); (iii) crop water requirements; and (iv) source protection.	OPM / Dzongkhag Eng. Section	March 2023	Agreed

Project Management

Actions	Responsibility	Deadline	Status
Innovative KM products with linkages to policy Provide policy support through showcasing success stories from the field to demonstrate how CARLEP is contributing to the RGoB 13 th Five-year Plan and SDG targets	OPM		Agreed

Monitoring and Evaluation

Actions	Responsibility	Deadline	Status
Revise AWPB template Revise the template to reflect clearly the action/co-financiers and linkages to the logical framework	OPM/IFAD	December 2022	Agreed
Revision of CARLEP activities Revise CARLEP activities till project end to reflect recommendations of the supervision mission relevant to interventions under CARLEP additional financing as well as additional activities to be financed by ASAP.	OPM/IFAD	December 2022	Agreed
MIS input Finalize the input of the MIS with retroactive and current input and include the modules on trainings, production, procurement and programme management	OPM	February 2023	Agreed
Kobotoolbox software and Geotag information Allocate budget to train extension officers for geo-tagging of beneficiaries through Kobotoolbox application installed in mobiles	OPM	March 2023	Agreed
Beneficiaries unique number Capture the Citizenship Identity Card (CID) number at beneficiary level and continue using the unique household number to disaggregate data at outreach level	OPM	December 2022	Agreed
Link the MIS system to RGoB MIS system Link the CARLEP MIS system to PLAMS to ensure permanent access to data	OPM	August 2023	Agreed

Financial Management and Execution

Actions	Responsibility	Deadline	Status
Revision of PIM and FM guidelines Revise the Project Implementation Manual (PIM) and project FM guidelines to reflect transition to report-based disbursement against quarterly IFRs and any other changes in FM processes and procedures	OPM/FO/AO	Dec 2022	Agreed
Justification of Authorized Allocation Project to justify amount spent from the ASAP grant authorized allocation (AA) balance with next WA submission (separate WA for justification).	OPM/FO/AO	Dec 2022	Agreed
Budget re-allocation Following the revision of CARLEP activities, the project should take the following steps to complete a budget reallocation request: 1. Revise the project COSTAB, with support from IFAD 2. Submit a formal request to IFAD for a budget re-allocation, with accompanying justification	OPM/IFAD	Feb 2023	Agreed
Asset management and regular verification of internal controls The project should establish a system for regular (minimum quarterly) physical site verification, confirming and documenting delivery of goods/services and conduct sample checks of transactions. Results from verifications shall be documented and a time bound action plan created for the resolution of identified issues.	OPM	Feb 2023	Agreed
Timely submission of external audit report The project should ensure timely submission of the FY2021-22 audit report to IFAD by latest 31 Dec 2022, and should ensure notes to the financial statements are included in the financial statements reporting.	OPM	Dec 2022	Agreed

Update on FY2020-21 audit observations The project shall submit to IFAD documentation, verified by the RAA, confirming on the resolved audit observations identified in the FY2020-21 audit report and a status update and action plan for the resolution of remaining unresolved observations	OPM / all PIU's	Nov 2022	Agreed
Compliance with loan covenants Ensure adherence to the loan covenants relating to timely submission of reporting, e.g. on progress reports, IFR, audited financial statements, AWPB etc.	OPM	Dec 2022	Agreed

Procurement Arrangements

Actions	Responsibility	Deadline	Status
Recruit a Procurement Consultant Recruit a Procurement Consultant on intermittent basis at least for 100 person-days a year to guide and help the OPM and Project Implementing Units to carry out project procurement (end-to-end)..	OPM	December 2022	Agreed
Deliver Procurement Training Provide procurement training to Procurement Officers, Engineers and other officials (Evaluation Committee Members) handling the project procurement.	OPM	February 2023	Agreed
List of items, technical specification & quantity The PIU's to clearly mention the quantity of the items along with the clear technical specification and delivery locations in the tender document.	All PIU's	Immediate	Agreed
Contract Management An efficient contract management/monitoring is required to ensure that the goods and services are delivered strictly as per the contract terms and conditions.	All PIU's	Immediate	Agreed
Filing system Maintain a dossier each for every procurement activity and retain the documents as required in IFAD procurement guidelines.	All PIU's	Immediate	Agreed

D. Conclusion

12. After a period of hindrance to implementation caused by the pandemic, the Mission was extremely pleased to observe that CARLEP re-gained its implementation at full speed, is making very good progress on the ground, and vulnerable households are realising benefits from project interventions. The CARLEP team should proceed with no delay to deliver on the actions recommended by the mission to ensure that implementation is not stalled.

13. The physical progress for the 2021/2022 fiscal year was around 74% (with an increase of 5.4% compared to previous FY) and the financial progress was at 81.7% (with an increase of 15.57% compared to previous FY). The project is in its 7th year of implementation and its current level of disbursement is around 65% of the overall IFAD administered financing.

14. CARLEP is capitalizing on its potential to scale-up innovative activities and has demonstrated success across numerous initiatives. Moreover, the project management has drawn up an ambitious implementation plan and is achieving beyond the set targets for several outputs. The Mission urges the OPM and all partners to keep the strong momentum, ensuring that CARLEP achieves its development objective as well as generates successful

lessons which could be scaled-up through the recently approved “Building Resilient Commercial Smallholder Agriculture (BRECSA)” project.

15. IFAD and the Government of Bhutan endorse the implementation of the agreed actions of this Aide Memoire.

Mr Roshan Cooke
Country Director, IFAD

14th November, 2022
Date

Mr. Thinley Namgyel
Secretary, MoAF

14th November, 2022
Date