



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)<sup>1</sup> undertook the seventh supervision of the Commercial Agriculture & Resilient Livelihoods Enhancement Programme (CARLEP) from the 4<sup>th</sup> to the 20<sup>th</sup> of October 2023. 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 2022 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 in agricultural commercialization and strengthening capacities of communities and local institutions. The total project cost of US\$30.357 million is financed over ten years and is made up of the following financing: IFAD (US\$19.25 million); 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. The mission undertook field visits to four Project dzongkhags (districts) of Trashigang, Mongar, Lhuentse and Trashiyangtse.

4. The mission assessed that the CARLEP project is rated as Moderately Satisfactory. The project responded to most of the recommendations of the 2022 supervision mission and has been able to extend support to beneficiaries within the target areas. The overall programme outreach to date is 96% (27,934 HHs out of the total target of 28,975, with 14,481 male-headed and 13,453 female-headed HHs). Some key achievements include:

- Construction of vegetable seed processing unit at NSC, Yangtse;
- 70 acres adzuki bean intensification was carried out in Mongar, Trashigang and Lhuentse, and a total of 468 kg of adzuki seeds were distributed to 220 households covering nine gewogs;
- Efficient irrigation for fruit and nuts promoted within 14 sites;
- A total of 1.52 MT of upland paddy was supported in two gewogs; Khoma and Jarey under Lhuentse districts covering 76 acres;

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<sup>1</sup> Mission composition: Rami Salman, Mission Leader and Programme Management Specialist; Thinlay Wangchuk, Agriculture and Land Management Specialist; Tashi Yangzom, Gender and Social Inclusion Specialist; Sonam Jatso, IFAD Country Programme Officer and Private Sector Specialist; Kaushal Man Shrestha, M&E and KM Specialist; Sanjeev Kumar Shrestha, Value Chain Specialist; Dipak Sah, Financial Management Specialist; Tshewang Gyeltshen, Procurement Specialist. Roshan Cooke, Country Director provided overall strategic guidance remotely.

- Establishment of 12 commercial mushroom enterprises including skilling and engagement;
- A total of 27 solar drying units were distributed to the farmers against the planned target of 32 sets;
- Fruits and nuts intensification program for 17 villages;
- Market-linked cereal intensification over 207 acres;
- Support to Dryland irrigation at Tsekpa, Kengkhar;
- Mushroom automation at Kalapang;
- Renovation of the Gangola vegetable market shed at Mongar;
- Renovation of large market facility at Wamrong, Trashigang;
- Construction of integrated market shed at Gyelpozhing.

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 & Livestock on 20<sup>th</sup> October 2023. The Mission would like to record its appreciation for the support provided by the Ministry of Agriculture and Livestock (MOAL), the Office of Programme Management (OPM), Agriculture Research and Development Center (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: CARLEP Budget re-allocation; Streamlining activities and scaling-up successes; and Supporting Koufuku in business planning to guide investment priorities.*

7. **CARLEP budget re-allocation:** The CARLEP additional financing includes three budget categories, mainly Works; Equipment and materials; and Goods, services and inputs. The mission observed that CARLEP has overspent on the last budget category and has somewhat depleted the funds allocated to the second one. For that, it is recommended that CARLEP develops an Annual Workplan and Budget until end of December 2025, and accordingly, estimate the needs in terms of budget allocation until the end of the project duration. Once this is undertaken, CARLEP would have to submit - through the Government - a letter to IFAD explaining the overspending on Categories 2 and 3, and propose revised budget allocations to the 3 categories. No additional disbursement from IFAD will be undertaken until internal IFAD approval is obtained. Moreover, the project management shall communicate all these details and issues of excess cost over the approved budget lines of IFAD loan funds AWBP 2022-23 by NU 8.48 million (approx. US\$ 102 thousand) in different budget lines to the Auditor General.

8. **Streamlining activities and scaling-up successes:** As the CARLEP workplan is mainly generated in a participatory manner and through the priorities of the different target dzongkhags, it sometimes tends to spread the project interventions thin, and generate a series of disconnected activities with limited impact. This aspect has also been noted by the project Steering Committee who advised CARLEP to focus on activities that have wider impact. Considering that there are only 2 years remaining before completion, the mission urges the project to focus on interventions that demonstrate high value for money and scale-up successes, mainly through: fallow land conversion, fruit intensification, dairy value chain support and mushroom production.

9. **Supporting Koufuku in business planning to guide viable investment priorities:** During the 2022 supervision mission, Koufuku International Limited (KIL's) had requested

the support of CARLEP for the establishment of a UHT plant at Samdrup Jongkhar. Lately, DHI has informed the project that the business proposal for the latter requires thorough review and is instead seeking CARLEP support for upgrading the current production facilities at the KIL plant in Cheneri, Trashigang. Recognizing the importance of KIL in the development of the dairy value chain and uplifting the livelihoods of dairy farmers in the eastern dzongkhags, the mission is proposing – and prior to any investment in upgrading the facility – that a business plan is developed to identify viable KIL investment priorities and business advantage, in order to ensure a sustained operation and continued contribution to the livelihoods of dairy farmers after CARLEP phases out.

### C. Key Recommendations

10. 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 |
|--|------------------|-------------|--------|
| <b>Streamline CARLEP interventions and scale-up successes</b><br>Avoid spreading out too thin, focus on activities that demonstrate high value for money, and scale-up successes, including fallow land conversion, fruit intensification, dairy value chain support and mushroom production.  | OPM              |             | Agreed |
| <b>Support Koufuku International Limited (KIL's) in business planning to guide viable investment priorities</b><br>Prepare the ToRs of the business and investment plan and identify adequate expertise for its development.   | OPM / KIL / IFAD | Dec 2023    | Agreed |
| <b>Financial Education and Business Literacy (FEBL) Training</b><br>Identify a service provider to roll-out tailored training sessions to farmer groups, aggregators, lead farmers, youth, retailers on FEBL.  | OPM / RAMCO      | May 2024    | Agreed |
| <b>Strengthen Linkages between Producer Groups (PG) and Aggregators/Traders</b><br>Provide needed support to aggregators in terms of material/equipment; conduct MSP/B2B meetings to facilitate linkages between Producer Groups and Aggregators/traders in building trust and more dynamic relationships among each other; and strengthen Groups to meet the requirements of Aggregators/traders as well as for collective marketing. | OPM / RAMCO      |             | Agreed |
| <b>Sustainability of Market-led Infrastructure (milk collection centres, storage facilities etc.)</b><br>Conduct a scoping study of selected infrastructure and ensure revenue-based operation and management with the engagement of Gewogs/Dzongkhags.  | OPM / Dzongkhags | August 2024 | Agreed |

### ***Sustainability and Scaling-up***

| <b>Actions</b>  | <b>Responsibility</b> | <b>Deadline</b> | <b>Status</b> |
|---|-----------------------|-----------------|---------------|
| <b>Finalise Exit and Sustainability Strategy</b><br>Finalise the CARLEP Exit and Sustainability strategy based on the developed strategic objectives and undertake due consultations with stakeholders. | OPM / partners        | May 2024        | Agreed        |

### ***Project Management***

| <b>Actions</b>  | <b>Responsibility</b> | <b>Deadline</b> | <b>Status</b> |
|---|-----------------------|-----------------|---------------|
| <b>Innovative knowledge products for increased visibility</b><br>Develop video content showcasing key CARLEP approaches, outcomes and successes, including both long format narrative documentaries for television broadcast and short-form content for social media. | IFAD                  | September 2024  | Agreed        |
| <b>Preparation for CARLEP completion</b><br>Organize an IFAD Implementation Support Mission (ISM) by June 2024 in order to support CARLEP OPM initiate key preparatory activities for project completion, in addition to other implementation support requirements.   | IFAD                  | June 2024       | Agreed        |
| <b>Recruitment of CARLEP staff</b><br>Ensure filling the CARLEP vacant posts to foster smooth implementation of project activities and achievement of development objective.  | OPM                   | December 2023   | Agreed        |

### ***Financial Management and Execution***

| <b>Actions</b>  | <b>Responsibility</b> | <b>Deadline</b> | <b>Status</b> |
|---|-----------------------|-----------------|---------------|
| <b>NOL is required for the overrun of Cost Category as per original allocation of additional loan funds of Goods, Services and Inputs (GSI) for the previous periods</b><br>The project needs to provide proper justification of Goods, Services and Inputs expenditure and documents to IFAD and seek IFAD NOL on overrun of Goods, Services and Inputs cost as per Financing Agreement total allocation amount of project GSI cost.                       | OPM/IFAD              | November 2023   | Agreed        |
| <b>Reallocation of project Cost/appraisal</b><br>Project management needs to take immediate action to ensure that its internal controls are suitably strengthened to avoid recurrence of the situation found in the previous year. Furthermore, the project also needs to prepare a deep analysis of category-wise project cost and reallocation of project budget/appraisal should be done by project management and presented to IFAD for review and NOL. | OPM/IFAD              | November 2023   | Agreed        |
| <b>Revision of Budget (AWPB) 2023-24 to be reviewed and revised as needed</b><br>Project Management needs to revise their AWPB 2023-24 to be aligned with the reallocation of project categories and submitted to IFAD for review and NOL.  | OPM/IFAD              | November 2023   | Agreed        |
| <b>Prepare the restatement of Financial Statements of Fiscal Year 2021-22</b><br>Project management shall rectify the work cost category expenses which were wrongly charged to Equipment and   | OPM                   | November 2023   | Agreed        |

|  |     |                  |        |
|--|-----|------------------|--------|
| Materials; and Goods, Service and Input cost Categories for the Fiscal year 2021-22 and prepare the restatement of Financial Statements of Fiscal Year 2021-22 in accordance with the IPSAS-Cash Basis accounting system and in line with the IFAD Financial reporting requirements with full set of notes disclosing the nature of transactions and the financial position of the project account.<br><br>Project Management will submit the restatement of Financial Statements for the Fiscal year 2021-22 to IFAD.   |     |                  |        |
| <b>Timely submission of revised IFRs (Q3 &amp; Q4-2022-23) and Draft Financial Statements for the Fiscal year 2022-23</b><br><br>The project Management needs to submit the revised Q3 & Q-4: IFRs 2022-23 and draft financial statements for the Fiscal Year 2022-23 aligned with the revised cost allocations and rectifications of errors on cost categories expenses which were wrongly charged to Equipment and Material and Goods, Service and Input Cost Categories for the Fiscal year 2021-22.  | OPM | November 2023    | Agreed |
| <b>Reconciliation of the total project expenditures reported in SOEs with the DA and operating bank accounts</b><br><br>The project needs to reconcile the actual expenditures reported in the certified financial statements, Quarterly IFRs, SOEs and project's DA and operating bank accounts from the start of the project to this date.   | OPM | November 2023    | Agreed |
| <b>IFAD Loan Funds-AWPB-2022-23 cost line items overrun of procurement/expenses amounts of Nu 8.48 million (approx. US\$ 102 thousand) for Fiscal Year 2022-23</b><br><br>The project management shall communicate all these details and issues of excess cost over the approved budget lines of IFAD loan funds AWPB 2022-23 by NU 8.48 million (approx. US\$ 102 thousand) in different budget lines to the Auditor General.<br><br>Based on these cost lines items project procurement verifications for the fiscal year 2022-23 and recommendations of the Auditor General, the excess cost line items can be either treated as 'eligible cost' or 'ineligible cost' of project in accordance with Section 4.08 (a) (i) i.e., Eligible Expenditures criteria of Article IV of the IFAD loan financing agreement compliances. | OPM | 30 November 2023 | Agreed |
| <b>Ineligible Expenditures for the previous year's audit to be resolved</b><br><br>The mission noted that the project had refunded some portion of the ineligible expenditures of the previous year as per the management letter of the Royal Audit Authority. However, the remaining portion of Ineligible Expenditures total amounting to US\$ 43,827.91 is still pending. The project management shall refund the remaining ineligible expenditures in project DA, or project Operating account. The project shall provide the auditor's report on the current status of ineligible expenditures related to the previous year's findings  | OPM | 30 November 2023 | Agreed |

|  |     |  |        |
|--|-----|--|--------|
| <b>Implementation status of FM Action plan to be followed</b><br>The Project provided its FM Action Plan for 2023 to IFAD on 24 October 2022 indicating all IFAD requirements to the FM area (staff, AWPB, Disbursement, Internal control, Reporting and Auditing) as well as Action Plan for resolving IEs and IFAD accepted this Plan. Jointly with IFAD the project management started monitoring of the FM Action plan in February, this monitoring and implementation by the project needs to be done on a regular basis. | OPM |  | Agreed |
|--|-----|--|--------|

### **Procurement Arrangements**

| Actions   | Responsibility | Deadline     | Status   |
|---|----------------|--------------|----------|
| <b>Deliver Procurement Training</b><br>Provide procurement training to relevant officials of the project districts and regional offices on how to prepare tender documents, evaluation (including the preparation of evaluation reports), preparation of contract agreements and contract management, specifically for procurement of goods.  | OPM/IFAD       | March 2024   | Agreed   |
| <b>Prevent delay in completion of the contracts</b><br>Contract management needs to be improved to expedite the progress of the civil works and ensure timely completion. Some of the civil works packages were delayed substantially despite extending the contract duration. CARLEP should prepare realistic a work program, strict monitoring and constant follow-up to ensure the work progress is as per the plan and completed within the stipulated contract period. | Districts/OPM  |              | Agreed   |
| <b>Support to CARLEP procurement</b><br>Explore the possibility of engaging one of the Senior Procurement Officers from the region to assist the PIU's which include five project districts and three regional offices in the preparation of tender documents, evaluation and preparation of the contract documents for the procurement of goods.   | OPM            | January 2024 | Proposed |

### **D. Conclusion**

11. CARLEP is making very good progress on the ground and capitalizing on its potential to scale-up innovative activities that have demonstrated success. The mission team has visited and interacted with households who have realised concrete benefits from the project's interventions. Moreover, the project management has drawn up an ambitious implementation plan and is achieving beyond the set targets for several outputs.

12. The physical progress for the 2022/2023 fiscal year was around 72% (with a decrease of 2.7% compared to previous FY) and the financial progress was at 84% (with an increase of 3% compared to previous FY).

13. The mission observed that CARLEP has lost several staff members and the remaining team is overburdened and find it challenging to operate and deliver on the project's annual workplan and budget. The mission is concerned that this could impact the achievement of CARLEP's development objective, and urges the CARLEP team to recruit the needed experts – including the consideration of attracting expertise from the market to ensure that implementation is not stalled.

14. The Mission urges the OPM and all partners to keep the strong momentum and proceed with no delay to deliver on the actions recommended by the mission.

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

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Mr Roshan Cooke  
Country Director, IFAD

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20<sup>th</sup> October, 2023  
Date

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Mr. Thinley Namgyel  
Secretary, MoAL

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20<sup>th</sup> October, 2023  
Date