



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 eighth supervision of the Commercial Agriculture & Resilient Livelihoods Enhancement Programme (CARLEP) from the 20th of October to the 10th of November 2024. 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 2023 Supervision Mission. As this marks the final supervision mission before CARLEP's completion in December 2025, the team placed special emphasis on mainstreaming the remaining project activities, reviewing the plan to ensure sustainability of project-supported initiatives, documenting and scaling-up of best practices, and guiding the team on a smooth project closure while maximizing development impact in its remaining implementation period.

2. CARLEP's core objective is to transform Bhutan's subsistence-based rural agricultural economy into a sustainable, market-driven sector through climate-smart agricultural approaches, private sector engagement in agricultural commercialization, and strengthened community and local institutional capacities. The total budget of the project is US\$ 40,369,704 which includes US\$ 20,615,025 from IFAD, US\$ 11,342,259² from the Government of Bhutan, US\$ 5,022,615 from the ASAP trust fund, US\$ 2,982,805 Beneficiary Contributions and US\$ 407,000 from the Private local sector. Having commenced on 11 December 2015, CARLEP's implementation period was extended through Additional Financing (AF) approval to December 2025.

3. The project responded to most of the recommendations of the 2023 supervision mission and has been able to extend support to beneficiaries within the target areas. The overall programme outreach to date is 106% (30,746 HHs out of the total target of 28,975, with 48% female-headed HHs). Some of the key achievements include:

- A total of 1,685 kilograms of adzuki bean seeds have been distributed, covering an area of 112.33 acres across 13 gewogs of Mongar, Lhuentse, and Pemagatshel dzongkhags benefiting 800 households;

¹ Mission composition: Rami Salman, Mission Leader and Programme Management Specialist; Marco Camagni, Global Lead Rural Institutions Specialist and Project Technical Lead; Thinlay Wangchuk, Agriculture and Land Management Specialist; Tashi Yangzom, M&E, KM, Gender and Social Inclusion Specialist; Sonam Jatso, IFAD Country Programme Officer and Private Sector Specialist; Sanjeev Kumar Shrestha, Value Chain Specialist; Feroz Rafiq, Financial Management Specialist; Tshewang Gyeltshen, Procurement Specialist. Roshan Cooke, Country Director provided overall strategic guidance remotely.

² This contribution included US\$ 4.8 million from FCBL, while only US\$ 713,000 of that amount was provided.

- Establishment of 101 backyard poultry farms aimed at generating income, improving family nutrition, and enhancing farm resilience that benefitted 101 pro-poor households, including 44 female-headed households;
- Trashigang and Lhuentse Dzongkhags supported and implemented 82 and 46 sets of drips and sprinklers respectively, reaching out to more than 120 households who are into vegetable commercialization;
- A total of 591.14 acres were cultivated with climate-resilient vegetable seeds across all program Dzongkhags, reaching out to 3015 households (1798 female);
- Around 135 greenhouse sets and 82 rolls of greenhouse plastics were distributed to vegetable growers on cost-sharing basis;
- For the third phase Million Fruit Tree Project (MFTP), a total of 7,367 temperate high value crops including kiwi and walnut were planted, benefitting 1,658 households (616 Female, 1042 Male), and covering an area of approximately 65.43 acres. For subtropical seedlings (Avocado), over 17,403 have been planted across two Dzongkhag of Pemagatshel and Trashigang reaching out to 1529 households;
- Around 134 dairy sheds have been constructed by the dairy farmers spread across six Programme Dzongkhags;
- CARLEP promoted winter oat cultivation through supply of Oat seeds to dairy farmer groups. For example, 39,995 kgs of oat seeds were supplied to dairy groups, covering an area of 629 acres;
- 2.5 kms of irrigation canal was renovated at Khepachu under Lhuentse Dzongkhag with command area of 42 acres benefitting 48 households;
- A total of 125.47 acres of land has been developed (wetland and dryland) from the planned target of 275 acres (46% achievement);
- 4 large market facilities were constructed in Pemagatshel and Samdrup Jongkhar;
- CARLEP supported the construction of 9 milk collection sheds and 3 milk collection centres;
- In order to diversify energy supply mix in MCCs, a 500-liter capacity solar bulk milk cooler was installed in Gomdhar.

4. This Aide Memoire reflects the Mission's key findings and recommendations which were shared with the OPM at a pre-wrap meeting on 25th October 2024, and with the Government in a wrap up meeting chaired by the Secretary of the Ministry of Agriculture & Livestock on 28th October 2024. 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), the Agriculture Research and Development Center (ARDC), the Regional Livestock Development Center (RLDC), the Regional Agriculture and Marketing Cooperatives (RAMCO) and all the partners in facilitating the Mission's work.

B. Key mission agreements and conclusions

5. The overarching agreements that emerged at the end of the supervision mission revolve around: Revision of CARLEP AWPB; Ensuring that the CARLEP support to KIL is coupled with sustainable benefits to smallholder farmers; and Preparation for smooth completion and closure of CARLEP.

6. **Revision of CARLEP Annual Workplan and Budget (AWPB):** The mission recommends a strategic revision of CARLEP's Annual Work Plan and Budget (AWPB) to guide implementation through its completion in December 2025. The current AWPB, which

extends to June 2025, needs to be updated to December 2025 and secure approvals from both IFAD and the CARLEP steering committee. This revision will serve multiple strategic purposes: prioritizing high-impact activities, establishing exit strategies, and embedding sustainability mechanisms across all components. The focus should be on consolidating successful initiatives, particularly in climate-smart agriculture, value chain development, and market linkages, rather than initiating new activities. A key element will be the generation of knowledge products that document lessons learned, successful models, and innovative approaches, along with strategic guidance on enhancing marketing potential - all of which can inform national agricultural policies. The revision will leverage precise financial planning and expenditure forecasting to identify resources that cannot be fully utilized by the project's completion. It is crucial to ensure programming of 100% of grant funds. Conversely, the IFAD's procedures would allow to cancel loan unused funds from CARLEP's budget at this stage and ensure their reallocation to future IFAD interventions in Bhutan. This decision is to be taken at latest 12 months before the project completion date, i.e. by 31 December 2024.

7. *Ensuring that the CARLEP support to KIL is coupled with sustainable benefits to smallholder farmers:* The mission endorses the support to KIL for upgrading its production facilities. However, the mission recommends that this support be strategically linked to sustainable benefits for smallholder dairy farmers. KIL should develop concrete mechanisms to ensure long-term value sharing with farmers. These could include distributing equity shares to its farmer groups to make them actual business partners, strengthening technical advisory services to ensure quality milk production, as well as implementing a progressive milk pricing structure that rewards quality and consistency. Additionally, KIL could consider developing farmer-centric services such as input supply, veterinary support, and capacity building in dairy farm management. Finally, KIL, and as part of its corporate social responsibility initiatives, could establish programs to strengthen farmers' financial management capabilities, while also introducing an innovative livestock insurance support scheme to hedge farmers against risk through loss of their high-value dairy animals. The mission recommends that, when modalities are developed and agreed, these commitments should be formalized through a clear tri-partite agreement between KIL, the Government and farmer groups, with specific timelines and measurable outcomes. This approach would transform the current buyer-seller relationship into a more equitable hence sustainable partnership, ensuring that CARLEP's investment in KIL's infrastructure translates into lasting benefits for smallholder dairy farmers in eastern Bhutan.

8. *Preparation for a smooth completion and closure of CARLEP:* The last supervision mission organized before project completion has particular significance and is important for a successful project completion process. As CARLEP is nearing completion, it is key to initiate strategic actions to ensure a smooth completion and closure of CARLEP. A comprehensive endline survey must be conducted to rigorously assess project achievements, document outcomes, and measure impact against baseline indicators. This should be followed by the preparation of a high-quality Project Completion Report, systematically documenting project performance, experiences, and innovations that will serve as valuable knowledge resources for future programming. The Exit Strategy should be strengthened by incorporating the recommendations of the supervision mission and finalized through strategic consultations with implementing partners and beneficiary groups as well as formalising agreements and mobilising required budget with key partner institutions. Moreover, formal agreements must be established with partners, local governments and farmers and their groups regarding the Operation and Maintenance of project investments. Additionally, a systematic inventory of project assets should be completed with clear hand-over procedures agreed upon with the

Royal Government of Bhutan. These coordinated actions will safeguard CARLEP's development gains and ensure proper transition of project investments.

C. Key Recommendations

9. 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
Ensure that CARLEP's support to KIL is coupled with sustainable benefits to smallholder farmers KIL should establish concrete mechanisms for long-term value sharing with farmers through, for example, quality-based milk pricing, enhanced support services, distribution of equity shares, financial management programs and livestock insurance schemes to create lasting benefits for smallholder dairy farmers.	MoAL / OPM / KIL		Agreed
KIL business planning to support sustainability Finalise KIL business plan, focusing on the investment areas identified by the assessment, including adequate resource allocation for technical support for quality enhancement, marketing initiatives, and comprehensive farmer support services.	KIL	April 2025	Agreed
Roll-out Financial Education and Business Literacy (FEBL) training to producer groups Conduct Training of Trainers (ToT) on FEBL for lead farmers, aggregators, and youth using developed manuals, followed by peer-to-peer rollout of tailored training sessions that promote understanding of basic financial concepts and farm business management.	OPM / RAMCO	August 2025	Agreed
Enhance market competitiveness for sustained growth Engage a service provider to assess market potential and competitiveness of CARLEP-promoted commodities, including youth and women-led enterprises. This should examine capacity of groups and cooperatives, supply-demand dynamics, production costs, and quality aspects while identifying key constraints and enabling factors. Based on the findings, propose strategic actions and policy frameworks to enhance competitiveness, address infrastructure gaps, and develop sustainable growth strategies.	OPM / RAMCO	June 2025	Agreed

Effectiveness and Development Focus

Actions	Responsibility	Deadline	Status
Drudgery reduction for women and persons with disability Allocate resources for labour-saving machinery and equipment on a cost-sharing basis, specifically targeting women and persons with disabilities, to reduce drudgery and advance gender mainstreaming and social inclusion objectives.	OPM		Agreed

Sustainability and Scaling-up

Actions	Responsibility	Deadline	Status
Finalise Exit and Sustainability Strategy		June 2025	Agreed

Incorporate supervision recommendations into CARLEP's Exit and Sustainability Strategy, particularly strengthening the policy component to address marketing enhancement, farmer group effectiveness, and knowledge management for policy advancement as well as formalising agreements and mobilising required budget with key partner institutions. The revised strategy should undergo stakeholder consultations before being finalized and shared with IFAD, Government, and Partners.	OPM / partners		
Operations and maintenance arrangements of CARLEP infrastructure investments Establish comprehensive Operation & Maintenance (O&M) arrangements for all CARLEP-supported infrastructure through identifying maintenance needs, engaging Local Governments and partners on sustainability mechanisms, and formalizing post-project agreements, with procedures clearly documented in CARLEP's Exit Strategy.	OPM / partners	May 2025	Agreed

Project Management

Actions	Responsibility	Deadline	Status
Revision of CARLEP Annual Workplan Plan and Budget (AWPB) Revise AWPB through December 2025, and submit for approval from IFAD and Steering Committee. This revision should prioritize high-impact activities, and embed sustainability mechanisms while generating knowledge products from lessons learned. Identify resources that cannot be utilized, ensuring timely cancellation of unused loan funds and proper programming of grant resources.	OPM	November 2024	Agreed
Knowledge products to support learning and inform policy decisions Engage service providers to develop and document knowledge products, including videos and publications, that capture successful project interventions and case studies. These should focus on key themes such as innovation, women and youth economic empowerment, fallow land management, and the role of aggregator groups, providing valuable insights for future programming and policy development. Consider the option of uploading these KM products in a comprehensive web platform managed by the Ministry.	OPM	September 2025	Agreed
Preparation for CARLEP completion Initiate key preparatory activities for project completion, including conducting a comprehensive Endline Survey and preparing a high-quality Project Completion Report. Ensure proper financial closure to meet fiduciary requirements.	IFAD / OPM	September 2025	Agreed
Handing over of project assets Prepare a comprehensive inventory of all project assets, including the project MIS, and initiate discussions with Government to establish hand-over procedures, ensuring transparent documentation of the entire transfer process.	OPM	September 2025	Agreed

Financial Management and Execution

Actions	Responsibility	Deadline	Status
Training on financial management Conduct training for OPM finance team and finance staff in partner organisations to build capacities on the preparation of financial statements.	IFAD	March 2025	Agreed
Revision of 2024-2025 budget (AWPB) The budget (AWPB) for 2023-2024 needs to be revised by the Project to align the budget with the project activities. Following finalization of the AWPB, the Project management team needs to submit the revised AWPB to IFAD for review and obtaining the NOL.	OPM / IFAD	November 2024	Agreed
Resubmission of IFRs up to 2023-2024 Q4 The Project needs to re-submit the pending IFRs up to Q4 2023-2024 to IFAD for review.	OPM / IFAD	October 2024	Agreed
Resolution of ineligible expenditure from previous years The Project management team needs to resolve the ineligible expenditures reported in the audit reports of FY 2021-2022 and FY 2022-2023. The mission noted the following issues: <ul style="list-style-type: none"> - Project management team needs to provide a report on the resolution of ineligible expenditures identified in the FY 2022-2023 audit report. - Some ineligible amounts have been deposited into the project DA or project operating account. Project management needs to submit the bank statements to IFAD confirming the deposits in the relevant accounts. - Some ineligible amounts have been deposited into the Audit Recoveries Account of the Government. These amounts need to be transferred to the CARLEP DA or project operating accounts. 	OPM / IFAD	November 2024	Agreed
Reallocation of budget for overrun in Cost Categories The Project management needs to reallocate the funds from budget categories where there has been overspent (IFAD Additional Financing Loan: Financial Instrument No.: 2000003276, Goods, services and inputs). In addition, the expenditure for each budget category line has to be monitored to ensure that expenditure incurred in the future has to be as per the approved budgets.	OPM / IFAD	November 2024	Agreed

Procurement Arrangements

Actions	Responsibility	Deadline	Status
Mismatch of procurement plan and actual execution As per the OPEN system, the approved procurement method for "Improvement of Parking Space for LN2 Plant Building" is National Competitive Bidding (NCB). However, on review of the procurement documents it was noted that the work was executed through direct contracting, which is a deviation from IFAD's approval. As such, the OPM or relevant agency is to justify and seek IFAD's approval for such deviation to avoid complications. It applies to rest of the activities if there are any other such cases.	OPM / IFAD	December 2024	Agreed
Bidding and contract documents	Districts / OPM		Agreed

It was noted that the critical sections of bidding documents i.e. bid data sheet and special condition of contract is incomplete, omitting several critical conditions. Also, the technical specification is inadequate, quantity of the items and delivery locations were not mentioned in the bidding documents. The incomplete contract agreements as the signed contracts did not include LOA, form of bid, SCC, GCC and other important documents. The agencies need to prepare proper documents stipulating all the required conditions.			
Update of CMT/ICP & OPEN Mission noted that most of the approved procurement activities were in progress and some even completed with the bidding process. However, the progress of procurement activities is not updated in CMT/ICP and OPEN system. The OPM is advised to update the CMT/ICP and OPEN system as when the procurement activities are undertaken.	OPM	November 2024	Agreed
Deliver Procurement Training Most of the Procurement Officers and other officials involved in project procurement could benefit from further procurement knowledge and experience. It is recommended to urgently provide procurement training on preparation of bidding and contract documents. Timely training would help streamline the above issues.	OPM	December 2024	Agreed

D. Conclusion

10. CARLEP has demonstrated remarkable effectiveness on the ground, successfully implementing and expanding innovative activities that have proven their worth. Direct field observations and community interactions have revealed tangible improvements in beneficiary households' livelihoods through project interventions. The project management team's ambitious implementation strategy has exceeded several output targets, showcasing the project's strong execution capacity and potential for even greater impact. This momentum in implementation, coupled with visible benefits at the household level, positions CARLEP as a transformative catalyst in rural development across eastern Bhutan.

11. The physical progress for the 2023/2024 fiscal year was around 87.92% (with an increase of 22.11% compared to previous FY) and the financial progress was at 97.58% (with an increase of 16.17% compared to previous FY).

12. As CARLEP enters its final 14 months of implementation, maintaining momentum and consolidating achievements becomes paramount. The project management team and government stakeholders should focus on accelerating the completion of ongoing activities while ensuring quality and sustainability. Critical attention should be given to documenting successful approaches, particularly in enhancing productivity, value chain development, youth entrepreneurship, gender transformative actions, marketing and climate resilience, to facilitate scaling-up beyond the project period.

13. Strengthening the capacity of farmer groups, cooperatives, and local institutions should be prioritized to ensure they can continue operating effectively after project closure. It is essential to finalise and consult on the Exit and Sustainability Strategy and transition plans for each component, with specific emphasis on maintaining market linkages and technical support systems. The remaining period should also be used to capture and disseminate lessons learned, while actively seeking opportunities to embed successful interventions into government programs and policies for long-term sustainability. Given the project's significant

progress and potential for lasting impact, all stakeholders should maintain their commitment and possibly explore options for follow-up support to extend and deepen the project's achievements in eastern Bhutan.

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

Mr Roshan Cooke
Country Director, IFAD

28th October, 2024
Date

Mr. Thinley Namgyel
Secretary, MoAL

28th October, 2024
Date