



***Royal Government of Bhutan***

**Local Governance Support Programme  
(LGSP)**

**Joint Programme Document**

May 2008

# Cover Page

Country: Bhutan

## Royal Government of Bhutan Vision 2020

- **Target:** By 2020 local governments will be fully empowered to plan and manage development within their mandates.

## Royal Government of Bhutan Local Governments' Act 2007

- **Target:** To facilitate direct participation of the people in the development and management of their own social, economic and environmental wellbeing through the decentralization and devolution of power and authority

## Royal Government of Bhutan 10<sup>th</sup> Five Year Plan (2008 -2013)

- **Target:** Reduce poverty to 15 % by 2013.

## LGSP Joint Programme Outcome:

- Democratic governance at local levels enhanced and services delivered effectively and efficiently as mechanism to reduce poverty and contribute to achieving the MDGs.

## UNDAF 2008 – 2012 Outcome(s):

- **Outcome 4:** By 2012 institutional capacity and peoples' participation strengthened to ensure good governance. (MDGs 1, 3, 8).
- **Outcome 4.1** Strengthened capacity of local governments to plan, implement and manage their resources to pursue the MDGs.

**Programme Title:** Local Governance Support Programme (LGSP)

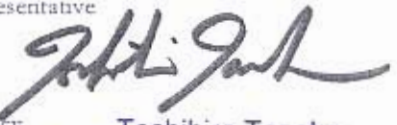
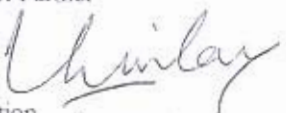

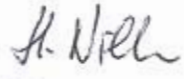


**Programme Duration:** 1<sup>st</sup> July 2008 - 30 June 2013

**Fund Management Option(s):** Direct budget support and parallel funding

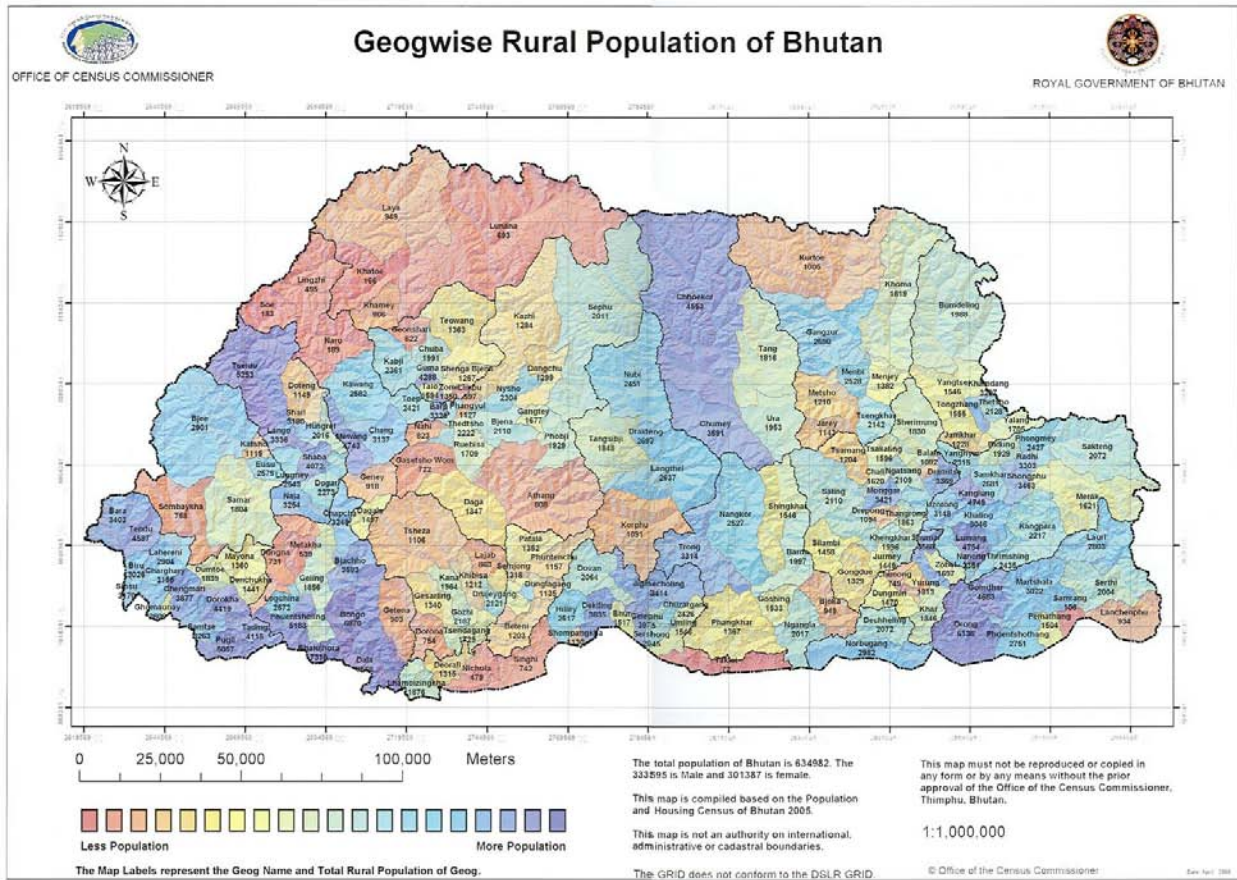
**Total estimated DP programme budget:**  
**US\$ 7,250,000**

Out of which: Planned resources:

- Denmark DKK 25M (app. US\$5,000,000)
- UNDP... US\$1,500,000
- UNCDF US\$ 750,000
- SDC... \_\_\_\_\_
- Austria ... \_\_\_\_\_

<p><b>UNDP</b></p> <p>Name of Representative</p> <p>Signature </p> <p>Name of Agency <b>Toshihiro Tanaka Deputy Resident Representative UNDP, Thimphu, Bhutan</b></p> <p>Date &amp; Seal</p>	<p><b>Gross National Happiness Commission, Bhutan</b></p> <p>Name of Head of Partner</p> <p>Signature </p> <p>Name of Institution <b>GNHC vSecretary GNH Commission</b></p> <p>Date &amp; Seal <b>9/07/08</b></p>
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<p><b>JICA</b></p> <p>Name of Representative</p> <p>Signature</p> <p>Name of Agency</p> <p>Date &amp; Seal</p>	<p><b>Austrian Development Agency</b></p> <p>Name of Representative</p> <p>Signature </p> <p>Name of Agency</p> <p>Date &amp; Seal <b>15.8.2008</b></p>
<p><b>Swiss Agency for Development and Corporation (SDC)</b></p> <p>Name of Representative</p> <p>Signature</p> <p>Name of Agency</p> <p>Date &amp; Seal</p>	<p><b>Helvetas</b></p> <p>Name of Representative</p> <p>Signature</p> <p>Name of Agency</p> <p>Date and Seal</p>

# Map of Bhutan



## Abbreviations

ACC	Anti-Corruption Commission
ADB	Asian Development Bank
ADR	Alternative Dispute Resolution
ADA	Austrian Development Agency
BBS	Bhutan Broadcasting Service
BTN	Bhutanese Ngultrum
CPAP	Common Country Programme Action Plan
DADM	Department of Aid and Debt Management
Danida	Danish International Development Assistance
DKK	Danish Kroner
DLG	Department of Local Governance, now Local Development Division (LDD)
DNB	Department of National Budget
DP	Development Partners
DPA	Department of Public Accounts
DT	Dzongkhag Tshogdu
DYT	Dzongkhag Development Committee
DRC	Department of Revenue and Customs, now separate departments
DSP	Decentralisation Support Programme
Dzong	Fortress/monastery and district administration premises
Dzongkhag	District
ECB	Election Commission of Bhutan
FMA	Financial Management Arrangement
FYP	Five Year Plan
GAO	Gewog Administrative Officer
GDFA	Gewog Development Facilitating Activities
Gewog	County
GG	Good Governance
GG/PARP	Danida Good Governance/Public Administrative Reform Programme
GNH	Gross National Happiness
GNHC	Gross National Happiness Commission
GPS	Global Positioning System
GoI	Government of India
GT	Gewog Tshogde
GYT	Block Development Committee
HRD	Human Resource Development
ICT	Information and Communication Technology
IGFT	Inter – governmental fiscal transfers
JGGSF	Joint Good Governance Support Framework
JICA	Japan International Cooperation Agency
LDD	Local Development Division
LG	Local Governance
LGAB	Local Governments’ Act of Bhutan

LGSP	Local Governance Support programme
LLM	Master of Law
LOD	Liaison Office of Denmark
M&E	Monitoring and Evaluation
MDGs	Millennium Development Goals
MIS	Management Information System
MOU	Memorandum of Understanding
MTEF	Midium Term Fiscal Framework
NGO	Non Governmental Organisation
NMES	National Monitoring and Evaluation System
NCWC	National Commission for Women and Children
NPAG	National Plan of Action for Gender
Nu	Ngultrum (the currency of Bhutan)
NWAB	National Womens Association of Bhutan
OB/SC	Outcome Board/Steering Committee (for LGSP)
PBM	Planning Budgeting and Monitoring Tool
PEM	Public Expenditure Management
PFM	Public Financial Management
PlaMS	Planning and Monitoring System
PMF	Programme Monitoring Framework
PRS	Poverty Reduction Strategy
RAA	Royal Audit Authority
RCSC	Royal Civil Service Commission
RGoB	Royal Government of Bhutan
RIM	Royal Institute of Management
RTM	Round Table Meeting
RRF	Results and Resources Framework
SDC	Swiss Agency for Development and Cooperation
SNV	Netherlands Development Organisation
TA	Technical Assistance
TOR	Terms of Reference
UN	United Nations
UNCDF	United Nations Capital Development Fund
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
WB	World Bank

## Glossary

Chathrim	Rules, the constitutional law for the Cabinet
Chimi	The people's representative in the National Assembly
Chiwog	Group of villages
Chipon	Household/ village representative on GYT
Dzongdag	District administrator
Dzongrab	Deputy administrator of a district
Dzongkhag	District
Gewog	County
Gup	Head of a Gewog
Maangmi	Elected representative in the Gewog and Deputy Gup
Tshogpa	Representative of a village or several villages on the GYT
Woola	Mandatory community labour contributions
Zomdue	Village meeting

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## Executive Summary

In Bhutan, there has been a positive move towards further decentralization and with the transition to constitutional democracy in 2008, the Constitution as well as the newly approved Local Governments' Act of Bhutan 2007 provide for further power and authority to be given to decentralized bodies and elected representatives at local level.

Development partners working in the area of decentralization and local governance, including UNDP, UNCDF, Denmark, Austria, SDC, JICA, and UNICEF are taking initiative towards greater harmonization and alignment to support this very positive but challenging move towards greater decentralization.

Through the Local Governance Support Programme (LGSP) harmonized support to RGoB will be provided to support the establishment of a fully fledged and effective local governance system in Bhutan. The programme will begin by July 2008 and operate till June 2013, coinciding with the 10<sup>th</sup> Five Year Plan (FYP) period, and will support the objectives and goals of the 10<sup>th</sup> FYP.

The LGSP will contribute towards improved service delivery for poverty reduction and realization of the MDGs. Support will be provided to reach the following five strategic outputs:

1. Effective and transparent financing mechanism for local government service delivery in place and well functioning.
2. Inclusive, efficient and accountable public expenditure management procedures for local government established and being used.
3. Effective national support/training mechanism for local government personnel and elected people in place.
4. Central governments policy, regulatory, support and supervision functions strengthened.
5. Effective models for integrated public service and information delivery at local levels piloted.

More specifically, the support provided through the LGSP will:

- Assist to strengthen and widen the block grant mechanism and provide budget support to capitalize the Gewog capital grants. The resources will not be targeted to certain Gewogs but rather be pooled and become fungible with RGoB resources.
- Further improve the overall public expenditure management procedures of planning, programming, budgeting, procurement, implementation, reporting, asset management, and monitoring and evaluation
- Further improve overall capacity development and training for local governments.
- Continue to build capacity in accountability and transparency.
- Develop and pilot a block grant facility in at least 2 districts.
- Help to enhance policy support for local government
- Effective models for integrated public service and information delivery at local levels.

The LGSP builds upon the achievements and lessons learned from previous programmes in support of decentralization and local governance in Bhutan, and takes into account recommendations from

the Good Governance Plus and other more recent exercises with relevance to local governance and decentralization.

The LGSP will also provide a strategic platform for government to leverage financial support for improving local level infrastructure and services and build up mechanisms into which other funding partners can pool funds, through budget support to finance local government grants nationally and coordinate and program other inputs to support decentralization in Bhutan such as capacity development, logistics, technical cooperation and M&E support. The possibilities for developing a mechanism for DPs to pool resources for the funds which sit outside the budget support for Gewog capital grants will be explored..

The responsibility of implementation of the programme rests with the Local Development Division of the Gross National Happiness Commission (GNHC). To oversee overall programme activities, a LGSP outcome board/steering committee will be formed.

# 1 Situation Analysis

## 1.1 NATIONAL POLICY

### Constitutional Reform

The most important development foreseen to take place in the near future is the adoption of the country's first Constitution in 2008 and the transition to a democratic constitutional monarchy. This will imply major institutional change in many aspects of national and local level governance.

The draft Constitution provides for three branches of government represented by the legislature, the judiciary and the executive thus representing a system of "checks and balances". The establishment of a Democratic Constitutional Monarchy features a number of institutions and actions. National Council elections (the upper house of the new Parliament) were held on the 31<sup>st</sup> of December 2007 and 29<sup>th</sup> of January 2008 and National Assembly elections were held on 24<sup>th</sup> of March 2008. In addition, local government elections are expected to take place subsequently in the last quarter of 2008.

Article 22 of the Constitution solely addresses Local Governments. The first and fourth paragraphs of this Article state the following visionary, clear and supportive statements on Local Governments:

"Power and authority shall be decentralized and devolved to elected Local Governments to facilitate the direct participation of the people in the development and management of their own social, economic and environmental well being<sup>1</sup>

The objectives of Local Government shall be to:

- a) Provide democratic and accountable government for local communities
- b) Ensure the provision of services to communities in a sustainable manner
- c) Encourage the involvement of communities and community organizations in matters of local governance; and
- d) Discharge any other responsibilities as maybe prescribed by law made by Parliament".

### Local Governments' Act of Bhutan, June 2007

The Local Governments' Act specified the concept of democratic and decentralized governance, enshrined in Article 22 of the Constitution.

The overall goal of the LGAB is: *"to facilitate direct participation of the people in the development and management of their own social, economic and environmental wellbeing through decentralization and devolution of power and authority"*.

The LGAB states that there will be local governments in each of the:

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<sup>1</sup> The draft Constitution of the Kingdom of Bhutan.

- 20 Dzongkhag Tshogdu (DT; districts) supported by the Dzongkhag Administration in each Dzongkhag. Larger Dzongkhag maybe divided into Dungkhags (of which there are 13).
- 205 Gewog Tshogde (GT; counties) supported by the Gewog Administration in each Gewog, and
- Gyelyong Thromde Tshogdu (2 urban areas in Thimpu and Phuntsholing) supported by the Gyelyong Tshogdu Administrations.

The LGAB contains seventeen chapters of which only one refers to the functions of the local governments. In accordance with the LGAB each level of local government are not legislative bodies in their own right however they are able to make rules and regulations, which are consistent with national laws. The broad functions of local government would usually follow the powers usually assigned to devolved bodies. Such functions will include dimensions such as political, administrative, functional, fiscal, accountabilities and regulator and support and supervision arrangements. A table in Annex 1: Current Mandated DYT and GYT Responsibilities of Local Governments in Bhutan 2004 provides an overview of these functions in accordance with the LGAB. As the functional and fiscal assignments in particular are extremely broad, the revision of the Chathrims will be critical in order to detail and operationalize the spirit of the LGAB.

It is expected that the GYT and DYT Chathrims will require revision in order to align these with the new Local Governments' Act of Bhutan 2007 (LGAB), and changes in the administrative and political set-up after 2008, including issues with respect to decentralisation and basic services.

### **The 10<sup>th</sup> Five Year Plan (FYP) 2008 -2013**

A draft 10<sup>th</sup> FYP was launched at the beginning of February 2008 in connection with the Bhutan Round Table Meeting. It is expected that the draft 10<sup>th</sup> FYP will approved by the new parliament in its entirety by July 2008.

According to the draft 10<sup>th</sup> FYP poverty reduction is the overarching objective in pursuit of GNH, with the emphasis to reduce the proportion of the population living below the national poverty line from 23.1 percent to about 15 percent by the end of the plan.<sup>2</sup> Six key strategies have been identified to achieve poverty reduction. These are: 1) vitalizing industry 2) national spatial planning, 3) synergizing integrated rural-urban development, 4) expanding strategic infrastructure, 5) investing in human capital and 6) fostering an enabling environment through good governance.<sup>3</sup> Chapter 5 of the 10<sup>th</sup> FYP<sup>4</sup> describes cross cutting development themes which are critical to the attainment of national development objectives. These are: **decentralized governance**, employment, women in development, information and communications technology, environment and HIV/AIDS.

The projected total development outlay for the 10th FYP is Nu.141.692 billion. Of the development outlay Nu. 62.06 billion (44%) has been allocated for current expenditures and Nu. 79.63 (56%) billion for capital investments. Resources are expected to be divided among central

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<sup>2</sup> Draft Tenth Plan Five Year Plan (2008-2013), pages 23, and 54, GNH Commission, RGoB, February 2008.

<sup>3</sup> Draft Tenth Plan Five Year Plan (2008-2013), page 24, GNH Commission, RGoB, February 2008.

<sup>4</sup> Draft Tenth Plan Five Year Plan (2008-2013), page 78, GNH Commission, RGoB, February 2008.

autonomous bodies and Ministries and decentralized local authorities at Dzongkhags and Gewogs, in the ratio of 80:20 respectively.<sup>5</sup>

### **Current Decentralized Institutional Framework**

The administrative division of Bhutan includes 20 Dzongkhags (districts) which are further divided into 205 Gewogs (communes). Since 2001 (with the adoption of the GYT (Gewog development committees) and the DYT (district development Committees) Chathrim, the Dzongkhags and Gewogs have been headed by the DYT's and GYT's.

The GYT consists of:

- the Gup <sup>6</sup> – directly elected (Gewog head and chair),
- the Maangmai <sup>7</sup> (deputy head directly elected)
- the Tshogpas who are nominated representatives from village clusters.

At the Gewog level there are also sector representatives from agriculture, health and education, being accountable vertically to their respective Ministries through the district level officer of their respective sector.

Recently 115 Gewog Administration Officers were recruited as administrative staff to the Gewog and a further round of recruitment is scheduled to take place in 2008 with a view for all Gewogs to have one administrative officer. Each Gewog will also have an accountant and the Ministry of Finance has commenced the recruitment and approximately 100 accountants have been recruited to date. Services such as planning and engineering are also provided for the Gewog from the Dzongkhag administration.

The DYT represents the Dzongkhag and all the Gewogs within it and it consists of:

- The Gups from all the Gewogs in the Dzongkhag
- The Maangmis from all the Gewogs in the Dzongkhag
- One municipal representative

The DYT is chaired by a member elected by the DYT members.

The following diagram shows the Dzongkhag and Gewogs structure and also illustrates some of the multiple and sometimes ambiguous lines of accountability.

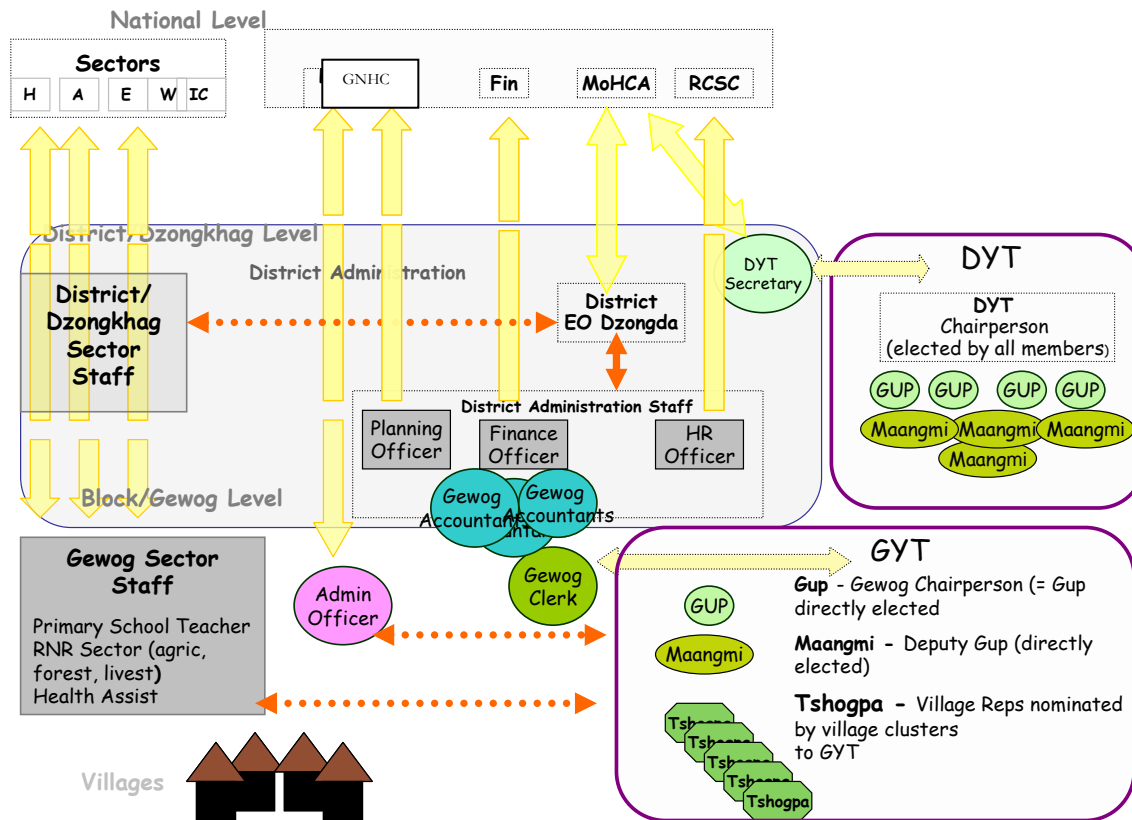
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<sup>5</sup> Cfr Draft Ten FYP p 67

<sup>6</sup> Gewog head, directly elected representative for three years

<sup>7</sup> Deputy Gup – directly elected representative for three years

**Diagram 1 Understanding the LG System**



The process of decentralization will move steadily from deconcentration (where centrally defined tasks have been assigned to Dzongkhags and Gewogs through the Chathrims), to a steady and incremental devolution of some powers, functions and responsibilities to the 20 District Councils (*Dzongkhag Tshogdu*) and the 205 County Committee (*Gewog Tshogde*). The details of these are laid out in the GYT and DYT Chathrims (local governance regulations) of 2002 and further elaborated to the 2004 Manual on the DYT and GYT Chathrims - a summary of which is presented in Annex 1: Current Mandated DYT and GYT Responsibilities of Local Governments in Bhutan 2004.

Both the Dzongkhags and Gewogs are given regulatory, administrative and financial powers with the municipalities being given quite specific powers<sup>8</sup>. Interestingly any decentralization process usually covers aspects of political, administrative, fiscal and financial decentralization as well as the assignment of functions.

Although Gewogs can retain and use their rural taxes for their development programmes, financial resources as well as implementation capacity especially at Gewog level has been scarce, resulting in delay in implementation of locally defined development plans. Experiments with block grants have

<sup>8</sup> Note the powers of municipalities are provided for in the Thromde Act of Bhutan, June 2007, and have not been described in details in this document.

taken place but the overall fiscal decentralization has been slow, although several RGoB policies call for it. The lines of accountability are often dual as mentioned above and minimize direct accountabilities to the local elected bodies. The situation should improve with the introduction of nationwide implementation of Gewog block grants and an alternative planning framework, as well as the 10<sup>th</sup> FYP's increased focus on poverty reduction and local development.

A table has been prepared in Annex 2: Devolution of Powers - LGAB June 2007: which provides a summary of the current mandated powers to the Dzongkhag and Gewogs.

### **National Plan of Action for Gender 2008 -2013**

In the planning process for the 10<sup>th</sup> Five Year Plan, gender is seen as a cross cutting issue to be mainstreamed by all sectors/ministries. As a response the National Plan of Action for Gender 2008-2013 (NPAG) has been developed by the National Commission for Women and Children in co-operation with the GNHC Commission.<sup>9</sup> The recommendations in the NPAG have been incorporated into the 10<sup>th</sup> Five Year Plan.

#### **1.2 SUPPORT TO DECENTRALISATION**

Since the start of the 5th FYP in 1981, the RGoB had a proactive policy of devolving institutional powers to govern and promote participatory development at local levels. Thus the major milestones in implementing decentralization in Bhutan to date include:

1. The formation of the DYT and GYT development committees in Dzongkhags and Gewogs in 1981 and 1991;
2. The creation of autonomous municipal city councils or Thromdes with elected representatives in Thimphu and Phuentsholing in 1999;
3. Ratification of the DYT and GYT Acts 2002;
4. Election of Gups based on adult franchise and their appointment as Chairpersons of GYT's in 2002.
5. Gewog-based planning approach launched in the 9th FYP.
6. The National Assembly passed the Local Government Act 2007.

UNCDF and UNDP have been actively engaged in supporting the RGoB's decentralization process since 1997 with support for piloting block grant funding and improved planning and budgeting under the Gewog Development Facilitating Activities (GDFA) in 10 Gewogs. This was later expanded under the Decentralisation Support Programme (DSP) in 2003-06 to 32 Gewogs in 5 districts. The UNDP/UNCDF DSP programme was also supported by SNV and co-financed by Denmark and was subject to a mid-term evaluation at the end of 2005 with a view to closure by mid 2007. The evaluation highlighted the strengths and achievements of the programme as well as a number of challenges which any future support should consider. A brief UNCDF/UNDP mission was fielded October 30<sup>th</sup> to November 1<sup>st</sup> 2006 during the course of which it was agreed to extend the DSP by one year to allow a bridging period to:

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<sup>9</sup> The GNH Commission carries the overall role of gender focal point for the RGoB. At the same time there are gender focal points in each RGoB institution/ministry.

- support RGoB to move ahead in developing the policy, legal and regulatory framework for local government in the years ahead
- prepare to pave the way for a successor programme to DSP, to be implemented over the period 2008-13.

The DPs working in the areas of good governance, including UNDP, UNCDF, Denmark, Austria, SDC and JICA, are taking initiative towards greater harmonization and alignment as described in the Paris Declaration and finding common ground for harmonizing support to RGoB. The Government has been instrumental in strengthening this harmonized approach, and in November 2006 hosted a meeting to encourage support from development partners. A UNCDF mission followed this in April 2007 culminating in a draft concept note on supporting decentralization and local governance.

Under the current phase 2 of Danish support to Good Governance covering the period 2003-2008, support was provided to a broad spectrum of the elements that make up Good Governance, but with a stress on capacity development. The capacity development outcomes of a number of the supported governance organizations were evaluated in May 2006. A Concept Note outlining a 3rd Support Phase of Good Governance with a budget of DKK 50 million was presented to the Danish Programme Committee on 16 November 2007. In alignment with the RGoB priorities, with the aid effectiveness agenda as stipulated in the Paris Declaration, and with the Danish strategic priorities for support to good governance and public sector management the next support phase will as far as possible be prepared as a joint process.

Against this background the DPs in the thematic area of good governance, met on 27 September 2007 to discuss possible joint support approaches and agreed 26 October 2007 with representatives of the RGoB to carry out a joint formulation mission to draft a common Framework of Support to Good Governance in Bhutan. UNDP, UNCDF and Denmark fielded a joint mission in November/December 2007 with the purpose to work on the development of a Joint Good Governance Framework, including the support development partners will provide to the RGoB in support of the decentralization reforms. UNCDF, UNDP and Denmark regard this joint project document of the LGSP as the next logical step after Decentralisation Support Programme (DSP).

During a joint appraisal of the Framework of Support to Good Governance in April 2008, the RGoB expressed a desire for DPs to support the good governance areas as described in the 10<sup>th</sup> FYP and provided overwhelming support for this joint programme to support decentralization – the LGSP.

## **2 Lessons Learned**

### **Fiscal decentralization and transfers**

There has been a positive move towards fiscal decentralization over the 9<sup>th</sup> FYP period which has seen around 24% of total budget outlay decentralised to local government. Whilst the larger proportion of funds remains allocated to central government, the size of the decentralized budget has been steadily increasing over the 9<sup>th</sup> FYP period with the total allocation to local governments



increasing from Nu 18 billion in 2006-07 to around Nu 24 billion projected for 2007-08, after adjusting for debt serving payments. In the last (6<sup>th</sup> year) of the 9<sup>th</sup> Plan the Department of Budget has introduced the concept of a discretionary allocation of around Nu 1 million (\$ 22,000)<sup>10</sup> per Gewog as a resource envelope within which Gewogs have been invited to apply for funding against any outstanding works or schemes identified within the FYP. This represents an innovative move on the part of the Ministry of Finance to begin the process of institutionalized block grant funding although wider application of this concept is restricted by the fact that capital outlay is largely based on tied funding as part of donor programmes and projects.

Early work has commenced on other elements of fiscal decentralization such as allocation of assigned functions and financing the functions as well as viable sources of own source revenues and these efforts will require continued and sustained attention over the life of the LGSP and beyond.

### **District finance and budgeting**

Around two thirds or more of the annual decentralized budget provides for district expenditures, both capital and recurrent (i.e. plan and non plan). In a large district such as Wangdue, for example, annual expenditure in 2005-06 was Nu 147.8 million (\$ 3.2 m), with capital expenditure of around Nu 34.8 million (\$ 0.75 m). As mentioned above, this expenditure is largely tied to specific sector allocations for health, education and agricultural as well as major infrastructure in roads, bridges and power. Although these funds constitute part of the Dzongkhag annual capital budget, a substantial portion of both capital and recurrent expenditure relates to services that are actually delivered at Gewog level in areas such as the construction and operation of junior high schools, basic health units and agricultural extension centres and other devolved functions.

The district budget is formulated by the administration in consultation with DYT in-directly elected members, comprising of Gewog heads (Gups and Maangmai). The annual budget cycle begins in January with a call to all Gewog heads to formulate proposals by Feb- March. These are reviewed by the Dzongkhag administration and along with the Dzongkhag annual budget proposals constitute the draft budget, which is then discussed with the Ministry of Finance and revised in the light of anticipated allocations. This is largely dependent on the total outlay available for any given year, which is, in turn, affected by donor contributions, and programmes which provide a substantial proportion of the total capital budget. The main limitation with the system is that although the 5 year plan provides an indicative budget there is a lack of budgetary certainty and predictability on an annual basis which makes planning largely an exercise in prioritizing from a shopping list of proposals. Allocations between Dzongkhags have largely based on a principle of uniformity.

The LGSP will develop a small pilot for discretionary capital grants in 2 districts, in line with the functional assignment efforts being undertaken through the GNHC.

### **Gewog finance and budgeting**

The DSP provided capital grant funding to 32 Gewogs in 5 districts over the period 2003 - 06. The allocations were based largely on a principle of administrative equality with each Gewog receiving a similar amount adjusted against an index of remoteness. Fund flow was largely in conformity with

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<sup>10</sup> At the exchange rate of US\$ 1 = Ngultrums 40

RGoB procedures and practices. In recent years Gewogs have received \$18,000 - \$20,000 per annum (depending on their accessibility), typically equating to an investment of anywhere from \$5-6 to \$8-9 per capita depending on the population of the Gewog. Although this is relatively high in relation to other pilot block grant schemes in other countries, it is broadly in line with the level of investment flows to local government level in Bhutan. The RGoB has expressed an intention to finance block grants to all Gewogs, for capital investments initially at the level of 2 M Nu. per Gewog for 2008/09<sup>11</sup>.

Now that the RGoB has decided through the 10th FYP to institutionalize the capital grants to all Gewogs the development of policy objectives for such fiscal transfers as well as a corresponding transparent locative formula has been paramount. On this matter the GNH Commission announced in the Guidelines for Annual Grants for Local Governments<sup>12</sup> presented at the GNHC Planning Symposium during the first week of April 2008 the allocation formula for capital grants to Gewogs. The allocation formula for the capital grants is described using the following parameters: population (70%), poverty (15%), environment (10%) and size of the territory (5%)<sup>13</sup>. Here, the main challenges will be to ensure that policy objectives are defined for the allocation formula and sufficient accurate data (or proxies) exist to enable this formula to be applied in an equitable manner, especially for comparing relative levels of poverty. As this will basically be a per capita allocation, it will also be important that as data becomes more reliable and specific that the formula can change to meet the overall goal of poverty reduction as started in the 10<sup>th</sup> FYP.

### **Participatory planning**

Whilst the planning process under DSP has entailed a form of participatory planning, albeit adapted to the particular context of low density remote settlements in Bhutan, there is a need to strengthen the planning guidelines to enable GYT members and Gewogs to adopt a more uniform, systematic and inclusive approach to scheme identification and prioritization<sup>14</sup>.

At the same time, the programme has tended to operate in a wider planning vacuum in terms of being able to guide local decision making to address core service deficiencies across different Gewogs. This has resulted in a situation where DSP has responded to locally perceived priorities but these may not always correspond to addressing the most severe cases of infrastructure and service deficiency in relative terms. In order to be able to address this task it will be necessary for the DSP planning process to be incorporated into a wider planning framework that would compare relative levels of deficiency across Gewogs after adjusting for population, area and poverty. This will need to be included in the future piloting of block grants at the Dzongkhag level.

The Mid Term and Outcome Evaluations indicated that a prototype decision tool to address the above requirement was in the process of being developed for rural access planning (DRAP) with SNV support<sup>15</sup>. Since the DRAP system was based on framework for assessing disparities it was felt

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<sup>11</sup> This figure as of 31<sup>st</sup> March from Dept. of Public Accounts, Ministry of Finance.

<sup>12</sup> Draft Guideline for comments April 2008

<sup>13</sup> The allocative formula is also expressed in the 10 FYP, page 73. The only difference is that in the 10<sup>th</sup> FYP the 15% weighting given to poverty above is called food security in the 10<sup>th</sup> FYP.

<sup>14</sup> Draft Final Evaluation Decentralisation Support Programme April 2008, UNDP/UNCDF.

<sup>15</sup> SNV has provided TA support to DoP (now GNHC) and Department of Roads MWHS for DRAP preparation.

that this, or any alternative framework, should be incorporated into DSP. GNHC is actively considering the application of different tools and options for area based planning and these should be incorporated into the wider decision making process of any future block grant funding programme.

### **Capacity development**

The scope of capacity development efforts required as described in the Road Map presented by GNHC at the recent planning symposium as well as issues raised on capacity development efforts in decentralization to date in Bhutan from recent studies (namely: i) Tracer Study Report: Good Governance/Public Administrative Reform Programme Phase II, Danida April 2008; ii) Draft Final Evaluation Decentralisation Support Programme, UNCDF/UNDP April 2008 and the Documenting Lessons Learned from DSP and LGDP, JICA and UNDP, April 2008) indicate the following will need to be paid attention to in the LGSP.

*Capacity Building for Programme Readiness:* A key feature of the LGSP is the need to ensure that Gewogs and Dzongkhags have sufficient basic PEM capacity prior to and of course during implementation. This will help to enhance the sustainability of the annual block grant funding process. This requirement may be addressed through the provision of a minimum level of capacity development for all participating Gewogs and Dzongkhags prior to accessing block grant funds. Such an approach would require a basic level of orientation and awareness on the purpose, objectives and process of block grant funding as well as some additional training inputs to enable stakeholders to adhere to programme procedures.

*Developing and sustaining a training and capacity development* activity capable of being delivered and sustained at Dzongkhag and Gewog level has proven to be a major challenge. The Lessons Learnt and the DSP Final evaluation highlights various needs and requirements to strengthen capacity in micro-planning planning, budgeting and accounting, detailed engineering design and estimation, implementation management, monitoring and reporting. Practical considerations for the LGSP design will be:

- Practical task related training and follow-up is a vital component of enabling elected representatives (Gups and Magnmis) as well as GYT members to adhere to basic programme principles and procedures.
- Experience of DSP and the Tracer Study highlight that many Gups report initial problems in understanding and retaining knowledge imparted on institution based training programmes. At the same time, however, they report that a combination of field based training and work practice has helped to build their knowledge and skills in the application of DSP procedures.
- The Lessons Learnt and DSP evaluation note difficulties in building institutional and organizational structure for decentralized capacity development and training. One option to overcome this constraint would be identification of a local pool of ‘accredited’ trainers/ resource persons (e.g. engineers) at Dzongkhag level but outside the civil service, being capable with sufficient capacity and funding to deliver training as and when required. Such an approach would require linkage with a nodal institute such as RIM to train the trainers and provide overall management and coordination and quality assurance of training delivery.

- A practical approach to supporting decentralized capacity development requirements in any future programme would require the earmarking of specific funds for the development of a decentralized training capacity at Dzongkhag and Gewog level.
- As the DSP Final Evaluation noted that DSP was provided with patchy external TA it will be vital for the LGSP to ensure that sufficient resources are available to provide technical backstopping during all stages of programme implementation. This should be based on the principle that technical backstopping will enable RGoB to access knowledge and experience of the DPs in supporting block grant funding. Expert inputs should as far as possible combine experience of working in Bhutan with comparative knowledge of good practices in and around the region. It will be desirable to ensure a reasonable degree of continuity of inputs in order to build and strengthen partnerships with government and training institutions in various areas of technical support.

### **Monitoring and reporting**

Another weakness identified in the DSP Mid Term and Final Evaluations relate to the lack of quarterly progress reports and clearly identifiable end of year reports on physical and financial progress and/ or achievement of milestones or other progress indicators. This problem has been exacerbated by the lack of baseline information against to which judge satisfactory performance. Part of this problem relates to the lack of capacity at Gewog level to provide monitoring data and partly it relates to the lack of a robust monitoring system at Dzongkhag and central level.

The DSP was not able to establish and operate an integrated database for MIS purposes during its lifetime. The transfer of the majority of the DLG divisions to LDD in GNHC means that this issue can now be addressed through the web-based centralised planning and monitoring database PLaMS which is currently in its final stages of development.

Another useful mechanism for monitoring has been established with the annual conference for DYT and GYT Gups. This can be the forum for annual reporting but any future programme will need to ensure a simple but effective monitoring system is in place that will yield the necessary information with minimum additional effort. This may require the design of new formats and processes for information collection, collation and reporting. This task will be facilitated by the appointment of the new Gewog Administration Officers who can be made responsible for progress monitoring and reporting.

### **Governance and administration**

Substantial numbers of staff have been deconcentrated to district level with around 11,000 operating within the Dzongkhag administrations although they have little control over the size and type of staff employed at district level. This means that there is little scope for the district to make adjustments in line with need and to cover critical bottlenecks to support activities in Gewogs that require engineering and financial inputs.

Modalities for addressing this problem could include some flexible provisions within a capital budget to cover operational costs associated with designing, appraising and supervising schemes/projects. Without additional budgetary provision to cover these costs, Dzongkhag staffs

are left struggling to service the needs of all Gewogs in a timely and efficient manner. This result in many Gewogs being unable to spend their annual allocations with the result that funds either lapse or are carried over into the following year. The GNHC Commission has also requested that the LGSP provides support to develop standard templates for most common types of infrastructure projects.

The DYT often remains subordinate to the Dzongkhag administration on technical matters concerning planning, budgeting and reporting. This reflects an on-going need to enable the DYT to perform their mandated role and to assist the DYT function in its oversight and decision making role. The regulatory role of both the DYT and GYT remains weak and often not exercised. What little regulation exists is mostly associated with protecting local water sources and waste disposal. At the same time there is little effective enforcement carried out and no budgets for enforcement activity. Many regulatory matters remain unclear to DYT and GYT members. This problem may partly be addressed in the new LGSP and subsequent revisions to the Chathrimis.

### **Accountability and transparency**

Formal accountability lines at Gewog level have been relatively weak with variable degrees of reporting upwards to Dzongkhags and downwards to constituents. Please refer to diagram 1 which shows these dual lines of accountability. GYT meetings are held quarterly within the Gewog although the public are free to interact with the Gewog elected members or administration at any time. Most communication with the public is verbal and delivered through Tshogpas and often mediated via messengers with the result that information often gets reinterpreted or lost in translation. There is also a need to strengthen transparency in decision making based on clear, simple criteria and to provide more information on budgets and costs so that the community can self-monitor activities more easily. Activities concerned with improving accountabilities will be included in LGSP.

### **Women's participation**

Despite a relatively overall favourable situation for gender relations in the society, the emerging political environment and culture is an obstacle for women. The number of female representatives in local government is still very low, with only 2 out of 205 Gups being female, and only 4.2% of Tshogpas (village representative in GYT). Below is an overview of female representatives in local government.

LG Representatives	Female : Male Ratio	Proportion of Female Elected Representatives <sup>16</sup>
Gups	0.01	1%
Chimis	0.04	4%
Mangmis	0.03	2.5%
Tshogpas	0.04	4.2%

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<sup>16</sup> Source: Compiled by NCWC from the 20 Dzongkhags (status as of March-June 2006) in National Plan of Action for Gender 2008-2013, NCWC and PC, May 2007, page 22.

Despite the limited number of women holding decision making posts at DYT or GYT level, women do participate in village meetings and often represent up to 70 percent of these. It is thus important to identify and address the cause for the low participation of women in decision making bodies such as the GYT's and DYT's. The LGSP will ensure gender mainstreaming principles and approaches being incorporated in planning and execution of activities and outputs under the programme, realizing that the action programme of the NPAG is being supported by other donors. It is thus anticipated that the GNHC will incorporate specific gender mainstreaming activities in the AWP's.

### **3 The Proposed Joint Programme - LGSP:**

#### **Opportunities**

The foregoing discussion points firstly to a series of opportunities to be built upon:

- There is a strong constitutional and political commitment to deepen decentralized reforms and local level democratization.
- Local level service delivery will be a focus for the RGoB in the next 10<sup>th</sup> FYP.
- The new LGSP should allow more empowered Local Governments at all levels, with greater scope for accountability and participation.
- There is commitment by national authorities to a high and increasing level of Local Government resources: fiscal transfers and extra Gewog staffing (Gewog Administrative Officers and Accountants).
- RGoB is moving to ensure harmonized donor support a joint programme in support of decentralization and budget support.
- The current UNCDF/UNDP/SNV Decentralisation Support Programme (DSP) as well as the SNV project funded through UNDP<sup>17</sup> have garnered a lot of credit for its pioneering role and government officials have requested continued support.
- Substantial additional funding and experiences will be made available by a broad group of development partners including Denmark, Austria and Switzerland

#### **Challenges**

All of the above constitute a strong justification for further support. At the same time there are a number of areas of challenge which require attention:

- The Local Governments' Act is only a broad framework, which does not include the specific detail (in regard to assigned functions, financing, internal organization of local governments etc). Therefore much of this detail will need to go into subsidiary Chathrim's and other instruments.
- The fiscal decentralization policy framework is still in need of development and improvement.
- Much clearer/more and appropriate functional and fiscal assignments between Gewogs and Districts are needed as well as between the center (line ministries) and local governments.

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<sup>17</sup> Project known as AA4 and titled: Integrated Package of Services to Support MDG based National Development Strategy for Bhutan: Local Level Initiatives to Accelerate MDG Progress.

- Improvements are needed in (a) the Gewog block grant system to include better reporting/monitoring and development performance incentives; and also (b) to allow for piloting of DYT block grants to allow greater flexibility and service delivery at that level.

However, the RGoB currently faces constraints on moving to greater fiscal decentralization due to the fact that the bulk of its development budget is funded from external aid, and many donors impose limits or conditionality on the use of these resources.

Effectiveness and efficiency in service delivery by local governments is hampered by for example by capacity constraints to deliver effectively and efficiently from the expected increase in future fiscal resources – examples appear to be bottlenecks in local Public Expenditure Management procedures, prioritization procedures which are not always clear, unwieldy procurement procedures, and lack of timely technical support for implementation., etc.

More broadly, Local Government capacities for better local governance need to be strengthened to ensure greater LG-citizen interaction, accountability and transparency; and more effective local regulation of disputes.

From the above, it is clear that there is still considerable scope for supporting decentralization and local governance in Bhutan in order to build upon the solid foundation of discretionary block grant funding that has been well established under DSP and incorporated into evolving government policy on decentralization. The Local Governments' Act and the 10<sup>th</sup> FYP both make specific reference to an annual block grant mechanism as the preferred source of funding for local government. The alternative planning framework being adopted by the GNHC will facilitate the concept of block grant funding within a new rolling Five Year Plan framework which will provide for greater annual flexibility within the overall plan structure. The MTEF being adopted by the Ministry of Finance will also help to increase budgetary certainty and predictability over annual grant funding.

However, as noted, one of the main obstacles to the more widespread adoption of block grant funding is the lack of flexible funds for annual capital expenditure. A significant portion of RGoB's plan funds are presently provided by donor agencies. Whilst one or two donor partners are currently willing to provide budget support or sector budget support (e.g. Government of India, and the Denmark), the majority of donor funds are tied to specific projects and specific locations. Any future attempt to support the roll-out of block grant funding for local infrastructure and services will require more programmatic flexibility on the part of donors and a more serious attempt to adopt the principle of donor harmonization.

All this provides an on-going opportunity for continued harmonized support for decentralization and local governance by development partners. to harmonize under this joint programme. Therefore in support of the RGoB's policy direction to strengthen democratization, decentralization and good governance the development partners concerned have agreed to jointly programme their support resources as much as possible to support to decentralization reforms, under this programme called Local Governance Support Program.

The LGSP is formulated in support of the decentralization target in Vision 2020, stating that by 2020 local governments are fully and effectively empowered and responsible for development planning and management within their jurisdictions (the long-term target). Further the LGSP

supports attainment of 10<sup>th</sup> FYP poverty reduction targets as well as the dual target in the Local Governments' Act regarding enhancement of democratic governance at local government levels combined with effective and efficient service delivery.

The DPs who currently have committed to the LGSP as direct financiers are:

- Denmark – DKK 25 M (approximately equal to US\$5 M)<sup>18</sup>
- UNDP – US\$ 1.5M
- UNCDF – US\$ 0.75M
- SDC - funding for block grants and one-stop shop service pilots
- Austria – funding for block grants and for capacity development

In addition other development partners, having subscribed to the joint LGSP programme in terms of commitment to the overall goals, objectives, annual joint work plans and budgets, and scheduling of activities, have committed to provide parallel complementary funding. These are to date:

- JICA – parallel funding for technical advice and capacity development
- Netherlands Government - parallel funding for technical advice and capacity development
- Helvetas – parallel funding for infrastructure and capacity building
- UNICEF – parallel funding for technical advice and capacity development

The World Bank and Asia Development Bank (ADB) are funding separate projects of relevance comprising technical advice and capacity development regarding procurement and financial management as well as support to the Royal Audit Authority and promotion of financial transparency, respectively.

A breakdown of the pledged resources would be as follows:

**Total pledged funds: US\$ 7.25 M + additional parallel funds.**

- Of the US\$7.25M - US\$4.4 M (Denmark US\$4M and UNCDF US\$0.4M), is to be provided directly to RGoB budgets as support to the Gewog Annual Capital Grants.
- A further \$100,000 (UNCDF) in piloting discretionary block grants to districts' capital investments, provided as direct budget support.
- US\$ 2.75M (Denmark US\$ 1M, UNDP US\$ 1.5M, UNCDF US\$ 0.25M) programmed through this LGSP for activities other than the Gewog capital grant in support of all outputs under the programme.<sup>19</sup>
- SDC is anticipated to provide support for the Annual Capital Grant mechanism and the pilots regarding service delivery models (one stop shop) summarized as output no five.
- Austria has committed funding to the block grant mechanism and to capacity building.
- JICA, Dutch government, Helvetas, UNICEF – will agree on LGSP outputs, outcomes and activities, and their inputs will be scheduled annually in joint annual work plan and budget exercise for the LGSP and parallel financing and activities will be agreed to.

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<sup>18</sup> The commitment of the Denmark is expressed in Danish Kroner, which will be disbursed at actual exchange rates on the date of disbursement. References in US\$ in this document are consequently indicative only.

<sup>19</sup> Note that the Danish contributions to this Joint Programme of DKK 25M (approx US\$5M) will be passed directly to the RGoB according to the LGSP joint annual workplan.



Therefore in summary the support LGSP provides will:

- a. Assist to strengthen and widen the block grant mechanism and provide budget support to capitalize the Gewog capital grants and the RGoB's commitment of initially 2M Nu per Gewog for 2008/09.<sup>20</sup> Resources from DPs will not be targeted to certain Gewogs but rather be pooled and become fungible with RGoB resources.
- b. Further improve the overall public expenditure management procedures of planning, programming, budgeting, procurement, implementation, reporting, asset management, monitoring and evaluation.
- c. Further improve overall capacity development and training for local governments.
- d. Continue to build capacity in accountability and transparency.
- e. Develop and pilot a block grant facility in at least 2 districts.
- f. Enhance policy support for local government
- g. Pilot effective models for integrated public service and information delivery at local levels.

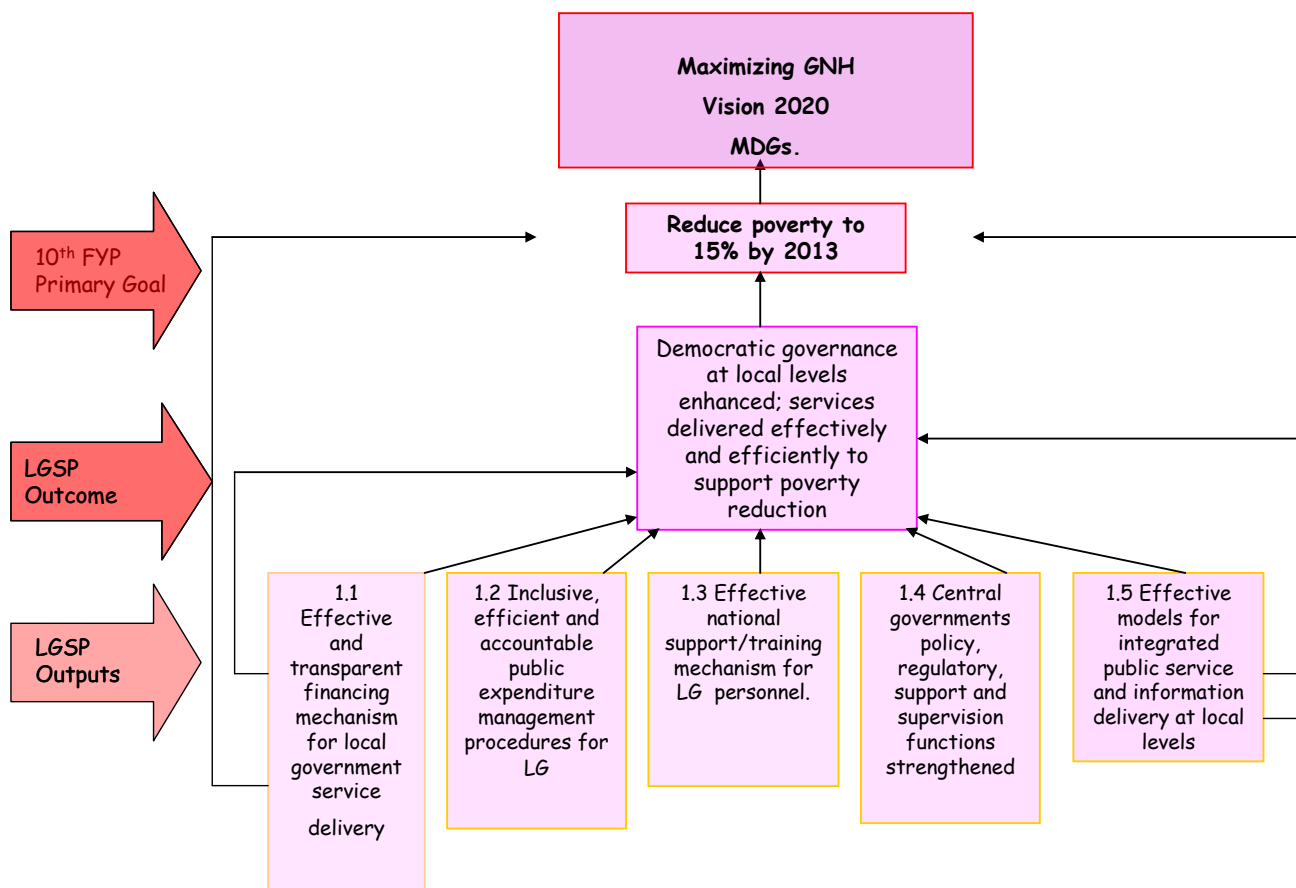
The LGSP will also provide a strategic platform for the RGoB to leverage financial support for improving local level infrastructure and services and build up mechanisms into which other funding partners can pool funds, through budget support to finance local government grants nationally and coordinate and program other inputs to support decentralization in Bhutan such as capacity development, logistics, technical cooperation and M&E support. Possibilities for developing a mechanism for DPs to pool resources for the funds which sit outside the budget support for Gewog capital grants will be explored.

The LGSP has been designed with a clear relationship to the RGoB's strategic goals and direction as shown below in the LGSP's joint programme logic diagram below.

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<sup>20</sup> The formula determining the RGoB financial contribution to Dzongkhags and Gewogs is given in the 10<sup>th</sup> FYP based on the following parameters: population 70%, poverty 15%, environment 10% and size of territory 5%

Diagram 2 – Joint Programme LGSP Logic



## 4 Results and Resources Framework (RRF)

### Summary of Results and Resources Framework

Vision 2020 formulates an overall long-term target for decentralization, stating that by 2020 local governments will be fully empowered to plan and manage their respective administrative levels. Decentralisation is further stated in Article 22 in the Draft Constitution and specified in the Local Governments' Act 2007.

The Royal Government of Bhutan's 10<sup>th</sup> Five Year Plan (2008 -2013) defines a number of development targets of which poverty reduction to a maximum of 15% of the population living below the national poverty line by 2013 is in focus. Decentralisation, empowerment and participation is understood as one of the mechanisms, which will support attainment of the poverty reduction target.

The LGSP relates to this overall target of the 10<sup>th</sup> FYP *to reduce poverty to 15% by 2013* and further to the targets defined in the Local Governments' Act *to enhance democratic governance at local levels and deliver*

*services effectively and efficiently* as mechanism to reduce poverty and contribute to achieving the MDGs. Consequently the LGSP also incorporates the UNDAF outcomes.

To facilitate attainment of the objective and outcomes, the LGSP has formulated five specific output:

1. Effective and transparent financing mechanism for local government service delivery developed and in operation;
2. Inclusive, efficient and accountable public expenditure management procedures for local government in operation;
3. Effective national support/training mechanism for local government personnel designed;
4. Central governments policy, regulatory, support and supervision functions strengthened; and
5. Effective models for integrated public service and information delivery at local levels piloted.

The following section comprises a description of the proposed outputs and key activities as a Results and Resources Framework. The key activities outlined here are indicative only as the decision regarding activities in principle rests with the Outcome Board/Steering Committee being responsible for attainment of outcomes and realisation of outputs.

### **Outputs 1    Effective and transparent financing mechanism for local government service delivery developed and in operation**

#### *Develop and Implement the Gewog Annual Capital Grant Facility:*

This output will entail budget support for a capital grant mechanism to 205 Gewogs in alignment with RGoB funds flow structure and process so as to avoid any duplication of funding systems. The RGoB have indicated that the annual Gewog grant allocations will include i) a capital and ii) recurrent budget allocation to each Gewog through the national budget. According to the allocation formula with the capital grant allocation to each Gewog has been calculated at 2M Nu/Gewog/Year. The Annual Capital Grant represents the key focus and the bulk of resources of output one.

The capitalization of the RGoB's Gewog Annual Capital Grant Facility by DPs will be in alignment with the RGoB fund flow arrangements and mechanisms and thus equivalent to budget support for the block grants.

To date the Denmark and UNCDF have agreed to contribute to the block grants with a Danish contribution of DKK 20 M (approximately US\$4M) and UNCDF's being US\$400,000 over 4 years of support (starting in 2009 RGoB financial year). The funding by the DPs, totalling US\$ 4.4 M over 4 cycles, will as an average make US\$ 5,360 available per Gewog per fiscal year and thus provide budget support at the tentative level of 11% of the total allocations to the Gewog capital grants.

The details of the Gewog Annual Capital Grant Facility in terms of fund flows, disbursement, and minimum conditions of access, release triggers, performance measures, audits and reporting requirements have been detailed through an agreed Financial Management Agreement which is provided in Annex 3: Financial Management Arrangements to Support Gewog Capital Grants. It is

anticipated that once this budget support facility is established it will attract other donor resources. Note that the signing of the LGSP Joint Programme Document also activates the FMA in Annex 3.

By developing a more robust local government fiscal transfer mechanism the programme can thus assist building up arrangements into which other partners can be encouraged to pool funds in the form of local government budget support.

*Develop and implement minimum conditions of access and result measures for the Gewog Annual Capital Grant Facility:*

The Gewog Annual Capital Grant Facility is to be based on the concept of performance funding with some portion of the annual capital grants being dependent upon the ability of the GYT and DYT to provide evidence of compliance with agreed procedures, process and audit requirements as well as minimum physical and financial progress targets. Results criteria might also include implementation capacity based on ability to disburse the annual grant. It is envisioned that the LGSP will work with RGoB to develop, pilot, review and improve minimum conditions of access for the capital grants to Gewogs. This includes basic access arrangements associated with the RGoB rules and procedures which can be tailored to ensure compliance with the national regulations and Chathrim. It will also be critical to ensure that in locations that require additional support to meet the minimum conditions, additional support and capacity development is provided through the LGSP. The minimum conditions for access to funds for the first year will cover, but not be limited to:

- a) Annual Gewog Plan with planned investments in accordance with the functional assignments of the Gewogs and defined through involvement of the communities and finally adopted by the GT;
- b) Monthly accounts as per the Financial Rules and Regulations, 2001 and existing guidelines of the Ministry of Finance;
- c) Minutes of the GTs related to the Annual Plans;
- d) From the second year onwards, in cases of grave/significant audit comments<sup>21</sup> to the previous FY's management and expenditures of the Gewog, documentary proof that these memos have been resolved.

Criteria may be further developed or refined based on experience from first year allocations and will be detailed in the Guidelines for the Annual Grants for Local Governments (Dzongkhags and Gewogs) being prepared by the GNHC.

The annual capital grant facility can as a major rule only be used for on public goods for capital investment expenditures, such as investments in new structures, buildings, facilities and rehabilitation and up-grading of existing services and infrastructure. The grants are not tied (earmarked) to a specific sector and/or project. In order to ensure strong project preparation and implementation, up to a maximum of 5 % of the grants can be spent on investment servicing costs, which are defined as costs related to feasibility studies, planning, appraisal, design and budgeting, advertisement concerning procurement, monitoring and follow-up on the project implementation. Up to maximum of 5 % can be spent on maintenance of larger projects within areas such as roads, health units and larger water supply schemes. Smaller community based projects are assumed being

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<sup>21</sup> The definition of "grave/significant" will be agreed on between the GNHC and the RAA.

maintained by the communities. The remaining funds, i.e. minimum 90% of the grants, are to be used for capital development purposes within areas defined by the Gewog (GTs) in compliance with the functional assignments as defined in the Guidelines for Annual Grants for Local Government prepared by GNHC.

The funds flow mechanism for the block grant facility should enable both the Department of Budget/GNHC Commission and LDD in partnership with Dzongkhag administration to oversee a simple results-based budget process with funds release in line with reporting on compliance. At the same time, the funds flow should minimize unnecessary administration between layers of government and should help to optimize efficient work planning and implementation with greater certainty over funds release to allow detailed design to begin prior to August for at least a proportion of annual grant.

*Develop and pilot a block grant facility in at least 2 districts*

There is currently work being undertaken by a RGoB Task Force on functional assignments and corresponding financial and staffing requirements for newly assigned functions to LGs. The results of this effort may serve as background for a pilot covering small discretionary block grants at district level in two Dzongkhags. UNCDF is interested to fund this pilot and will provide \$100,000 for 2 cycles for 2 districts.

Additional assistance in this area could also include further clarification of functional assignments and costing of the same – especially for MDGs type services. In addition, the development of sector specific grants could be developed and piloted..

*Review and analysis of existing local revenue sources including rural tax*

Technical assistance may be provided to the RGoB to review and analyze current sources of local and rural tax revenues. The analytical work to be undertaken on existing rural taxes can include actual yields and the overall tax collection, recording and reporting systems with a view to improve this aspect of fiscal decentralization.

*Revision of Financial Regulations and LG grant formula.*

Technical assistance may be provided to update the relevant financial regulations and Chathrim in accordance with institutionalizing the procedures mentioned in this output.

The revision is based on experiences gained from the budget support for the Gewog capital grants as well as the pilot of a district block grant mechanism.

Technical assistance for district pilots, revision of Chathrim and other financial regulations and revenue studies, are activities which may be incorporated into the LGSP. The estimated input to realize output 1 is US\$ 4,890,000 of which US\$ 4,500,000 will be provided as direct budget support to RGoB to the block grant mechanism. The remainder will cover other activities under this output and will be funded under different modalities by the DPs.

## **Output 2 Inclusive, efficient and accountable public expenditure management (PEM) procedures for local government**

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This output is designed to address certain bottlenecks associated with PEM at the local level (Dzongkhag and Gewog).

*Improved public expenditure management procedures and materials to support the same*

Public expenditure management includes LG efforts to: undertake planning, multi year investment programming, budgeting, procurement, implement goods, works and services, accounting and financial reporting, apply internal controls and manage assets. Therefore this output will improve and field test procedures, toolkits, manuals and relevant support materials to improve the PEM procedures at Gewog and district levels. The preparation of the annual investment programme, cost estimates and annual and rolling budgets will also be addressed. This effort will also include assisting the Tshogpas (village cluster representative) in assessing and identifying community needs, appraising and prioritizing tools. These tools will ensure that attention is paid to gender issues and participation in these processes.

Alongside support for planning and budgeting, the output will aim to strengthen systems and procedures for monitoring and reporting. This could include support for piloting new types of schemes for women's monitoring committees, which could reduce costs of projects and increase community involvement. It would also support initiatives for strengthening the process of quarterly reporting of physical and financial progress. This activity will aim to bring together former DLG monitoring indicators and processes with those of the monitoring unit in the Department of Budget and will work closely with both stakeholders, as well as GNHC Secretariat with regard to the new national M&E system. The aim of this activity will be to enable streamlined reporting of physical and financial progress as well as specific process/ quality indicators based on a set of easily identifiable indicators. Gender disaggregating of data including beneficiaries etc. will be ensured.

*Improved accountability measures incorporated into the PEM process*

Particular attention will be paid to including accountability measures in the PEM cycle as required by the LGAB. These measures could include: signage at project sites, public announcements of the budgets and plans and measures to ensure participation, feedback/complaints mechanisms and processing. Tsogpa-community interaction, report back arrangements will be addressed. Particular attention will be paid to ensure that information is equally available to women. The LGAB in Article 115 also requires LGs to prepare Annual Reports. Assistance will be provided to develop a simple and effective format for LGs to prepare their annual reports as mandated.

*In country training for Gewog accountants on budget accounting system*

The MOF is recruiting an accountant for each of the 205 Gewogs. Assistance will be provided through LGSP to provide basic and ongoing training to these accountants in the RGoB budget and accounting system.

*Development of district/ Gewog procurement processes and related manuals and training materials*

The current procurement procedures have been prepared for national level procurement. There are currently efforts underway with WB support to review the national procurement guidelines and develop manuals and provide training. This work could set a sound foundation for developing procurement procedures for LGs. A number of bottlenecks have been identified in terms of LG procurement and it has been suggested for the national procurement guidelines be localized and

prepared in “user friendly” materials so that the procurement principles are not compromised and LGs can actually procure goods, works and services. Efforts under the LGSP in developing procurement procedures for LGs, related user friendly materials and training will be done in coordination with the newly established Public Procurement Policy Division of the Ministry of Finance. Therefore technical assistance may be provided to assist the RGoB in developing these guidelines and materials in user friendly formats. It is assumed that procurement guidelines will reflect also requirements to conduct an environmental impact assessment in line with RGoB procedures.

*Development of templates for the design and costing of common infrastructure projects to be implemented in districts and Gewogs.*

Another bottleneck in LG implementation is being able to implement works projects in a timely manner. One of reasons provided for such delays is the availability of engineering services for the design, costing of infrastructure. The RGoB has requested that support be provided to prepare design templates for the most common project types and bill of quantities for the common types of projects. These templates would need to be able to be modified according to particular circumstances such as geography and remoteness and the bill of quantities adapted to market prices. However, it is envisioned that with the provision of standard templates for engineers, then the time taken for the design and costing of individual projects could be greatly reduced. The GNHC Commission has also requested that design templates are also considered for public good but non-infrastructure projects as well.

This activity will be implemented in close cooperation with stakeholders in the funding for block grants of the LDD of the GNHC and Ministry of Works.

This output 2 will also provide technical assistance and training to review and build upon the existing participatory planning process including already piloted processes and develop new/modified PEM procedures and tools as required. Assistance will also be provided to training Gewog accountants. These inputs may be funded by Denmark, UNDP and parallel funded by Netherlands Government.

The estimated input to realize output 2 is US\$ 450,000 to be funded under different modalities by the DPs.

### **Output 3      Effective national support/training mechanism for local government personnel designed.**

*Assist the RGOB to update, improve and provide the “minimum package” of training to all LGs as indicated in the Integrated Capacity Development Plan.*

The GNHC Commission/Local Development Division with assistance from JICA has prepared and implemented an Integrated Capacity Development Plan for LG staff and elected people. There are basic/core topics such as roles and responsibilities, administration functions, planning, budgeting, financial management and book-keeping. These topics are then tailored to five different groups of staff/elected and nominated representatives: sector heads, Gups, Maangmai, clerk, Tshogpas.

In order to institutionalize capacity development, assistance will be provided to the GNHC Commission/Local Development Division, to assess and develop institutional capacities development into different levels of staff and elected/nominated representation. Efforts will be made to update, and enhance the existing curricula and add additional modules. The entire training materials will be developed taking into account gender mainstreaming. In addition, a gender sensitization output will be included targeting both elected/nominated representative and sector heads/staff. This is in line with the recommendations in the National Plan of Action for Gender 2008-2013.<sup>22</sup>

ADB is undertaking work through its Technical Sector Development Program<sup>23</sup> developing training for accountants and financial managers. Therefore coordination will occur with the ADB project when preparing/reviewing training materials for these staff.

Cost estimates provided by JICA indicate a budget requirement of approximately \$25,000 per district (note this figure is an average and the actual costs will depend on the number of Gewogs), to provide the following sessions for the Integrated Capacity Development Plan are as follows:

<b>Target Group</b>	<b>Total Days of Training</b>	<b>Estimate Cost</b>
Sector heads	1 day	\$ 700
Gup and Maangmai	7 day training	\$10,220
GYT Tshogpas	Each Gewog 4 day training	\$ 5,790
RIM and printing costs		\$ 8,290
Total per district		\$25,000

JICA has indicated that they are prepared to fund 3 districts (all Gewogs in the districts) which will mean a budget shortfall of \$425,000 to provide the “minimum package” of training for all newly elected LGs after the 2008 elections. It is also expected that Helvetas will provide parallel funding for capacity development. The possible financial contribution by Helvetas is not known at this stage and consequently has not been incorporated into the budget estimate indicated below for the output. Currently the budget line is indicated as being financed by Denmark and UNDP.

*Develop objectives and a mechanism to provide and pilot ear-marked capacity development grants to LGs*

Over time as institutional capacities develop progress could be made from a purely supply driven modality of capacity development for LGs to a mix of supply and demand, whereby LGs determine some of their own capacity development requirements and are financed to purchase these training needs. Capacity development grants to LGs could be developed and piloted to implement such provision of capacity development for LGs.

*Provision of a basic set of equipment to all Gewogs*

An inventory exists in the LDD of the current stock of equipment in LGs and including all Gewogs. This is also updated annually. Using the inventory, gaps will be identified in basic equipment requirements to set up the Gewog administration. A basic set of equipment will be provided to

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<sup>22</sup>See NPAG page 31

<sup>23</sup> Project # 37164/2006.



Gewogs, which don't already have the basic needs in order to perform mandated tasks as well as provide equipment for new staff such as accountants and admin officers. This could include desk, chairs, filing cabinet, bookshelves, desk-top computers, meeting table and chairs. It is envisioned that approximately \$2,500/Gewog would suffice this activity.

*Public awareness on decentralisation developed and monitoring and evaluation of LGs and including capacity development initiatives*

Public awareness materials are developed on general messages about the decentralisation reforms. A monitoring and evaluation process will be established to determine the results, effectiveness and application of capacity development initiatives with a view to continuous improvement. This will be in line with the procedures described in the 10<sup>th</sup> FYP.

The estimated input to realize output 3 is US\$ 1.227.000 to be funded under different modalities by the DPs.

#### **Output 4 Central governments policy, regulatory, support and supervision functions strengthened**

This output will support initiatives for policy development. The aim of this output will be to engage in a policy dialogue by providing information to decision-makers regarding experiences and lessons and evaluation findings and outcomes. The main objective of this output will be to generate lessons, which inform the development of decentralization policy in Bhutan and contributing to the evolving legal and regulatory framework for decentralization contained within the DYT and GYT Chathrims and other regulations. In addition, this output will provide assistance to clarify and strengthen the regulatory and support and supervision functions of the LGs.

*Mandates and institutional responsibilities for policy development, regulatory controls and support and supervision of LGs are clarified and described.*

This output will support applied research studies, evaluations and impact studies to assess the policy implications associated with the new intervention. In doing so, the output will help to strengthen accountability, effectiveness and efficiency of the activities themselves as well as feed into the wider local governance policy development process. Policy lessons arising as part of this output will feed into the on-going monitoring and evaluation of the 10th FYP and other national level governance initiatives. The output will work through the management structures in place for this output.

Assistance will be provided to enable LDD to develop a participatory process for revising the Chathrims and other regulations required to support implementation of the new system of democratic governance. Assistance will also be provided to articulate policy issues, policy development and undertake policy analysis and dialogues.

*Other support in areas such as revisions of Chathrims, fiscal decentralization and functional assignments provided as required.*

Assistance will be provided to enable LDD of the GNHC advancing the work to be undertaken on the revision of Chathrims, assigning functions, finances and staff to lower levels of LG.

Funding may for example be provided for targeted study tours in the first instance for staff from the LDD of GNHC and the MOF. The topics and countries to visit will be determined through dialogue between stakeholders. It is envisioned that one study tour a year could be funded and topics to be explored and compared could include:

- Fiscal decentralization including functional assignments, fiscal transfers – discretionary and categorical, fiscal transfer allocations and own source revenues
- Service delivery and local governments – assignment of functions and financing these functions.

The inputs for this output 4 will provide short term technical assistance and operational costs for workshops and training. The preliminary budget estimate to realize the output is US\$ 258,000 to be provided under different funding modalities by the DPs. SNV has expressed an interest in providing parallel funding for this output.

## **Output 5      Effective models for integrated public service and information delivery at local levels piloted**

The GNH Commission has indicated that efforts are currently underway of identifying the ten most commonly used services from the Gewog. Based on this models and procedures will be developed for setting up integrated service and information centres offering at least the ten most commonly used services to ensure greater efficiency and effectiveness in public service delivery. Integrated information centres may also serve as an avenue for offering access to information for the citizens relating for example to livelihood improvement (financial services, small grants for traditional community organizations, health etc). After a pilot period of at least two years a thorough review and critical analysis will take place of existing and recent efforts which have been undertaken along similar lines/initiatives. Therefore the first activity will be to actually undertake a critical review of all similar initiatives and extract the lessons learnt and then develop the objectives and parameters for this pilot.

*Review, analyze results and make recommendations on the various pilots undertaken on this theme.*

It has been reported that a number of different types of pilots have been undertaken across a similar theme. Therefore the first task will be to identify such projects and their objectives, review their outcomes and synthesize lessons learnt (positive and negative), from such previous pilots/efforts. A key part of the analysis will be an assessment against the ability to service these ten most commonly used services.

*Develop objectives and design a model for an integrated local level single public access points for basic administrative services*

Objectives will be developed and a “model” designed for an integrated Dzongkhag and Gewog-community information centre and single public access point for basic administrative services. Two Gewogs and one Dzongkhag will be identified as pilot sites for such an integrated centre.

Following at least two years of implementation, an evaluation of the outcomes and lessons learnt from this exercise will take place. An analysis of lessons will be discussed and fed into national policy.

The estimated budget to realize this output 5 is US\$ 165,000 to be provided under different modalities by the DPs. SDC has expressed an interest in funding this output under a parallel funding modality.

## 5 Overall implementation and milestone plan

Implementation of the LGSP follows the 10<sup>th</sup> FYP, implying a start date 1 of July 2008 and a programme end date by 30 of June 2013. The programme has been designed without an inception period due to the fact that the core support to the Gewog Capital Grant Facility will not be released until start of Bhutan's fiscal year 2009/2010, giving sufficient time for verification of programme approaches, planning and initial capacity building activities.

### **Programme start-up activities and milestones**

The LGSP Results and Resources Framework is presented at the end of this document. Immediately after programme start date the GNHC / LDD will initiate preparation of the first Annual Work Plan - which for practical reasons may cover 18 months. The Annual Work Plan is the key instrument for release of funds and shall include activity-based budgets, combined with an indication of sponsoring DP for each budget line.

The Outcome Board/Steering Committee<sup>24</sup> will be convened by the RGoB no later than by the end of second programme month, enabling the first Steering Committee meeting in September 2008 and preferably during 1<sup>st</sup> week of September.

The Steering Committee will verify and approve the AWP, which is the starter for implementation activities under the five components of the LGSP. And the OB/SC will approve TOR for advisors/consultants for the following period; and prepare and approve the ARM agenda.

It is anticipated that early implementation activities will focus on developing the framework with respect to capacity building, procedures etc for successful start of the Gewog Capital Grant Facility from July 2009. Planning can start immediately after the approval of the AWP, whereas implementation of capacity building and minimum training activities can start after the election of representatives to local governments. The actual election date has not been decided, but elections possibly in a phased approach are anticipated during 4<sup>th</sup> quarter of 2008.

When newly elected GT and DT are in place training can be initiated, focusing on establishing the knowledge and skills base to prepare the first Gewog Development Plan for the the fiscal year 2009/2010, enabling release of funds from the Gewog Capital Grant Facility from 1 of July 2009.

Responsibility for programme implementation and preparation of the AWP is allocated to the GNHC and consequently preparation of a detailed implementation schedule is premature. An outline focusing on milestones and timing of regular monitoring and review activities is presented below in figure 1:

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<sup>24</sup> The composition and mandate of the Outcome Board/Steering Committee is described in section 6

**Figure 1: LGSP implementation plan**

Year	2008						2009				2010				2011				2012				2013							
	Month/Quarter	7	8	9	10	11	12	1	2	3	4	5	6	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	
<b>LGSP start up milestones</b>																														
Preparation of 1st AWP (18 months)	■	■																												
Appointment of Outcome Board/Steering Committee		■																												
Steering Committee meeting			■						■				■		■				■		■			■		■		■		
<b>Component implementation</b>																														
Component 1			.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Local government elections			.....	.....	.....	.....																								
Basic capacity building new LGs			.....	.....	.....	.....	.....	.....	.....	.....	.....	.....																		
Gewog development plan / capital grant request												■			■				■				■				■			■
Gewog Capital Grant Fund			.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Component 2			.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Component 3			.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Component 4																.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Component 5																.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
<b>Review and evaluation</b>																														
Gewog Capital Grant Review																■				■				■				■		■
Annual Review Meeting			■										■		■				■		■			■		■		■		■
Annual Joint Review													■		■				■		■			■		■		■		■
Joint programme completion evaluation																											■			
Optional: Design of new phase programme																												■		

Note: ECB is responsible for local governments' elections.

It is anticipated that activities under output 4 (Strengthening central government's supervisory functions) and output 5 (Piloting effective models for service delivery) will start somewhat later in order not to frontload programme implementation also taking the capacity of GNCH into consideration.

By signing this Joint Programme Document, DPs and RGoB organizations undertake full responsibility to implement the outputs or activities and achieve results identified with each of them as shown in the Results Framework (described in chapter 4) and detailed in Annual Work plans.

It is important to note that all key implementing partners who will be involved in the joint programme have made efforts to:

- Avoid duplication in the use of resources;
- Ensure that the minimum factors necessary to achieve a given result are being addressed;
- Ensure realistic statement of risks and assumptions; and,
- Avoid using too many lower level indicators. The results framework should contain outcome indicators while the annual work plans will contain process and output indicators.

### **Annual reviews**

The DPs shall jointly conduct scheduled/annual planning and review meetings for all activities covered in the results framework, monitoring and evaluation plan and work plans covered by this joint programme. This will include an assessment of the risks and assumptions to determine whether they are still holding. A new work plan and budget will be produced with the necessary adjustments made based on the lessons learned from a review of the risks and assumptions and implementation progress achieved. The new work plan is approved in writing by the LGSP Outcome Board/Steering Committee. Any substantive change in the joint programme's scope will require revision of the JPD. The amendments will need to be signed by all parties.

The second Joint Annual Review Mission, scheduled for 3<sup>rd</sup> quarter 2010 will have a widened scope. This will be reflected in the ToR and the team composition for the 2<sup>nd</sup> Joint Annual Review.

## 6 Programme Management and Coordination Arrangements

### **Roles and responsibilities:**

The overall management roles and responsibilities fall under three broad headings:

1. Policy and strategic direction and high level monitoring of the overall decentralization reforms and contribution to poverty reduction.
2. Responsibility for oversight and monitoring the actual implementation of LGSP work plan, budget and activities.
3. Execution/implementation of the Royal Government of Bhutan's Local Government Support Programme (LGSP).

Therefore the management of the LGSP will be divided between the LGSP Outcome Board/Steering Committee, which will be responsible for points 1 and 2 above and the GNHC will be responsible for point 3.

### **Implementation arrangements:**

The LGSP will be institutionally housed in the Local Development Division of the Gross National Happiness Commission. A Project Manager will be appointed for the LGSP by the GNHC. Implementation will be the responsibility of the RGoB's GNHC.

The GNHC and other RGoB institutions involved in the implementation of the LGSP will benefit from technical backstopping by UNCDF regional advisers and consultants, support from the UNDP/UNCDF designated Programme Officer in Bhutan, and technical advisors from other development partners engaged in the LGSP, as well as regular support from other local consultants financed by the LGSP.

### **LGSP Outcome Board /Steering Committee (OB/SC)**

The LGSP Outcome Board /Steering Committee will be established to oversee overall joint programme activities. The LGSP Outcome Board /Steering Committee will meet twice a year in February and September respectively to discuss component progress and endorse the overall direction of component implementation. This Committee will consist of:

- Secretary of the GNHC (chairperson)
- Head of Policy and Planning Division, Ministry of Home and Cultural Affairs
- Directors of DNB and DPA under MoF
- One Dzongda
- Two DT (DYT) Chairpersons, elected from and by the DT Chairs<sup>25</sup> on a rotating basis for a period of two years
- Representative from each DP subscribing to the LGSP.
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Resource persons, who may be asked to participate in the meetings, include:

- Programme management

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<sup>25</sup> 1<sup>st</sup> time by the meeting of DYT Chairpersons in June 2008.

- Government institutions
- Other relevant resource persons, e.g. from the GNHC Commission, donors, component managers and technical advisers.

**Specific tasks of the LGSP Outcome Board /Steering Committee include:**

- Strategic decisions to ensure the continued coherence and synergy between the component and overall policy development within decentralization in Bhutan.
- Decisions concerning deviations from the joint programme document.
- Endorsement of Review Aide Memoires and ensuring follow up, including decisions concerning proposed reallocations.
- Approval of timing and ToR of technical reviews and Joint Annual Reviews.
- Approval of timing and TOR of evaluations;
- Approval of annual work plans and budgets, revised semi-annual plans and semi-annual budgets, semi-annual requests for funds presented by the LGSP implementation unit and release of earmarked budget support through the block grant mechanism.
- Monitoring of overall implementation progress with a special focus on delays, problems and bottlenecks
- Overseeing the results and follow up of audits carried out by the RAA as part of the overall external audit process of the RGoB reports submitted
- Approval of Terms of Reference for advisors and consultants.
- Approval of programme completion report.

**Meetings and reports**

The GNHC will act as secretariat to the LGSP Outcome Board /Steering Committee and announce the meetings with at least two weeks' notice. All documentation for the meetings (plan/budget, reports, proposals for adjustments, etc.) shall be distributed to the members at least one week in advance together with a draft agenda.

The GNHC is responsible for drafting the minutes of the OB/SC meetings and distributing these to all participants within a week after the meeting. The OB/SC approves the minutes at the next meeting.

The GNHC will submit semi-annual progress reports to the OB/SC prior to the scheduled bi-annual Board meetings

## 7 Fund Management Arrangements

### **Financial Arrangements:**

The LGSP will be supported through a joint programme using different funding modalities. Denmark, UNDP, and UNCDF have prepared and approved the joint programme and committed funds; SDC, Austria and other DPs have declared a committing interest in joining the donor partnership but has due to time constraints not yet committed specific amount to the programme. The financial contributions of each organization are reflected on the signature page of this document.

### **Funding arrangements**

The participating development partners have harmonised their support to the extent possible, which has resulted in application of two main funding arrangements for this joint programme, i) direct support (budget support); and ii) parallel support. The different modalities reflect different requirements among development partners.

### **Direct support**

The main bulk of the total programme support is directed as direct budget support to support for the Gewog Annual Capital Grant Facility as described in the FMA on Gewog Annual Capital Grant Facility, cf. also Annex 4. With the DPs' The contribution by the DPs to the Facility will be fungible with funds from the RGoB with agreed-to minimum conditions of access applicable to the Gewogs for releases and tranches.

It is anticipated that similar procedures will apply for the pilot block grant support to Dzongkhag level (UNCDF funds).

Any grants made to district and Gewog level will form an integral part of the RGoB budget and will be classified as "grants" in the budget nomenclature. Expenditures from these grants will be undertaken within the framework of RGoB procedures for procurement and financial management and will be audited according to the normal procedures of the Royal Audit Authority.

### **Other programme support**

The DPs have committed funds for a range of implementation activities under the LGSP covering local and international consultants, equipment for Gewogs, operations, workshops, training, M&E costs etc. Funding modalities for these activities will vary according to DP requirements.

Contributions from the Denmark can operate as direct budget support to the budget lines of the implementation organisation GNHC/LDD; or if so desired managed by LOD in line with standard Danish procedures (for example for procurement of international technical assistance).

Contributions from UNDP/UNCDF to programme implementation will operate as parallel funding and be managed in line with the national system.



Contributions from other development partners - SDC and Austria - will be managed as per donor requirement as direct budget support or parallel funding.

DPs may decide to channel their contributions through the UN.

Additional support from other DPs joining the programme at a later stage will be channelled according to a specific agreement made at that time.

### **The annual work plan**

The GNHC will prepare a detailed annual work plan (AWP), which shall include activity-based budgets and clear indications of the sponsoring development partner for each budget item.

This AWP shall be approved by the Outcome Board/Steering Committee.

The first AWP, which will be prepared for OB/SC review and approval in September 2008 can for practical purposes cover 18 months from July 1<sup>st</sup> 2008.

A LGSP annual joint work plan and budget and clear indication of which partner is sponsoring which activity will be elaborated by the GNHC for approval by the OB/SC.

Any grants made to district and Gewog level will be an integral part of the RGoB budget and will be classified as “grants” in the budget nomenclature. Expenditures from these grants will be undertaken within the framework of government procedures for procurement and financial management and will be audited according to the normal procedures of Royal Audit Authority.

Based on the annual work plan, funding from UNDP and UNCDF will be managed in accordance with UN/NEX procedures. Funds from other donors to LGSP could be i) transferred directly to the RGoB, as is the case with Danida, ii) channelled through the UN or iii) managed in accordance with individual donors' arrangements.

Parallel support from other DPs joining the programme at a later stage will be channelled according to a specific agreement made at that time.

The details of the reporting on the Gewog Annual Capital Grant Facility are provided in the FMA in Annex 3: Financial Management Arrangements to Support Gewog Capital Grants. Following discussions with the Royal Audit Authority (RAA) and Ministry of Finance the following summarizes audit and reporting procedures for the Gewog Annual Grant Facility:

- i) On the audits of the Gewog capital grant disbursements and expenditures - these will be covered in the audited annual finance statements of the MoF, conducted by the RAA. The MoF will make these reports available to the LGSP OB/SC.
- ii) The audits of the actual Gewog accounts: In accordance with the Audit Act, the RAA is obliged to audit the accounts of public institutions – including Gewogs - at least every second year with yearly audits as part of this process. The audit reports of the Gewogs are made available for the OB/SC when completed by the RAA.

- iii) The financial and progress reports of the annual Gewog capital grants: The MOF and GNHC are charged with the responsibility to provide these reports to the LGSP OB/SC on a quarterly basis, as per the in accordance with the FMA on the Gewog Annual Capital Grant Facility.

The joint programme will be regularly audited in accordance with standard RGoB procedures. Funding has also been provided for additional external audits if deemed necessary.

## **8 Feasibility, risk management and sustainability of results**

### **Risks and Risk Mitigation**

There are a number of risks associated with the implementation of the programme. These are summarized in the table below:

**Table 1: Risks, assessment and risk mitigation measures.**

Risks	Likelihood	Potential Impact	Risk mitigation measures
Political instability in the aftermath of the elections in 2008	Unlikely	Medium	Monitor the environment.
Lack of funds to carry out nationwide block grant programme	Possible	Medium	With the finalization of the 10 <sup>th</sup> FYP the RGoB has committed to allocate funds for the realization of the block grants. The RGoB is committed to borrow should funds not be sufficient.
Lack of technical support for implementation at local level	Possible	High	Monitor the situation and provide additional technical support as required.
Lack of human resources at central level for oversight and coordination	Unlikely	High	The former Department of Local Governance (now LDD) has been moved to GNHC Commission and strengthened with additional staff. Is also in a better position to coordinate with GNHC Commission.
National M&E not adequate for monitoring local level implementation and impact of such	Possible	Medium	The RGoB is currently working on a national M&E system during which also local level expenditure monitoring will be included. Lessons learned regarding M&E from previous decentralization projects will be taken into account.
National financial and reporting system not geared to handle nationwide block grant system	Possible	High	Lessons learned from the DSP and the JICA project will be used to improve the system
Low representation of women in local level decision making	Possible	Medium	Special initiatives recommended by the NPAG 2008-2013 will be carried out as part of the programme, In addition, UNDP/SNV through the NWAB is supporting leadership training for women in rural areas.
Corruption and misuse of funds at local level	Possible	Medium	ADB/WB is supporting nationwide capacity building on the use of the new procurement manual 2007, as well as support to update the existing Financial Rules and Regulations. Quite strong audit procedures are in place and the Royal Audit Authority performs audit of Gewog accounts at least every second year.
Rural-Urban migration leaving some Gewogs empty	Possible	High	Monitor the environment.

Risks will be monitored as part of the LGSP monitoring system.

## 9 Monitoring, Evaluation and Reporting

### 9.1 MONITORING AND EVALUATION (M&E) SYSTEM

The M&E system for the LGSP will be fully integrated into the National Monitoring and Evaluation System (NMES) which includes the Planning and Monitoring System (PLaMS) which is currently under development by the GNH Commission and in accordance with the 10<sup>th</sup> FYP.

The M&E system will include three elements: (i) progress and compliance monitoring; (ii) result-based performance monitoring; and (iii) risk monitoring.

#### **Progress and compliance monitoring**

Progress monitoring including physical and financial reporting process of the LGSP will be aligned to the national system, and reporting will conform to structures and requirements in the PLaMS. Being in process it is presently not clear how reporting, monitoring and evaluation of district and Gewog level activities will be handled through this system, especially with regard to activities implemented through a future nationwide grant system. The physical and financial progress monitoring system will be designed to fulfil specific requirements of DPs, aiming at having one progress monitoring and reporting system in operation.

#### **Result-based performance monitoring**

Result-based performance monitoring will be developed for programme performance at output and outcome levels. Result-based monitoring will be based on agreed indicators, and it is desirable that LGSP performance indicators are fully integrated into the NMES and PLaMS. Further details with regard to fine tuning the LGSP indicators, specific reporting, monitoring and evaluation will be worked out during the first 2-3 months of LGSP start up and based upon more details with regard to the NMES and PLaMS procedures.

Based on discussions with the GNHC a set of outcome and outcome indicators have been identified, serving as interim indicators for the LGSP. This set of indicators is regarded feasible and relevant, properly reflecting outcome and outputs of the LGSP and also reflecting the anticipated decentralized governance indicators in the NMES; they are, however, still in a draft working version forming part of the development of the NMES /PLaMS and consequently understood as interim indicators. It is anticipated that they will be updated and presented in a final version to the first Outcome Board meeting in September 2008.

#### **LGSP Indicators**

Level	Description	Indicator and target	Means of verification
<b>National objectives</b>			
<b>Long-term Objective</b>	Local governments are fully and effectively empowered and responsible for development planning and management by 2020 (Vision 2020)		
<b>Intermediate objective</b>	Proportion of the population living below the national poverty line	Poverty reduced to 15% by 2013 (10 <sup>th</sup> FYP target)	Poverty Survey

<b>LGSP objective, outcome and outputs</b>			
<b>Objective</b>	Democratic governance at local government level enhanced	Local government elections held 2008/09  Elected local governments in place 2009	Report from ECB  Report from GNHC
	Local governments are able to deliver services effectively and efficiently	At least 70% of population under local government administration express satisfaction with efficiency, effectiveness, transparency and accountability of LGs by 2011 (proposed LGSP target)	Public Perception Survey in year 2011 (part of LGSP)
<b>Outcome</b>	Strengthened capacity to provide effective and efficient public services in an accountable and transparent manner	50% of Local Governments functioning in line with established service standards by end of 2011	Status report by 2011 (GNHC)
		Approved annual plans, budgets and expenditures made available through public notice boards from 75% of LGs by 2009 and 90% by 2013	GNHC progress report; Joint Annual Review Report
<b>Output 1</b>	Effective and transparent financing mechanism for local government service delivery established and in operation	Annual Capital Grant Facility operational	RAA report
		90% of local governments (Dzongkhags and Gewogs) receive and report capital budgets on time and schedule	Periodic financial reports (semi-annual)
		GT and DT Chatrimis and rules and regulations revised and submitted to NA by end of 2009	Proceedings from Parliament; Legal Gazette
<b>Output 2</b>	Inclusive, efficient and accountable PEM procedures for local governments in operation	90% of local governments applies new planning methods (RBM) to develop their annual plans	Status report from GNHC in 2009 and 2012
		10% of GT and DT elected members are women by 2013	Project completion report
		Year-on-year decrease in the number of critical	RAA reports

		observations in financial audits	
		Utilisation of budgets disbursed to Dzongkhag and Gewog increased from 70% in 2009 to 90% in 2013	Quarterly financial reports
<b>Output 3</b>	Effective and sustainable capacity building mechanism/plan for local government personnel and elected members in operation	85% of Gewog staff and elected members have participated in minimum package training by 2013	Annual training report
		85% of local government staff have been training in key functional topics by 2013	Annual training report
		100% of basic equipment procured, installed and in operation by 2009	Office Automation Plan
<b>Output 4</b>	Central government's policy, regulatory, support and supervision functions strengthened	Substantive interventions made by GNHC	Final evaluation report
<b>Output 5</b>	Effective model for integrated public service and information delivery at local level	2 integrated public service centres established and in operation by 2010; 4 by 2011	Final evaluation report; Customer satisfaction survey (part of LGSP)

The data input summarized above as means of verification will primarily be produced as part of the NMES and the PLaMS and as such form part of normal RGoB routines. As such it is assumed that the Poverty Survey will be conducted as part of normal RGoB routines under the 10<sup>th</sup> FYP. The specific Customer Satisfaction Survey will be conducted and funded under the LGSP programme.

### **Risk monitoring**

A number of risks influencing the ability of the LGSP to deliver the specified outputs and contributing to attainment of outcomes and objectives have been identified and summarized in the previous section.

The LGSP M&E system will include approaches to monitor risks. Due to the nature of the risks identified the approach to monitoring here will be of more qualitative nature. A system to assess the risks will be developed and an annual assessment undertaken, feeding the information into the Joint Annual Review and the Annual Review Meeting (stipulated in the Joint MoU).

## **9.2 REVIEWS AND EVALUATION**

Review and evaluation will be conducted as per the Joint Good Governance Partnership MoU.

The LGSP will be subject to a Joint Annual Review to be conducted by DPs in close partnership with the GHNC. The Joint Annual Review missions will assess overall implementation progress and recommend adjustments in strategy or focus where needed.

The Joint Annual Review report will be made available to the Annual Review Meeting, stipulated in the Joint MoU signed by RGoB and DPs actively supporting good governance in Bhutan.

Annual assessments of the performance of LGs will be carried out by the GNHC, based on a minimum set of indicators of both financial and developmental performance established in conjunction with the MOF including those directly related to the administration of the annual capital grants to Gewogs.

Annual internal reviews of lessons learned will be undertaken and lessons will be translated into policy and operational improvements.

### **Review and evaluation schedule**

- *Gewog Annual Capital Grant Facility*: Annual assessment of the local governments' attainment of the minimum conditions of access to the grant will be undertaken by GNHC.
- *Annual Joint Review Missions*: The Annual Joint Review Mission will include representation by all DPs and can take a specific issue focus as well as provide short term technical backstopping as and if required on specific issues.
- *The 2<sup>nd</sup> Joint Annual Review*, scheduled to take place during 3<sup>rd</sup> quarter of 2010, will be expanded to cover:
  - Assess overall programme progress to date;
  - Evaluate the procedures for local level planning, programming, budgeting, and implementation extended by the LGSP to local governments;
  - Evaluate the effectiveness of the Gewog annual capital grant facility as a fiscal transfer system and as an incentive to enhance performance of the local governments; and
  - Examine project management and institutional arrangements to ensure that they are adequate for and consistent with the attainment of expected LGSP results and the implementation of agreed programme activities.
- *Final Evaluation*: An end-of-programme evaluation of the LGSP will take place some months prior to the expected completion of the first stage of programme. In order to secure a smooth transition to a possible second phase of the programme, it is envisioned that RGoB and DP negotiations for this would take place during year four of LGSP implementation and if agreed, a design mission would take place in early 2012.

## 10 Ex Ante Assessment of Cross-cutting Issues

### Poverty

The planned support outlined in the LGSP is very much in line with the 10<sup>th</sup> FYP, which has poverty reduction as its overarching goal. According to the Poverty Analysis Report (PAR) 2007, poverty incidence is now estimated at 23 %. However, poverty is mainly a rural phenomenon with less than 1.7% of the population in the urban areas being poor compared to 30.9% in rural areas. It is also unevenly distributed, generally with a low percentage in the west, and higher poverty rates in the east and some of the southern districts. The difference in consumption between the poorest and richest quintile of the population is 6.7, while the Gini index at national level is 0.35, indicating a moderate inequality.

The 10<sup>th</sup> FYP aims at reducing the national poverty levels to less than 15% by 2013. This will require a concerted effort, especially in the Dzongkhags with high poverty measures. Thorough knowledge of who are the poor and the causes of their poverty will be needed.

### Human Rights

The draft Constitution guarantees fundamental rights to all Bhutanese citizens. To all people in Bhutan it provides rights of equality before the law, equal and effective protection of the law, as well as a number of other rights in accordance with international norms<sup>26</sup> Recently new laws and regulation have been adopted to guarantee the rights of people in detention and to ensure the freedom of media.

Of the seven central human rights conventions, Bhutan has signed three and ratified two, the ratified ones being the Convention on the Rights of the Child (CRC) and the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW). The Convention signed but not yet ratified is the International Convention on the Elimination of All Forms of Racial Discrimination. Compared to other countries, Bhutan still lacks behind in ratifying important conventions.

The concept of Gross National Happiness (GNH) is to some degree pursuing the concept of basic human right in the form of obligations by the state to ensure a peaceful and enabling environment for people in its territory to live a happy and fulfilled life. Also, it should be noted that although the concept of human rights or a right based approach to development is not widely spoken about in Bhutan, in terms of social justice and development rights, Bhutan has progressed tremendously. For example, with generous capital outlays in the health and education sectors, Bhutan is one of the few countries in the world to meet its part of the 20:20 compact (20% of public investment in health and education). The strong commitment towards fulfilment of obligations of the State to its citizens is also evident in the draft Constitution.

RGoB collaborates with several international rights organizations such as the International Committee of the Red Cross and the Working Group on Arbitrary Detention. Concern has been voiced internationally, including during the 10<sup>th</sup> Round Table Meeting in 2008, about the issue of

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<sup>26</sup> Common Country Assessment for Bhutan 2006, page 16-17, United Nations.



people in the camps in Eastern Nepal. The RGoB is committed to deal with the issue of people in the camps and awaits discussions with the Government of Nepal on the matter.

### **Gender**

Although women and men formally enjoy equal opportunities to participate in local decision-making, social-economic and structural barriers often inhibit women's participation. Only 4 percent of the 2,117 elected representatives at local level are women, and Bhutan got its first female Gup (elected head of the Gewog Development Committee) as late as 2005, followed by a second in 2006.

However, no affirmative measures are currently in place to get more women representatives in local governments.

### **Youth**

Over the next seven years around 63,000 young people educated to secondary level are likely to be entering the labour market and the RGoB recognizes the need to provide employment opportunities as essential to promoting social stability. An increasing problem is lack of employment opportunities for the educated youth in the Gewogs, resulting in a situation where many leave for urban areas, especially Thimphu and Phuntsholing in search of income and better living conditions. However the urban areas do not avail all the opportunities in search, instead frustrations among the youth have resulted in a rise in drug abuse and crime. As such, it is important to facilitate employment generating activities especially targeted young people.

### **Environment**

Environmental conservation and management remains a key issue for RGoB and is one of the four key strategies through which Gross National Happiness (GNH) is to be undertaken. During the last few years District Environment Committees have been set up in all 20 districts. These committees are overlooking the Environmental Impacts Assessments of local projects with potential environmental impact as required by law. Clearances and permits are also required on land and forest issues in relation to local project implementation.

In the light of increased infrastructure development and poverty reduction initiatives, the balance between economic development and environmental conservation remains a growing challenge.

## **11 Legal Context or Basis of Relationship**

This programme document shall be the instrument referred to as such in Article 1 of the Standard Basic Assistance Agreement between the RGOB and the United Nations Development Programme, signed between the two parties in June 2007. The host country's implementing agency shall, for the purposes of the Standard Basic Agreement, refer to the Government co-operating agency described in the Agreement.

The following types of revisions may be made to this project document under the signature of the UNDP Resident Representative only, provided assurance is given that the other signatories of the project document have no objection to the proposed changes:

- revisions in, or addition of, any of the annexes of the project document;

- revisions which do not involve significant changes in the outcomes, outputs or activities
- of the project, but are caused by the rearrangement of inputs already agreed to or by
- cost increases due to inflation; and
- mandatory annual revisions that rephrase the delivery of agreed project inputs, or
- Increased expert or other costs due to inflation or taken into account agency expenditure flexibility.

The Government of Denmark and the RGoB will sign a Government to Government Agreement as per Danish guidelines.

Other DPs will refer to their respective formal requirements.

## 12 Summary Budget

Two budgets are presented below.

The first is a total itemised budget for the LGSP presented below in **Table 1: LGSP Itemized Budget**

Table 2 shows the LGSP Indicative budget by in-put item and fiscal year.

(For the Results and Resources Framework table refer to Annex 4)

**Table 1: LGSP Itemized Budget**

<b>Category</b>	<b>Amount US\$</b>	<b>%</b>
Budget support block grants (gewog and district)	4,500,000	62
TA International short term	574,509	8
Local Consultants/contracts	270,000	4
Equipment Gewogs	500,000	7
Workshops, training	912,228	13
Travel - local and international	293,583	4
CD grant pilots	40,000	1
Guided Study Tours	100,000	1
Miscellaneous	59,680	1
<b>TOTAL</b>	<b>7,250,000</b>	<b>100</b>

**Table 2: LGSP indicative budget by in-put item and fiscal year**

DESCRIPTION		Total costs USD	2008/09	2009/10	2010/11	2011/12	2012/13
Effective and transparent financing mechanism for local government service delivery		4.889.442	93.345	1.226.470	1.226.470	1.184.134	1.159.023
1.0 Effective and transparent mechanism for local service delivery in operation	Int consultant - FD short term	127.008	42.336	42.336	42.336	0	0
	Travel local and international	100.444	25.111	25.111	25.111	25.111	0
	Grants Gewog and district	4.500.000	0	1.125.000	1.125.000	1.125.000	1.125.000
	Workshops/training	105.000	21.000	21.000	21.000	21.000	21.000
	Local consultants	32.500	0	8.125	8.125	8.125	8.125
	Miscellaneous	24.490	4.898	4.898	4.898	4.898	4.898
Inclusive, efficient and accountable public financial management procedures for local government		451.160	111.232	111.232	96.232	73.732	58.732
2.0 Inclusive, efficient and accountable public finance management procedures for local government in operation	Int consultant - FD short term	112.500	37.500	37.500	37.500	0	0
	Travel local and international	45.470	9.094	9.094	9.094	9.094	9.094
	Local consultants	45.000	15.000	15.000	0	15.000	0
	Workshops/training	235.000	47.000	47.000	47.000	47.000	47.000
	Miscellaneous	13.190	2.638	2.638	2.638	2.638	2.638
Effective national support/training mechanism for Local Governments		1.227.272	647.268	147.268	167.268	167.268	98.200
3.0 Effective national support/training mechanism for local governments	Int consultant - Cap. Dev. Short-term	87.500	21.875	21.875	21.875	21.875	0
	Travel local and international	46.272	11.568	11.568	11.568	11.568	0
	Workshops/training	56.000	11.200	11.200	11.200	11.200	11.200
	Local consultants	62.500	15.625	15.625	15.625	15.625	0
	Training courses (contract)	425.000	85.000	85.000	85.000	85.000	85.000
	Equipment for Gewogs	500.000	500.000	0	0	0	0
	CD grant to pilot	40.000	0	0	20.000	20.000	0
	Miscellaneous	10.000	2.000	2.000	2.000	2.000	2.000
Central governments policy and supervisory functions strengthened		257.872	51.755	76.755	64.255	37.707	27.400
4.0 Central government's policy, regulatory, support and supervision functions strengthened	Local consultants	25.000	12.500	12.500	0	0	0
	Travel local and international	24.144	8.048	8.048	8.048	0	0
	Workshops/training	41.228	10.307	10.307	10.307	10.307	0
	Int consultant - FD short term	55.500	18.500	18.500	18.500	0	0
	Study tour costs	100.000	0	25.000	25.000	25.000	25.000
	Miscellaneous	12.000	2.400	2.400	2.400	2.400	2.400
Models for integrated administrative and information service		164.923	0	66.128	66.128	20.167	12.500
5.0 Effective models for integrated service and information delivery at local levels piloted	Int consultant - LG specialist	66.000	0	33.000	33.000	0	0
	Travel local and international	25.922	0	12.961	12.961	0	0
	Local consultants	23.001	0	7.667	7.667	7.667	0
	Workshops/training	50.000	0	12.500	12.500	12.500	12.500
Miscellaneous		259.331	42.310	23.500	94.610	17.500	81.411
M&E Misc	Int consultant M&E spec short term	126.000	25.200	0	60.000	0	40.800
	Local consultants	12.000	0	6.000	0	0	6.000
	Travel local and international	51.331	17.110	0	17.110	0	17.111
	Contractual services, reflection/review wor	70.000	0	17.500	17.500	17.500	17.500
<b>TOTAL LGSP</b>		<b>7.250.000</b>	<b>945.910</b>	<b>1.651.353</b>	<b>1.714.963</b>	<b>1.500.508</b>	<b>1.437.266</b>

## Annex 1: Current Mandated DYT and GYT Responsibilities of Local Governments in Bhutan 2004

Dzongkhag			Gewog		
Regulatory Powers	Administrative Powers	Financial Powers	Regulatory Powers	Administrative Powers	Financial Powers
Designation, protection of monuments, sites, parks, sanctuaries.	Dzongkhag, Gewog FYP and annual plans and budgets.	Expropriation of Dzongkhag plan and budget as provided in the rules.	Safe disposal of waste	Prepare the plan and budget – identify and prioritize activities for the 5 year plan and during implementation.	Approval of the Gewog's annual budget
Delineation of boundaries between Gewogs, towns and municipalities	Prioritization of development activities.	Review and ratify the Gewog accounts of rural tax and other collections and expenditures.	Control, prevention of pollution (air, water, soil)	Administer and monitor the planned activities	Approval of works by GYT costing < and up to 50,000 Nu.
Posting billboards, road signs, posters, banners and commercial advertisements	Middle and high school and non formal education	Review and ratify the accounts of Gewog expenditures incurred under the GYT.	Sanitation standards	Maintain infrastructure such as mule tracks, footpaths, farm and feeder roads, irrigation works, bridges, micro-hydels, lower secondary and community schools, RNR centres.	Approval of rates of local utilities (irrigation water, local power, drinking water).
Consumer protection against unfair pricing, counterfeit goods.	Hospitals and basic health units	Review account of Dzongkhag administration.	Control of communicable livestock disease	Mobilize labour	Review of accounts of all expenditures of the Gewog and ratify in accordance with financial rules
Commercial sale of alcohol, tobacco and tobacco products	Construction of farm and feeder roads		Allocating drinking and irrigation water	Conserve and protect water sources	

<b>Dzongkhag</b>			<b>Gewog</b>		
<b>Regulatory Powers</b>	<b>Administrative Powers</b>	<b>Financial Powers</b>	<b>Regulatory Powers</b>	<b>Administrative Powers</b>	<b>Financial Powers</b>
Prevention of gambling and control of noise pollution	Agriculture and livestock farms, selection of crop varieties, livestock breeds, marketing strategies for agricultural products		Construction designs in line with national standards	Act as custodian of communal lands and forests.	
Content of cable TV and broadcasting	Forest management plans, extraction, conservation, forest road construction, forest protection.		Sustainable harvest of edible forest products	Prevent illegal encroachment of lands and highways	
Defense and security of Gewogs	Rural electrification schemes		Establishing handicraft enterprises and setting up co-operatives	Protect religious structures not protected by monasteries and manage Gewog level rights	
Prevention of communicable diseases among livestock	Communication services		Prevention of crop degradation by livestock and wildlife	Organize relief measures during emergencies	
Establishment of quarries and mines	Small/medium scale industry		Creating, designating recreation areas around villages	Promote cooperatives.	
Protection of public health as per national guidelines	Recommend credit programs		Exemptions of in cash, in kind labour contributions	M&E of all activities in the plan.	

Dzongkhag			Gewog		
Administrative Powers	Financial Powers	Regulatory Powers	Administrative Powers	Financial Powers	
Not a legislative body, all rules and regulations must conform with national laws and regulations	Cooperatives involving inter-Gewog members		Not a legislative body, all rules and regulations must conform with national laws and regulations	Approval and appointment of the Gewog clerk	
	M&E of all activities in the Dzongkhag including Gewog plan activities		Set up cooperatives involving members within Gewog	Appointment of the Gewog tender committee	
	Award technical sanctions for works > Nu.20M				
	Award works or procurement order through Dzongkhag tender committee.				

Source: Manuals for 2004 for the Implementation of GYT and DYT Chathrim 2002.

## Annex 2: Devolution of Powers - LGAB June 2007:

Political	Administrative	Functional	Fiscal	Accountability	Regulatory and Support and Supervision
Art. 26 (a ) Provide democratic and accountable government for local communities	Art. 26 ( c ) Ensure that development occurs in a planned and harmonious manner	Art. 26 (b) Ensure the provision of such social and economic services for the general wellbeing of the residents of the communities in a sustainable and equitable manner	Art 28 LGs shall be entitled to levy, collect and appropriate taxes, duties, tolls and fees in accordance with such procedure and subject to limitations as may be provided for by law.	Art. 26 (e) Encourage the involvement of communities and community organizations in matters of local governance	Art 27 LGs will be supported by the central government in the development of administrative, technical and managerial capacities and structures which are responsive, transparent and accountable.
Art. 26 (f) Carry out any other responsibilities as may be prescribed by Parliament.	Art. 32 LGs shall be entitled to own assets and incur liabilities by borrowing on their own account subject to such limitations as may be provided for by law.	Art. 26 (d) Undertake any activity consistent with other relevant laws and policies which conserve and enhance the environment within the limits of its jurisdiction	Art. 29 LGs shall be entitled to financial resources from the Govt. in the form of annual grants.	Art. 84 The proceedings of the LG shall be conducted in public.	Art. 199 All activities of the different sectors of the government within the jurisdiction of a LG will be supervised and monitored by the chief executive of that LG.
Art. 33 A candidate to or an elected member of a LG shall not belong to any political party.	Art. 69 The DYT meets at least once every six months.	Art. 31 LGs shall be supported by the Govt. to promote area-based development planning.	Art. 30 LGs shall be allocated a proportion of the national revenue to promote self-reliant and self-sustaining units or activities of Local Self Government	Art. 87 All members after due consultation with the public of their respective constituencies, shall make their submissions for inclusion in the agenda.	Art. 200 The Gewog Admin will be monitored by the Dzongkhag Admin.



Political	Administrative	Functional	Fiscal	Accountability	Regulatory and Support and Supervision
Art. 65 All members of the LG shall serve the interests of their constituents and the territory under their respective LGs bearing in mind national interests and goals.	Art 70. The GYT shall meet at least once every four months.			Art. 110 LGs representatives shall not only be transparent and accountable to the people in their respective constituencies but shall also promote, institute and enhance transparency and accountability mechanisms.	Art 205 MHCA is responsible to prescribe the rules and regulations to support the implementation of the LGAB.
	Art.156 The LG shall be supported by an office headed by a secretary to the LG.			Art. 111 LGs shall publish their respective 5 year and annual plans, including programs and budgets which shall be made available to the public.	
	Art 162. There will be LG administrations which shall comprise of the Dzongkhag, Gewog and Gyelyong Administrations, and headed by a Chief Executive.			Art. 114 LGs shall make every effort to ensure public participation in the development of various plans and programs.	

Political	Administrative	Functional	Fiscal	Accountability	Regulatory and Support and Supervision
	<p>Art. 163. The Dzongdag Administration and as the chief executive will be the executive arm of government in the Dzongkhag.</p>			<p>Art 115. LGs shall produce an annual report which shall contain: a statement of funds received, including revenue, income and subsidy and expenditures; a list of tenders for works, goods and services awarded along with corresponding budget, receipts and contract value; latest annual audited statements; list of all commercial investments and returns; list of inventory of all immovable property and list of land and building with duration of lease and rental.</p>	
	<p>Art. 156 The LG is supported by an office headed by a Secretary of the LG.</p>			<p>Art 116 All LGs shall have a public notice board which is visible and prominent at the entrance of the office of the LG.</p>	

Political	Administrative	Functional	Fiscal	Accountability	Regulatory and Support and Supervision
	<p>Art 162. There will be a LG administration which is made up of the Dzongkhag Administration, Gewog Administration and the Gyelo Ng Thromde Administration headed by a Chief Executive.</p>			<p>Art 117 All members shall make every effort to ensure that people of their respective constituencies are informed of the plans and programs of the LG.</p>	

## **Annex 3: Financial Management Arrangements to Support Gewog Capital Grants**

## Local Government Support Programme – The Annual Capital Grant Facility to Gewogs<sup>27</sup>

### FINANCIAL MANAGEMENT ARRANGEMENT (FMA) FOR THE ANNUAL CAPITAL GRANTS FACILITY TO GEWOGS.

The following abbreviations are used in this FMA:

- Budget and Accounting System hereafter referred to as BAS
- Budget Fund Account hereafter referred to as BFA
- Danish Development Assistance hereafter referred to as Danida
- Department of National Budget hereafter referred to as DNB
- Department of Public Accounts hereafter referred to as DPA
- Development Partners hereafter referred to as DPs.
- Dzongkhag Tshogde hereafter referred to as DT (District Development Committee)
- Financial Management Arrangement (FMA)
- Financial Rules and Regulations hereafter referred to as FRR
- Government of the Kingdom of Denmark hereafter referred to as the GoDK
- Gewog Tshogde hereafter referred to as GT (Gewog Development Committee)
- Gross National Happiness Commission hereafter referred to as GNHC
- Liaison Office of Denmark hereafter referred to as LOD
- Letter of Credit hereafter referred to as LOC
- Local Governance Support Programme hereafter referred to as LGSP
- Financial Management Arrangement hereafter referred to as FMA
- Ministry of Finance hereafter referred to as MoF
- Public expenditure management hereafter referred to as PEM
- Public financial management hereafter referred to as PFM
- Royal Audit Authority hereafter referred to as RAA
- Royal Government of Bhutan hereafter referred to as RGoB
- United Nations Development Programme hereafter referred to as UNDP
- United Nations Capital Development Fund hereafter referred to as UNCDF

By Annual Grants means transfer of fiscal resources from central to local governments, used in accordance with local needs and planning and budgeting procedures within the overall national policies and guidelines. The Annual Grant includes both the capital and current grants. This FMA refers only to the capital portion of these Annual Grants.

This Financial Management Arrangement is entered into by the RGoB, represented by the Gross National Happiness Commission (GNHC), the DPs supporting the capital grants as described in the Local Governance Support Programme (LGSP) document. The FMA concerns the establishment of an Annual Capital Grant Facility for the 205 Gewogs and issues related to the piloting of the district block grants (see note 1), which are core components of the LGSP, supported by UNDP, UNCDF, GoDK, SDC and Austria. The FMA is open for participation from other development partners.

The total support to the Annual Capital Grant Facility to Gewogs from the Development Partners is described in the LGSP document.

<sup>27</sup> “Facility or Scheme”. This MoU describes the procedures and agreements on the Gewogs annual capital grant system. However, the MoU is also relevant for the future piloting of the district annual grants, and district specific issues are highlighted in a number of Articles. It is expected that a separate agreement will be made on the modalities for the district annual capital grants.

- Whereas the new Constitution, 2008 and Local Government Act, 2007 provide the supportive legal basis for the functioning of local government with a strong system of Gewog and Dzongkhag councils and administrations, with the functional and fiscal assignments to be further defined in the coming revised GT and DT Chathrim (regulations);
- Whereas the functional and financial assignments of the Gewog and Dzongkhag levels are currently being reviewed and drafted to follow-up on the recommendations from the Good Governance Plus (GG+) Report, 2005 and the Local Government Act, 2007;
- Whereas the Development Partners and the RGoB agreed to launch a joint programme to support to local governments called the LGSP;
- Whereas the RGoB and DPs entering this agreement, have agreed to support the LGSP in the coming five years 2008/9-2012/13 as specified in the LGSP Joint Programme Document; ;
- Whereas an important sub-component in this programme is the establishment of an annual grant facility with transfers of annual block grants to the 205 Gewogs to be supported from Financial Year 2009/10-2012/13;<sup>28</sup>
- Whereas the DPs have agreed to contribute with financial support to the RGoB according to the funding schemes included in the LGSP Joint Programme Document and the RGoB to contribute to funding of the annual grants in a manner where the total funding will be pooled into one account and where DPs funds will be fungible with the RGoB resources;
- Whereas the objectives of the overall LGSP are to: i) assist to strengthen and widen the block grant mechanism and provide budget support to the annual capital grants to Gewogs; ii) further improve the overall public expenditure management (PEM) and public financial management (PFM) procedures of planning, programming, budgeting, procurement, implementation, accounting, audits, reporting, assets management and monitoring and evaluation; iii) further improve overall capacity development and training for local governments; iv) continue to build capacity in accountability and transparency; v) help to enhance policy support for local government and vi) assist the RGoB to develop and pilot a model for provision of integrated Gewog administrative and community/information services.

The parties to this FMA hereby agree on the following modalities concerning the future annual block grants to the Gewogs and the fund flow arrangements of the grant facility:

## **Article 1: Purpose**

1.1 The objectives of the annual capital grants to Gewogs are to:

1.1.1 Support the implementation of the Constitution and the Local Government Act in the areas of promoting local decision-making, participation and service delivery;

1.1.2 Provide funds for investments in needed infrastructure and service delivery within core mandatory functions of the Gewogs in accordance with the local prioritized needs, in a

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<sup>28</sup> The Program also contains support to piloting of block grants to the district level, but this MoU mostly deals with the support to the Gewogs. However, it is expected that rather similar modalities can be established for the districts and the MoU refers to these issues where relevant.

sustainable manner with sufficient considerations for operation and maintenance of the structures;

1.1.3 Promote and stimulate Public Financial Management (PFM)/Public Expenditure Management (PEM) systems, procedures and practices by enhancing the Gewogs' capacity and options to improve performance and provision of funds to make the local planning and budgeting process meaningful, efficient, effective and participatory.

1.2 In addition to these core objectives, the annual capital grant facility will also assist in consolidating, mainstreaming and harmonising the overall intergovernmental fiscal transfer system in Bhutan and establish a strategic platform for the RGoB and the DPs to leverage financial support for improving local level infrastructure and services.

## **Article 2: Funding Arrangements**

2.1 The DPs contribute to the annual capital grant facility to Gewogs by transferring funds through the GNHC to the Budget Fund Account (BFA) of RGoB, maintained by the DPA - MoF. The funds will be disbursed by the DPA directly to the Gewogs in a timely and predictable manner. The total contribution from the DPs to the annual block grant facility will be minimum 1.1 million US\$ per year<sup>29</sup> over a period of four years from 2009/10-2012/13, or approximately an average amount of 5,366 US\$ per Gewog per year, provided that the RGoB allocates as a minimum level a substantially higher amount of funds for the same purpose.

2.2 The funding from the DPs and the RGoB will be transferred as one amount to the Gewogs (not two funding streams). The actual size of the transfers to each Gewog will depend on the allocation formula and the Gewogs' compliance with the defined minimum access conditions (see articles 4 and 5).

2.3 The DP funds will be transferred to the Budget Fund Account (BFA) twice a year.

2.4 The RGoB is expected to finance the major share of the annual block grant facility and has preliminarily indicated in the draft 10th FYP, Volume II, Summary, that the total annual funds for the annual block grants will be substantially higher than the contribution committed by the DPs. The actual figures will be further clarified prior to the signing of the LGSP.

2.5 The DPs commit to provide assistance to piloting of block grants to two districts in the tune of 100,000 USD for 2 cycles for 2 districts, i.e. USD 25,000 per district per Financial Year. The procedures for the handling of district grants will have to be elaborated during the implementation of the LGSP, but these are expected largely to follow the principles outlined in this FMA for Annual Capital Grants to Gewogs.

## **Article 3: Funding Flow and Reporting Procedures**

3.1 The DPs transfer their contributions through the GNHC to the BFA on bi-annual basis with a system that ensures that the funds are available on time. The DPA-MoF ensures that funds are available from RGoB and the RGoB funds will be pooled with the funds from the DPs,

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<sup>29</sup> Subject to exchange fluctuation rates

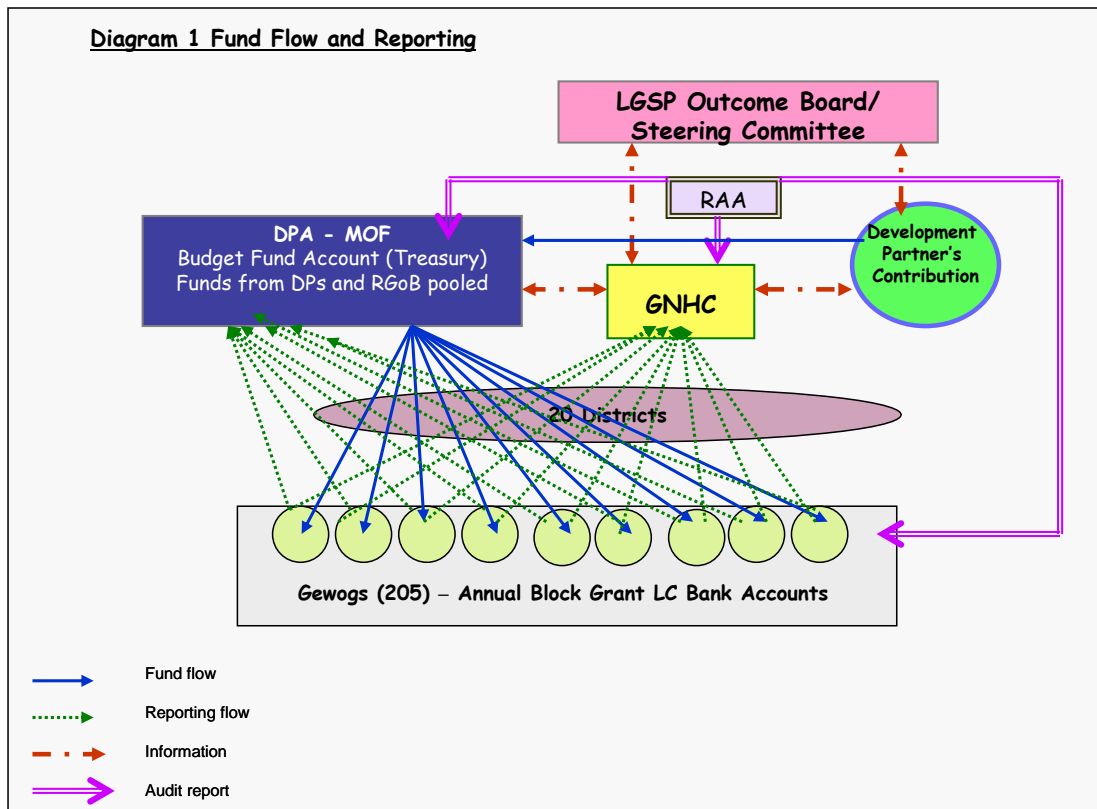
and transferred to the existing Letter of Credit Accounts of the Gewogs<sup>30</sup>. The transfers will be made in equal quarterly instalments, (i.e. a new system of disbursements will be introduced). The procedures for disbursements should be followed by all parties, unless all the parties agree in changes.

3.2 The chart, below, shows the flow of funds and reporting system. Funds will only be released by the DPA - MoF, after receiving the monthly accounts and if the Gewogs have complied with the minimum access conditions, see the Diagram 1 which follows:

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<sup>30</sup> If the use of the existing LOC accounts of the Gewogs becomes cumbersome a separate LOC account could be opened. The advantages of a separate Annual Block Grant LC Bank Account are in terms of accountability, reporting and transparency (funds are not mixed with salaries, tied grants etc.), but particularly to ensure that funds from this dedicated LC capital account can be transferred across the years without re-application within the set limit of one quarterly release. The transaction costs of establishing of one extra account are minimal.





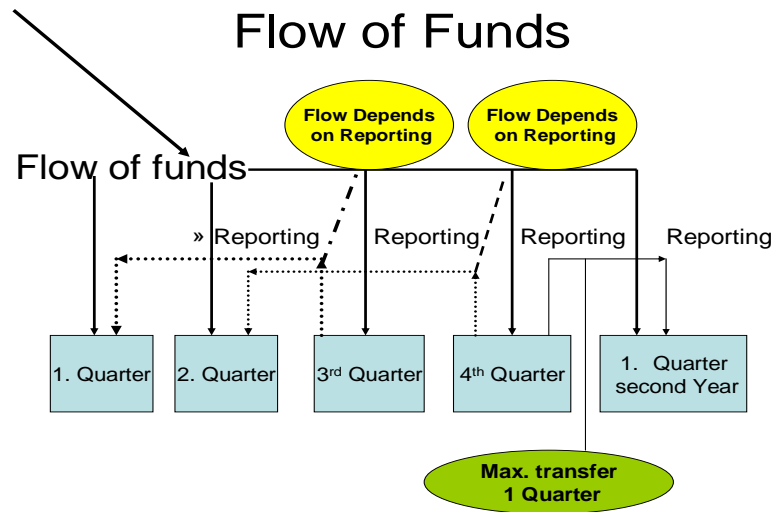
*BFA: Budget Fund Account of the RGoB, maintained by the DPA-MoF. The districts consolidate the physical progress reports prior to submission to GNHC.*

3.3 The first quarterly release for the first Year will be made no later than the 15th of July 2009 provided that the Gewogs have complied with the minimum conditions, defined in the Guidelines for the Annual Grants for Local Governments, and summarized below under Article 5.

3.4 Gewogs are required to report on a quarterly basis for the use of funds (disbursements) and on the progress of the activities/outputs (physical progress/results reporting) using simple reporting formats, defined in the Block Grant Operational Guidelines. The monthly accounts used for other expenditures will also be mandatory for the block grants as per the 2001 Financial Rules and Regulations (FRR). The financial and physical progress reports will be submitted to the MoF, with a copy to GNHC. The quarterly reports should be submitted no later than 45 days after the end of each quarter. Reports should be submitted even where spending has not taken place to ensure an overview of the performed activities. The GNHC will inform the MoF about the compliance on the physical output reporting, including the Gewogs' compliance with the eligible/allowed expenditures to be funded from the annual block grants.

3.5 The Dzongkhags will consolidate the physical progress reports prior to submission to the GNHC. Concerning the financial statements, the Gewogs can submit their statements directly to the DPA - MoF, using the Budget and Accounting System (BAS), however the default option will be consolidation of the statements at the dzongkhag level. In any case the Dzongkhags should receive a copy of each financial statement for monitoring purposes. The DPA - MOF will inform the GNHC on progress in the financial reporting and provide a consolidated overview on the utilisation of funds.

3.6 All releases depend on proper accountability for the previous quarter but one. This means that the release of the third instalment will depend on the receipt and approval of reports on first quarter's expenditures, the fourth quarterly release depends on fulfilled reporting requirement for the second quarterly release, etc. The first two quarterly releases will be done automatically when the MCs are complied with (see Article 5). This is to ensure that the funds are transferred without delay in each quarter, see the figure below.



3.7 Based on reports from the Gewogs, and a subsequent consolidation of the reports with overview of disbursements and utilisation, the GNHC requests contributing DPs to proceed with the transfer of funds. The contributing DPs will ensure that the account is front loaded with funds in the tune of minimum one fourth of an annual release from the DPs. MoF reports to the LGSP Outcome Board/Steering Committee on the status of fund transfers and fund balances to the Gewogs.

3.8 All reporting and information between the parties will be completed no later than 45 days after the actual transactions (e.g. transfers, withdrawal of funds etc.).

3.9 Reporting on the use of funds will also be provided by the GNHC (which will receive information from DPA - MoF) to the contributing DPs and the LGSP Outcome Board/Steering Committee on a quarterly basis.

3.10 The districts will have an important role in technical backstopping the Gewogs to provide the physical progress reports and the monthly and quarterly accounts in areas where the Gewogs are not submitting directly to DPA through the BAS.

3.11 The annual capital grant facility will require extra efforts from the MoF and the GNHC to monitor, supervise, support the capacity building of the Gewog level, and the RGoB and the DPs hereby commit themselves to provide significant support to implement these new activities.

## **Article 4: Annual Capital Grant Allocation Criteria**

4.1 The funds will be divided across the 205 Gewogs according to an objective, transparent, simple and fair allocation formula. The criteria applied will address and target the differences in the Gewogs' expenditure needs (including demographic considerations), costs of service delivery and fiscal capacity while preserving the incentives for the Gewogs to improve the delivery of services and outputs. In the first two years a simple formula, based on the following four criteria will be applied: 1) Size of the population (the criterion with the highest weight); 2) Environmental factor(s) (e.g. the availability/preservation of forest); 3) Indicator for vulnerability/poverty level in each Gewog and 4) The size of the Gewogs' territory (land area). The specific criteria weights will be defined in the Guidelines for the Annual Grants for Local Governments.

4.2 The system should use official data and verified information. Over the years, when more reliable data will be available, other needs-based criteria and performance measures may be introduced in the allocation formula.

4.3 The annual capital grant facility will initially use the basic allocation formula and a few specific minimum access conditions to determine the size of the grants as, defined in Article 5. Over the time, more performance-based allocation criteria to promote the Gewogs' performance in defined core functional areas should be considered in the formula, based on identified needs for improvement of performance.

## **Article 5: Conditions for Access to Annual Capital Grant Transfers and Future Result Measures**

5.1 A few core minimum access conditions (MC) have to be complied with by the Gewogs in order to be eligible to receive their calculated share of block grants as determined by the basic allocation formula. Failure to comply with these MCs will automatically lead to disqualification of the Gewogs from access to the grants for the specific Financial Year<sup>31</sup>. The MCs will be reviewed/revised yearly to study the relevance of the MCs in enhancing the PEM and PFM performance of Gewogs. Those Gewogs which have limited capacity are to be provided with additional and targeted capacity development support.

5.2 The MCs for the first Financial Year of the annual capital grant facility (FY 2009/10) will be detailed in the Guidelines for the Annual Grants for Local Governments, and will at the minimum cover:

- a) Annual Gewog Plan with planned investments in accordance with the functional assignments of the Gewogs and defined through involvement of the communities and finally endorsed by the GT,
- b) Monthly accounts as per the Financial Rules and Regulations, 2001 and existing guidelines of the Ministry of Finance.
- c) Minutes of the GTs related to the Annual Plans.

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<sup>31</sup> Note: those Gewogs which are disqualified will not be eligible for any "spillover" in the next financial year.

d) From the second year onwards, in cases of grave/significant audit comments<sup>32</sup> to the previous FY's management and expenditures of the Gewog, documentary proof that these memos have been resolved.

5.3 In the future years, other core areas such as compliance with the eligible expenditure list of the annual capital grant facility, with the procurement procedures and regulations and other regulations will also be minimum conditions for access to the capital block grants. The Gewogs will be required to publish plans, budgets and actual utilisation of grants, through notice boards and other available means<sup>33</sup>.

5.4 In addition to these MCs, the failure to comply with the “triggers” for fund release, the quarterly reporting and accountability requirements, will lead to automatic withhold and reduction of funds until the problems have been rectified. Finally, lack of utilisation of funds or use of funds outside of the eligible areas, as per Article 6 will lead to reduction of the block grant for the subsequent year. The Gewogs will be provided with technical assistance/capacity building support to enhance their capacity within the entire project implementation cycle from planning to monitoring and reporting.

5.5 The indicative planning figures (estimated amounts of capital block grants provided that all conditions are fulfilled) and the minimum conditions will be notified to Gewogs no later than in the month of December each Year prior to the actual Fiscal Year. The Gewogs' compliance with the Minimum Conditions will be determined no later than by June each Year to enable a timely flow of funds from July.

5.6 It is expected that further results-based allocations will be introduced in the future to appreciate and reward the well-performing Gewogs within areas such as planning, budgeting, financial management and project execution. Criteria for these results will be elaborated based on studies of the Gewogs' performance and functional gaps.

## **Article 6: Use of Annual Capital Grants**

6.1 The annual capital grants can as a major rule only be used on public goods for capital investment expenditures, such as investments in new structures, buildings, facilities and rehabilitation, up-grading of existing services and infrastructure. The block grants are not tied (earmarked) to a specific sector and/or project. In order to ensure strong project preparations and implementation up to a maximum of 5 % of the grants can be spent on investment servicing costs, which are defined as costs related to feasibility studies, planning, appraisal, design and costings, advertisement concerning procurement, monitoring and follow-up on the project implementation. Furthermore, up to maximum of 5 % can be spent on maintenance of larger projects within areas such as roads, health units and larger water supply schemes. Smaller community based projects are supposed to be maintained by the communities. The remaining funds, i.e. minimum 90% of the grants, are to be used for capital development purposes within areas defined by the Gewog (GTs) in compliance with the functional assignments as defined in the Annual Block Grant Operational Guidelines.

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<sup>32</sup> The definition of “grave/significant” will be agreed on between the GNHC and the RAA.

<sup>33</sup> Note that to determine the most effective accountability and transparency measures, the GNHC is currently piloting different approaches and will provide guidance in due time.

6.2 A short negative list will be elaborated for non-eligible expenditures as described in the Guidelines for Annual Grants for Local Governments, such as recurrent costs, salaries and allowances, credit schemes, vehicles, which are not related to specific services, services of private nature (which benefit only few people) as well as investments in private business, such as shops, industries, etc.

6.3 The funded projects should be within the annual GT plan or covered by the approved revisions to the plan as adopted by the GT. This procedure is different from the present procedures where the issues have to be agreed in the DT. The eligible investments will be clearly outlined in the Guidelines for Annual Grants for Local Governments.

6.4 Gewogs are required to adhere to the list of eligible expenditures and the destination of funds will be strictly monitored by the MoF, the GNHC and audited by the RAA.

### **Article 7: Community contribution**

7.1 The requirement of community contribution will follow the prescribed RGoB rules and regulations, and will be further defined in the Operational Guidelines of the Annual Capital Grant Facility, balancing the objectives of ensuring community involvement/ contribution/ cost efficiency and the wish to ensure that vulnerable groups/communities are not overstretched with requirements on voluntary contributions, providing a window for each GYT to define the best implementation modality (private, community voluntary, paid community services, etc.). The community contribution will also depend on the type of investments, particularly the extent to which the benefits are localized, e.g. of benefit for one smaller village, or of cross village nature, e.g. a major feeder road.

### **Article 8: Accounting and Financial Management at the Gewog Level**

8.1 Accounting will be done according to the Financial Rules and Regulations the Accounting and Financial Regulations under the GT Chatrim (2002) and the Manual for Implementation of the GT Chatrim (2004).<sup>34</sup>

### **Article 9: Institutional Arrangements**

9.1 The annual block grant facility will be coordinated by the GNHC in close cooperation with the MoF and with technical support from the contributing DPs. The LGSP Outcome Board/Steering Committee will discuss the component progress of the LGSP, including activities under the annual block grant facility. This Committee is composed of the following representatives:

- Secretary (or his/her representative) of the Gross National Happiness Commission as Chair
- Head of the Policy and Planning Division, Ministry of Home and Cultural Affairs
- Directors of DNB and DPA , Ministry of Finance

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<sup>34</sup> The present GT Chatrim and Implementation Manual will be reviewed within the near future in line with the Local Government Act, 2007.

- 1 Dzongda
- 2 DT (DYT) Chairpersons, elected from and by the DT Chairs<sup>35</sup> on a rotating basis for a period of two years
- Representatives of the DPs subscribing to the LGSP

## **Article 10: Roles and Responsibilities**

10.1 The GNHC will be responsible for the following functions in respect of the capital block grant facility:

- Based on the allocation formula determine the annual capital grants for each Gewog.
- Elaborate the Guidelines for the Annual Grants for Local Governments,
- Up-date and maintain the database with the horizontal allocation criteria and amounts in cooperation with the MoF,
- Elaborate and up-date the allocation formulas for the horizontal distribution of funds to the Gewogs,
- Elaborate the design of the reporting formats in corporation with the MoF,
- Follow-up on the physical progress reports from the Gewogs and inform the MoF on the Gewogs' compliance with the minimum conditions and reporting requirements,
- Follow-up on all reporting from the grants, clarify issues on the grant utilization, process the data, make analysis, and inform the SC on a biannual basis,
- Provide advise to the Gewogs on the transfer of funds, utilization and reporting,
- Up-date and maintain the fiscal databank on grant allocations and utilization,
- Prepare quarterly and bi-annual reports to the SC of the LGSP on the grant flow and utilization, fiscal (based on input from MoF) and physical progress reports,
- Prepare final reports on utilization in cooperation with MoF,
- Contribute actively in the capacity building support of the Gewogs within the PEM/PFM and block grant relevant areas,
- Immediately inform the DPs of any condition which impedes or threatens to interfere with the successful implementation of the Annual Block Grant Facility.
- Chair and participate in the LGSP Outcome Board/Steering Committee.
- Take care of secretarial functions.

10.2 The MoF will be responsible for the following functions in respect of the Annual Capital Grant Facility for Gewogs:

- Ensure that the annual capital grants are reflected in the annual National Budget,
- Prepare annual and quarterly schedule for allocation of the capital block grants to the Gewogs,
- Authorising and monitoring the bank accounts for the transfer of funds from the DPs and the RGoB,
- Ensure availability of sufficient funds for the transfers of the quarterly capital block grants from the BFA account,
- Quarterly transfer funds (equal quarterly instalments) from the BFA to the dedicated account in the Gewogs (new Letter of Credit account) in a timely and predictable manner, i.e. no later than on the 15<sup>th</sup> in the first month of each quarter,
- Provide timely information to the GNHC on the transfers of funds on a quarterly basis and Gewogs' use of funds,

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<sup>35</sup> 1<sup>st</sup> time by the meeting of DYT Chairpersons in June 2008.

- Participate to the extent possible in the capacity building activities on PEM/PFM for the Gewogs,
- Maintain the consolidated financial statements pertaining to the accounts for the annual capital grant facility.
- Inform the GNHC of any conditions which impede or threaten to interfere with the successful implementation of the annual capital grant facility
- Participate in the LGSP Outcome Board/Steering Committee.

10.3 DPs will be responsible for the following functions in respect of the annual capital grant facility:

- Transfer funds to the GNHC for further transfer to the DPA - MoF BFA account according to agreed schedule on an bi-annual, timely and predictable manner,
- Provide long and short-term technical assistance through the LGSP, particularly on PEM/PFM related areas when required and budgeted for,
- Participate in the LGSP Outcome Board/Steering Committee.

## **Article 11: Roles of the Gewogs**

11.1 The Gewogs will:

- Be fully accountable for the use of funds in adherence with the guidelines for annual block grants, including compliance with the reporting requirements and standard financial management procedures (including submission of monthly and quarterly financial statements as well as quarterly physical progress reports),
- Efficiently use the funds in accordance with the objectives and eligible expenditure list,
- Participate actively in the capacity building activities to promote their performance,
- Provide required information on progress in the various activities concerning the operations of the annual block grant funded schemes.

## **Article 12: Roles of the Districts**

12.1 The districts will have important roles in supporting and monitoring the Gewogs' performance within the annual block grant facility. The districts will support the Gewogs in the planning, budgeting (and costing) and implementation process and consolidate the quarterly physical progress reports and the financial reports in areas where the directly reporting flow from the Gewogs to the DPA through BAS is not yet operating. The districts will also monitor the general implementation of the block grants and inform GNHC and MoF about any problems, challenges and issues which may impede on the successful implementation.

12.2 The pilot districts, which receive district annual block grants, will have the same obligations as the Gewogs under Article 11.1.

## **Article 13: Guarantee for Disbursements and Possibilities to Transfer Funds between Fiscal Years**

13.1 The exact funding requirements for the annual capital grant facility will be difficult to estimate during the time for the budget preparatory work. Funding requirements will depend on the assessment of compliance to minimum conditions, on the actual utilisation of funds by the Gewogs and compliance with the triggers for fund release. Therefore, with the signature of this

Memorandum of Understanding, the RGoB commits itself to ensure that unspent funds in one Financial Year, transferred from the DPs and the RGoB to the account for the purpose of the annual capital grant facility, will be transferred and lead to a correspondent increase in the annual capital grant funds available in the subsequent years, and that these procedures will be followed throughout the entire programme period from 2009/10-2012/13.

13.2 Gewogs will be allowed to transfer an amount in tune of maximum one quarterly release from one Financial Year to the subsequent Financial Year as described in the Guidelines for Annual Grants for Local Governments. Thus Gewogs will be required to report, by the end of the 3rd quarter of each FY on their forecasted unspent balance for spill over. This request will then be based on the normal budget process. Remaining (unspent) funds will be used to increase the amount of funds to be included in the future allocation formula for distribution of annual block grants across all Gewogs for the subsequent year(s).

13.3 Changes in the annual block grant allocation procedures can only be made in dialogue with all the members in the LGSP Outcome Board/Steering Committee.

#### **Article 14: Procurement Rules**

14.1 Gewogs shall make their procurement in accordance with the RGoB procurement regulations. Adherence to these rules will be a part of the future minimum conditions for access to the annual capital grants.

#### **Article 15: Audit and Reviews**

15.1 The RAA will conduct audits of the annual accounts of the Gewogs in accordance with the Audit Act, including audit of the transfer and utilization of the annual capital grants on a timely basis, i.e. within 6 months after the end of the Financial Year. The results shall be available to the involved parties of this FMA.

15.2 The representatives of the DPs shall have the right to carry out any audit or inspection considered necessary as regards the use of the DPs funds in question, on the basis of all relevant documentation, and to inspect accounts and records of suppliers and contractors relating to the performance of the management and use of the funds for the annual block grants, and to perform a complete audit.

15.3 The DPs will conduct regular (e.g. annual) joint reviews, encompassing technical or financial missions that are considered necessary to monitor the implementation of the programme. To facilitate the work of the person or persons instructed to carry out such monitoring missions, the RGoB shall provide these people with all relevant assistance, information and documentation.

#### **Article 16: Execution of the FMA and Consultation**

16.1 This FMA shall enter into effect after the signature of the LGSP Joint Programme Document by all the parties.



16.2 The parties shall on a regular basis keep each other informed of and consult on matters of common interest, which in their opinion are likely to lead to mutual collaboration through the meetings in the LGSP Outcome Board/Steering Committee.

16.3 The parties shall at such intervals as deemed appropriate convene meetings to review the implementation of the present FMA and its provisions.

#### **Article 17: Disputes**

17.1: Any dispute concerning the interpretation or implementation of this FMA shall be settled by negotiation between the parties. In case the dispute has not been settled within a time limit of one year, the matter may be referred to arbitration by either party.

17.2: The arbitration shall operate according to the following rules: The number of arbitrators shall amount to a total of three, one designated by either of the parties, i.e. two, and a third designated by the former two. In case of dispute between the former two arbitrators as to the designation of the latter, the latter will be designated by a neutral institution to be identified by the former two. The arbitrary award shall be submitted in written form and must be signed by all three arbitrators. The proceedings to be followed by the Court of Arbitration shall be decided on by the three arbitrators, who shall also determine the distribution between the two parties of the costs relating to the arbitration.

#### **Article 18: Termination**

87.1 This FMA shall remain in force for the duration of the LGSP Joint Programme. The FMA can be amended/changed with the full consent of all parties.

18.2 The Parties may terminate the agreements under this FMA through an exchange of letters or unilaterally by a notice of termination. Such notice will come into effect 6 months after having been received by the other party.

**NOTE: SIGNING OF THE LGSP JOINT PROGRAMME DOCUMENT ACTIVATES THIS FINANCIAL MANAGEMENT ARRANGEMENT**

## Annex 4: Results and Resources Framework

<b>Intended Outputs</b>	<b>Indicative Activities</b>	<b>Measurable Output Indicators</b>	<b>Inputs</b>	<b>Indicative Cost US\$</b>
				<b>4,889,442</b>
1.0 Effective and transparent financing mechanism for local government service delivery	1.1 Develop and implement the Gewog Annual Capital Grant Facility	Annual Capital Grant Facility operational	Resources to finance gewog grants (4.4M) TA, workshops	4,460,389
	1.2 Develop and implement minimum conditions of access and result measures for the Gewog Annual Capital Grant Facility	-90 percent of local governments (dzongkhags and gewogs) receive and report on the capital budgets on time and schedule	TA, workshops, operational costs, local TA	120,941
		-Quarterly reports from GNHC and MOF to LGSP OB/SC		
		-Audit reports		
	1.3 Develop and pilot a block grant facility in at least 2 districts	Annual Capital Grant Facility operational for districts	Resources to finance district grants (1 M) TA, workshops, operational costs	130,000
	1.4 Revision of Chatrimis and LG grant formula.	-GT and DT Chhatrimis and rules and regulations revised and submitted to NA by end of 2009	TA, workshops, operational costs, local TA	178,000

		IGFT formula available to DPs		
<b>Intended Outputs</b>	<b>Indicative Activities</b>	<b>Measurable Output Indicators</b>	<b>Inputs</b>	<b>Indicative Cost US\$</b>
				<b>451,160</b>
2.0 Inclusive, efficient and accountable public expenditure management procedures for local government	2.1 Improved public expenditure management procedures and materials to support the same.	-10 percent of GT and DT elected members are women by 2013.	TA, workshops, operational costs, local TA, travel	215,000
	2.3 Improved accountability measures incorporated into the PEM process.	-90 percent of local governments applies new planning methods (RBM) to develop their annual plans . -year-on-year decrease in the number of critical bservations in financial audits Utilization of budgets disbursed to dzongkhags and gewog decreased from 70 percent to 90 percent in 2013	TA, workshops, operational costs, local TA, travel	133,160
	2.4 Development of district/gewog procurement processes and related manuals and training materials.	-LG procurement procedures developed and approved.	TA, workshops, operational costs, local TA, travel	45,000
	2.5 Development of templates for the design and costing of common infrastructure projects to be implemented in districts and gewogs.	- Most common projects identified and templates developed.	TA, workshops, operational costs, local TA, travel	58,000

<b>Intended Outputs</b>	<b>Indicative Activities</b>	<b>Measurable Output Indicators</b>	<b>Inputs</b>	<b>Indicative Cost US\$</b>
				<b>1,227,272</b>
3.0 Effective national support/training mechanism for local government personnel.	3.1 Assist the RGOB to update, improve and provide the <b>"minimum package" of training</b> to all LGs as indicated in the Integrated Capacity Development Plan.	-85 percent of gewog staff and elected members have participated in minimum training package by 2013 -85 percent of local government staff have been trained in key functional topics by 2013	TA, workshops, operational costs, local TA, travel	675,000
	3.2 A basic set of equipment will be provided to all gewogs.	100 percent of basic equipment procured, installed and in operation by 2009.	Equipment, local TA, travel	526,500
	3.4 Monitoring and evaluation of LGs and including capacity development initiatives	-quarterly reports disaggregated by gender	TA, workshops, operational costs, local TA, travel	25,772
<b>Intended Outputs</b>	<b>Indicative Activities</b>	<b>Measurable Output Indicators</b>	<b>Inputs</b>	<b>Indicative Cost US\$</b>
				<b>257,872</b>
4.0 Central government's policy, regulatory, support and supervision functions strengthened	4.1 Mandates and institutional responsibilities for policy development, regulatory controls and support and supervision of LGs are clarified and described.	- reports, mid term and final evaluation/ review mission -substantive interventions by GNHC	TA, workshops, operational costs, local TA, travel	39,872
	4.2 Other support in areas such as fiscal decentralization and functional assignments provided as required.	-Reports, mid-term evaluation/review mission	TA, workshops, operational costs, local TA, travel	58,000
	4.3 Guided regional study tours for LDD on pertinent decentralization topics	-report on study tour	TA, travel	160,000

<b>Intended Outputs</b>	<b>Indicative Activities</b>	<b>Measurable Output Indicators</b>	<b>Inputs</b>	<b>Indicative Cost US\$</b>
				<b>164,923</b>
5.0 Effective models for integrated public service and information delivery at local levels	5.1 Review, analyze results and make recommendations on the various pilots undertaken on this theme.	-RGoB most commonly used services identified.	TA, workshops, operational costs, local TA, travel	30,000
	5.3 Establish and build capacity for the e-governance centers	-2 integrated public service centers' established and in operation by 2010; - 4 centre's in 2011	Training, workshops, procurement, travel	100,000
	5.3 Evaluate the outcomes and lessons learnt from this exercise.	-Final evaluation report; customer satisfaction survey		34,923
<b>Intended Outputs</b>	<b>Indicative Activities</b>	<b>Measurable Output Indicators</b>	<b>Inputs</b>	<b>Indicative Cost US\$</b>
				<b>259,331</b>
M&E of LGSP	Mid-term Evaluation/Review Mission	Report and findings discussed and implemented		94,331
	Final Evaluation	Report		85,000
	Annual review of LGSP and lessons learnt workshops	Reports from annual reviews and recommendations implemented.		80,000
<b>TOTAL</b>				<b>7,250,000</b>