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MINISTRY OF FINANCE
ROYAL GOVERNMENT OF BHUTAN

MoF/Budget Call/2019-20

25th Jan 2019

Sub: Budget Call Circular for Fiscal Year (FY) 2019-20

The Ministry of Finance is pleased to issue Budget Call Circular for Fiscal Year 2019-20 in accordance with section 23(b) of the Public Finance (Amendment) Act 2012.

As budgetary bodies are aware, the Government approved the 12FYP with an outlay of Nu. 310.016 billion of which Nu. 116.121 billion is for capital expenditure and Nu. 193.895 billion for current expenditure. The estimated resources for the 12FYP is Nu. 280.773 billion of which Nu. 217.728 billion is expected from domestic revenue and Nu. 63.104 billion is expected as grants. The fiscal deficit for the 12FYP is estimated at Nu. 29.243 billion which is about 2.4% of GDP.

For the FY 2019-20, the Government has approved the **capital budget ceiling at 20%** of the capital outlay of the 12FYP. Accordingly, estimated budget for the FY 2019-20 is Nu. 60,940.282 million, of which Nu. 37,684.914 is current and Nu. 23,255.368 million is capital. The resource envelope estimated by the Macroeconomic Fiscal Coordination Committee (MFCC) is Nu. 56,091.398 million of which Nu. 45,316.437 million is domestic revenue and Nu. 10,774.961 million is expected from external and internal grants. The fiscal deficit for FY 2019-20 is estimated at Nu. 4,848.884 million which is about 2.23% of the GDP and the deficit will be financed through external and domestic borrowings.

While preparing the budget, the agencies shall be guided by the Royal Address to the nation on the occasion of the 111th National Day, where His Majesty the Druk Gyalpo highlighted that:

“As a developing country, we have limited resources. We must manage our available resources wisely, minimize waste, and ensure that all our resources are directed at improving the well-being of the people, and in fulfilling our national vision. The civil service is tasked with the oversight, management, administration, and disbursement of funds for governance. So the responsibility falls squarely on the shoulders of our civil servants to ensure efficiency and effectiveness in utilizing our scarce resources”.

In obedience to the Royal Address and for promoting financial thrift, the Government has approved the institution of Finance Committee at the agency level, mandatory requirement of pre-requisite studies for all development works above Nu. 1 million, and rationalization of non-



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developmental and recurrent expenditure. Further, to deepen decentralization, the Government has approved the introduction of Annual Grants for Gewogs starting from FY 2019-20.

Considering the above initiatives and to guide the Agencies, guidelines for preparing the annual budget for FY 2019-20 is attached as Annex I. The budgetary bodies shall submit the budget proposal latest by 10th March 2019.

While budget proposals are to be submitted online using MYRB system (www.myrbpems.bt), agencies must also submit 'budget write up' along with the detailed cost estimates and necessary supporting documents to the Department of National Budget (DNB) with a copy each to the Gross National Happiness Commission Secretariat (GNHCS) and the Government Performance Management Division (GPMD), Cabinet Secretariat.


[Nim Dorji]
Finance Secretary

Copy to:

1. The Hon'ble Ministers for kind information.
2. All Ministries/Constitutional Bodies/Autonomous Agencies/Dzongkhags/ Gewogs.



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Guidelines for Preparing Budget for FY 2019-20

A. General Guidelines

1. **Alignment of the Budget proposal to the 12th Five-Year Plan and APA targets:** All programs and activities in the proposed budget must be aligned to the 12th FYP programs and activities and the APA targets. This is to ensure that adequate budget is secured for achieving the APA targets.
2. **Institution of Finance Committee (FC):** As a measure to ensure prudence and promoting financial thrift in the country, a 'Finance Committee' in each Ministry and Dzongkhag shall be established with the Head of agency (Secretary/Dzongdag) as Chairperson, Department/Division Heads as members and Chief Finance/Finance officer as Member Secretary. The Committee shall meet at least once in a quarter and discuss all matters relating to budget management including budget proposal, prioritizing activities within the budget ceiling, re-appropriation and request for additional budget, and other budget related activities. The MoF will consider budget related matter based on the recommendation of the Finance Committee.
3. **Annual Grant for Gewogs:** In keeping with Article 22 (18) (c) of the Constitution of the Kingdom of Bhutan and Chapter 15 Section 218 of the Local Government Act 2009 (Amendment 2014) the Government has approved the introduction of Annual Grant for Gewogs starting from FY 2019-20. The Annual Grant to Gewogs is expected to provide the Local Governments with flexibility and autonomy to allocate resources on locally identified and prioritized needs under the 12FYP, besides promoting accountability and ownership in the overall management and execution of the allocated budget. The annual grant for each Gewogs shall be based on the resource allocation formula (RAF) for capital allocation and the current expenditure based on actual estimates. The grant shall be used as per the Guidelines for Annual Grant for Gewogs issued by MoF.
4. **Dzongkhag Development Grant:** Starting from FY 2019-20, each Dzongkhag shall receive Nu.10 million annually as Dzongkhag Development Grant (DDG) which shall be implemented as per the guidelines issued by the Ministry of Finance.
5. **Gender, environment, climate change and disaster:** As 12FYP calls for mainstreaming crosscutting themes, the budgetary agencies must ensure that budget proposals are inclusive of gender, environment, climate change, and disaster.



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6. **Pre-requisite studies:** Budget proposal for developmental works exceeding Nu. 1 million, shall be mandatorily based on pre-requisite studies which shall include atleast detailed drawings, design and estimate.
7. **External funded programs/projects:** To maintain the sanctity of the budgetary system and prevent the proliferation of extra-budgetary funds as mandated by the Public Finance Act 2007, agencies must ensure, to include all on-going externally funded developmental projects in the budget proposal based on the annual work plan, implementation capacity and fund commitment. Since all external grants and borrowings whether ongoing or in pipeline are accounted as resources for the 12 FYP, all financing from external sources must support activities of the 12FYP. Incorporation of external fund for on-going projects during the course of the FY shall not be entertained. Further, no recurrent budget should be proposed under external funding (grants and loan) unless it is an RGoB obligation under the project agreement.
8. **Allocation/reallocation of savings from the external fund:** In keeping with Section 60 of the Public Finance Act 2007, usage or re-appropriation of savings from the closed programs or projects that are financed or financed jointly with the Government must be approved by the Government based on agreement between the donors and the Government.
9. **Equity and Subsidy for State-Owned Enterprises:** All the State-Owned Enterprises requiring equity injection and subsidy must submit proper justification supported by financial statements to the Department of Macroeconomic Affairs, MoF. The DMEA shall review the proposals and recommend the same to DNB.
10. **Fiscal Transfers:** For determining the allocation of fiscal transfers, the Thromdes must submit a signed statement of actual revenue collected till 31st December 2018 for FY 2018-19 and revenue projection for FY 2019-20 along with the expenditure details for FY 2019-20. Similarly, other agencies like RUB must submit the status of fund balance as of 31st January 2019 along with the budget proposal.
11. **Budget line:** In order to facilitate proper record keeping and accounting, Finance Officers must ensure to maintain the same budget lines for on-going activities till the activities are complete and advances fully liquidated.
12. **Submission of Asset inventories:** For proper justification of O&M budget requirements, agencies must submit updated inventory for all assets including land, buildings, equipment, computers, vehicles, etc. with a copy to DNP for record.



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13. **Activity Tagging in MYRB:** In order to capture the centrally executed programs and activities in the budget of the respective Dzongkhags and Gewogs, finance officers of the Agencies/Ministries implementing such programs/activities must ensure proper tagging of activities in the MYRB.

B. SPECIFIC GUIDELINES FOR PREPARING BUDGET PROPSAL (FY 2019-20)

14. **Current Budget:** To maintain the recurrent expenditure within the domestic revenue as mandated by the Constitution of the Kingdom of Bhutan, the current budget ceiling for all the budgetary agencies have been determined based on necessary operational cost required to deliver the core mandates and the domestic revenue projection. Accordingly, the current budget ceiling for your agency is set at Nu.....million inclusive of all the externally funded projects. The ceiling excludes Pay and Allowances, Provident Fund Contributions, Stipend, Retirement Benefits, and Provision for New Appointments. The budgetary agencies must observe the following while preparing the current budget:
- a. **Pay and allowances:** Proposal for pay and allowances of regular employees should be based on the actual number and type of employees in the agency. Based on the approved staff strength and recruitment plan thereof, agencies must also propose adequate provision for new appointments.
 - b. **Travel In-country:** Budget proposal for in-country travel pertaining to projects/programs must be proposed under respective projects/programs and not club under 'General Administration Services'. In-country travel under 'General Administration Service' must be for LTC and general travel required for providing administration services only.
 - c. **Travel Outside Bhutan:** Budget for ex-country travel under RGOB financing shall only be provided for mandatory travel obliged by international, regional agreements/conventions duly approved by the Royal Government of Bhutan. Therefore, budget for ex-country travel must be proposed under separate activity with proper activity name. For example, 'ANNUAL BIMSTEC MEETING'. The detailed estimates along with the necessary documentation including number of delegations should be submitted in hard copy.
 - d. **Rental of property- Building:** Budget proposal for rental of existing office buildings must be supported with copies of lease agreements. Budget proposal for execution of new lease agreements for office space shall be provided based on approval from competent authority. The Department of National Properties (DNP) shall review and approved the rent for all office building.



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- e. **Retirement Benefits:** All budgetary agencies must ensure to propose retirement benefits of those civil servants due for superannuation in FY 2019-20. No budget for superannuation shall be considered during the FY except for ad-hoc retirements.
 - f. **Budget for Utilities:** It has been observed that agencies have either re-appropriated or underutilized budget for utilities like 12.01, 12.02 and 12.03 in the past. Therefore, budget for utilities OBC must be based on the FY 2017-18 actual expenditure. Any increase in the estimates for utilities must be properly justified.
 - g. **Uniforms and Extensions Kits:** Budget for uniforms should be proposed only if there is Government approval for mandatory uniforms. No budget for extension kits should be proposed irrespective of funding.
 - h. **Maintenance of property-Vehicles:** Proposal for MoP-Vehicles should be made based on make and age of the vehicle and be supported by signed inventory.
15. **Capital Budget:** The capital budget ceiling for your agency including both RGoB and external financing is set at 20% of 12 FYP outlay. However, it may be noted that programs /activities proposed must contribute to achieving the national, sector and agency key result areas of the 12FYP. Any proposals outside the 12FYP and not directly contributing to National, Sector and Agency Key Result Areas shall not be considered whether the proposal is within the capital budget ceiling or not.

The following guidelines should be strictly complied with for the preparation of capital budget:

- a. **Pre-requisite studies:** As a measure to promote financial thrift and minimize waste, Government has approved the mandatory requirement of pre-requisite studies for development works exceeding Nu. 1 million. Therefore, development works shall be supported by pre-requisite studies such as detailed drawings, design and estimates. Therefore, the budgetary bodies must prepare and submit proper justification along with detailed estimates (in hard copy) to the Department of National Budget.
- b. **Budgeting for on-going externally funded projects:** Agencies must ensure that the budget for all the on-going externally funded projects/activities are adequately captured in the budget proposal. Any incorporation of new activities/additional budget for on-



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going projects during the FY due to non-finalization of work plans or inability to hold steering committee meetings shall not be accepted as reasons for non-inclusion in the proposal. However, incorporation of projects/programs approved during the course of the year shall be considered in keeping with the relevant provisions of the Public Finance (Amendment) Act 2012.

- c. **Budgeting for non-developmental activities:** In order to optimize allocation of resources and to provide fiscal space for developmental activities, proposals for non-developmental capital activities such as furniture, office equipment and computers may be limited to bare necessity and replacing the unserviceable ones only.
- d. **Budget for ICT related activity:** In order to prevent duplication of works and save cost, any proposals related to ICT projects (system development, server procurements, major networking and data storage etc.) must be endorsed by the Department of Information and Technology (DITT).
- e. **Budget for HRD:** In view of the limited domestic resources, RGoB cannot support Human Resource Development other than the on-going programs. However, agencies may propose HRD budget if there is donor commitment. Finance Officers must note the following with respect to HRD object code classifications:
 - a. **45.01 Trainings-Human Resources Development:** All formal training programs whether long term or short term, in country or ex-country should be reflected under 45.01
 - b. **45.02 Trainings- Others:** All informal trainings such as farmers' training, orientation programs, on-the-job-training, training of dancers should be reflected under 45.02. Budget proposals for seminars, workshops, conference, symposiums and meeting must reflected under 11.02 if it involves travel outside.
- f. **Budget for procurement of pool vehicles:** Proposal for procurement of pool vehicles shall not be proposed under RGoB funding except specialised vehicle.
- g. **Budget for regular annual activities:** All the proposals for activities regular in nature must be supported by an impact assessment with strong evidence of its benefits over the years. No budget shall be considered irrespective of funding unless backed by evidence-based assessment.



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h. **Budgeting for Gewogs:** For Gewogs, budget shall be provided as Annual Grants as follows:

- a. Current Grant based on actual requirement, for your Gewog: Nu. million
- b. Capital Grant based on RAF, for your Gewog: Nu..... million;
- c. Common Minimum Infrastructure (CMI), for your Gewog: Nu.....million.

Since the budget for Gewogs shall be provided as Annual Grants under RGoB funding, Gewogs will not be required to submit budget proposal for FY 2019-20.
