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**MINISTRY OF FINANCE
ROYAL GOVERNMENT OF BHUTAN**

MoF/DNB-Budget Call/20120-21 /356
7th Jan 2020

Budget Call Circular for FY 2020-21

I. Introduction

In keeping with the responsibilities bestowed upon by Section 23 of the Public Finance (Amendment) Act 2012 and the procedure laid down in section 3.2 of the Budget Manual, Financial Rules and Regulation (FRR2016), the Ministry of Finance is pleased to issue Budget Call for FY 2020-21.

The issuance of this Budget Call marks the beginning of yet another budget cycle to plan and strive towards achieving the objectives and targets of the 12FYP. The budget call outlines the resource envelope, guidelines for preparing budget proposal along with budget ceiling for respective Budgetary Bodies. To ensure that the available resource is allocated wisely, MoF would like to remind the Budgetary Bodies to be fully guided by the Royal address to the nation during 111th National Day:

“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”.

-His Majesty the King (111th National Day, Samtse)

II. Resource Envelope and Fiscal Framework

As determined by the Macroeconomic Framework Coordination Committee (MFCC) and endorsed by the Lhengye Zhungtshog during the 45th Session, the resource envelope for FY 2020-21 is estimated at Nu. 58,321.70 m, of which, Nu. 45,443.90 m is domestic revenue and Nu. 12,877.80 m is grants.

Total budget for the FY is estimated at Nu. 68,143.04 m of which Nu. 40,274.07 m is current and Nu. 27,868.98 m is capital. The capital budget ceiling for FY is set at 24% of the total capital outlay of the 12 FYP. The fiscal deficit for FY 2020-21 is estimated at Nu.9,821.35 m accounting for 4.27% of the GDP. The deficit shall be financed through concessional external and domestic borrowings.

III. Guidelines for Preparing Budget for FY 2020-21

Budgetary Bodies are required to adhere to the following guidelines while preparing budget proposal for FY 2020-21:



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A. General Guidelines

- 1 **Annual Performance Agreement (APA) and Budget:** In order to deepen the linkage between budget and APA, budgetary bodies shall align the proposed budget with relevant success indicators of the APA targets. Accordingly, starting from FY 2020-21, budget discussion and APA target finalization shall be carried out simultaneously in order to ensure that APA targets receive adequate budget allocation. Therefore, Budgetary Bodies are required to present the APA targets during the budget discussion.
- 2 **Endorsement by the Finance Committee (FC):** The budget proposals must be deliberated and endorsed by the Finance Committee. In the case of Dzongkhag/Thromde, the FC must endorse the proposal and submit to DT/TT for final approval. The Finance Committee of the respective Budgetary Bodies must ensure that proposals are realistic and reasonable.
- 3 **Gewog Budget:** As the budget for the Gewogs is allocated in the form of annual grants, Gewogs shall not be required to submit Budget Proposal. *However, Gewogs shall submit a list of capital activities to be implemented in the FY 2020-21 to DNB with copies to GNHC and GPMD.*
- 4 **Dzongkhag Development Grant:** The Dzongkhags must ensure to keep provision for Dzongkhag Development Grant (Nu. 10 million) in their annual budget within capital budget ceiling for the FY.
- 5 **Gender, environment, climate change, and disaster:** The Budgetary Bodies must ensure that their budget is responsive to cross cutting issues such as gender, environment, climate change, and disaster.
- 6 **Budget for Beautification:** Since there is no separate outlay in the 12FYP for beautification activities in the Dzongkhags, such activities shall be implemented within the capital outlay of the respective Dzongkhags.
- 7 **Spill-over Activities:** Budgetary Bodies shall accord top priority to spill-over activities of the previous year(s) and provision adequate budget to continue and complete the same. It may be noted that Section 58 of the Public Finance Act prohibits budgetary bodies from seeking supplementary budget during the course of the year.
- 8 **Work charge:** The rationale for permitting to 'work charge' is to capture the total cost of implementing an activity. Therefore, Budgetary Bodies must ensure to capture or include all associated cost such as travel expenses for monitoring and supervision, etc, among others while ascertaining the cost of an activity. Unrelated expenses shall not be charged to the activity.
- 9 **External funded programs/projects:** Budgetary bodies must ensure to include all on-going externally funded developmental projects (Loans and grants) in the budget proposal based on the agreement, implementation capacities and fund commitments from the development partners. All such activities shall be part of the 12FYP.



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- 10 **Fiscal Transfers:** Local Governments, State-Owned Enterprises and other non-budgetary bodies requiring financial support from the Government must submit proper request for financing support with proper justifications. While SoEs will route their request through the Department of Macroeconomic Affairs (DMEA) MoF, others can submit to the Department of National Budget directly. The DMEA shall review the proposals vis-à-vis income, expenditure and annual plan thereof and recommend the same to DNB.
- 11 **Grants to RUB and KGUMSB:** In keeping with the Cabinet directives, the colleges under RUB and KGUMSB shall submit your budget proposal for FY 2020-21 using MYRB system. The current budget shall be proposed based on actual requirements of the respective colleges (maintenance and operations) and the capital budget shall be proposed based on the 12th FYP. The Secretariats of the Universities shall ensure to capture financial requirements of the secretariat and colleges for the Fiscal year adequately. While proposal through MYRB shall be used as a basis to determine budget for RUB and KGUMSB, the actual budget for current expenditure for year shall be provided in the form of grants.
- 12 **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 in all respects and advances fully liquidated.
- 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 System.
- 14 **Regular annual activities:** It has been observed that some activities in some agencies are recurring annually irrespective of the need and relevance to the context. Therefore, budgetary bodies shall review the relevance of such activities considering the changing circumstances before proposing budget. To receive budget allocation, such recurring activities should be adequately justified and supported by evidence to prove their relevance and benefits.
- 15 **Review of Plan outlay:** Based on the directive of the Government to prioritise and rationalise activities for optimal utilization of the plan outlay, MoF, GNHC and GPMD will be reviewing the plan and outlay of the selected Budgetary Bodies. As such, Agencies are required to consider the review recommendation while submitting the budget proposal.

B. Specific Guidelines

Article 14 (6) of the Constitution of the Kingdom of Bhutan requires the Government to ensure that the cost of recurrent expenditure is met from internal resources of the country and therefore, it is important that agencies minimize wasteful expenditure and promote financial thrift:



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1. **Current budget Ceiling:** The current budget ceiling for is set at Nu.....million and it's inclusive of all externally funded projects. The ceiling however excludes provision for Pay and Allowances, Provident Fund, Stipend, Retirement Benefits, and Provision for New Appointments. The budgetary bodies 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 of employees and remunerations). Based on the approved staff strength and recruitment plan thereof, agencies must also propose adequate provision for new appointments during the year. Pay, allowances and other emoluments pertaining to Gewog Administrative Officers shall be provided as part of Annual Grant for Gewogs.
- b. **Provisions for LTC:** Unlike in the past, LTC provision of the employees shall be included in OBC 1.01 and 2.01 (Pay and Allowances) under 'Direction & Management Services' of the respective agencies.
- c. **Travel In-country:** For in-country travel budgets (11.01), Budgetary Bodies must propose a specific activity under respective projects/programs and the name of the activity must be spelt out clearly. For example:

Activity Name: **“Conduct of Mid-Year Budget Review Exercise”**

OBC: 11.01

- d. **Travel ex-country:** For ex-country travel under RGoB financing, budgetary bodies shall propose budget for mandatory travels that are obliged by way of international/regional agreements and MoUs duly approved by the Royal Government of Bhutan. As in the case of in-country travel, Budget for ex-country travel must be proposed under separate activity with proper activity name. For example:

Activity Name: **“Annual BIMSTEC Meeting”**

OBC: 11.02

- e. **Rental of property-Building:** Budget proposal for rental of buildings must be supported with copies of lease agreements and the rental of property must be duly approved by the Ministry of Finance.
- f. **Budget for utilities:** Unless there is new establishment and change in rates, budgetary bodies shall not propose for any increase under OBC 12.01, 12.02, 12.03 from last fiscal year's budget. Any increase under the utility OBCs must be properly justified.
- g. **Retirement Benefits:** All budgetary bodies must ensure to propose adequate budget for retirement benefits of those civil servants due for superannuation in FY2020-21. No budget for superannuation shall be considered during the FY except for ad-hoc retirements.



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- h. **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.
 - i. **Maintenance of GC Roads:** Dzongkhags shall propose budget for ‘maintenance of Gewog Centre roads’ based on the parameters and existing standards.
 - j. **Central & Autonomous Schools:** To take advantage of electronic payment system (e-Pems) introduced recently, Budget for all schools shall be routed through Dzongkhag/Thromdes’ Letter of Credit (LC). Therefore, Dzongkhag/Thromde administrations shall propose budget for all central and autonomous schools under the ‘Education Sector’ of the respective Dzongkhag/Thromdes. The Finance Officers shall ensure to provision adequate budget requirements of each school under appropriate activity and object classifications.
2. **Capital Budget:** In order to accelerate the implementation of the priority activities and flagship programs, the Government approved allocation of 24% of the total plan capital outlay amounting to **Nu. 27,868.98 m** as the capital budget ceiling for the FY 2020-21.

The capital budget ceiling for including external financing is set at 24% of your 12FYP capital outlay which is estimated at Nu.m. *However, where necessary and based on implementation capacity, front loading of activities will be considered over and above the ceiling but within the plan outlay of the respective agency.* It may be noted that all proposed programs/activities must contribute to achieving the 12FYP goals, objectives and targets. The budgetary agencies must note the following while preparing the capital budget:

- a. **Spill over activities:** As a matter of business, Budgetary Bodies shall accord top priority to spill over activities of the previous years if any.
- b. **Requirement of additional outlay:** It may be noted that the 12FYP capital outlay for some budgetary bodies have already been consumed by FY2019-20. Budgetary bodies with such circumstances must consult GNHC and seek necessary approval to increase their outlay prior to budget discussion should there be a need to take up more capital activities.
- c. **Pre-requisite studies:** The proposal for new capital activities must be supported by proper pre-requisite studies such as drawings, designs, and cost estimates. A hard copy of the same must be submitted to the Department of National Budget within the scheduled time frame.
- d. **Externally funded projects:** Budgetary Bodies shall ensure to include budgets for all on-going projects/activities that are funded externally in their budget proposal based on the implementation capacity and commitment of funds. Apart from activities under newly signed agreements during the year, MoF shall not consider other incorporation during the year irrespective of the funding sources.



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- e. **Budgeting for unproductive activities:** In order to derive maximum returns on investment and be able to contribute to the overall economic growth of the country, Budgetary Bodies are advised to make investment decision wisely and avoid unproductive investments as far as possible.
- f. **Budget for ICT related activity:** Digital Drukylul is one of the flagship programs in the 12FYP and therefore, all major ICT related activities are being covered under the flagship program. Budgetary Bodies are advised to consult with the Department of Information Technology and Telecom for any plans to undertake major ITC related activity before submitting the proposal for the same.
- g. **Budget for HRD:** Except for those under externally committed financing, Budgetary Bodies shall not propose budget for both short-term and long term trainings. Finance Officers of the respective budgetary bodies must note the following with respect to usage of 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.
- (Note: Budget for attending seminars, workshops, conferences, symposiums and meetings outside the country must be reflected under 11.02).
- h. **Budget for procurement of pool vehicles:** Except for replacement of the existing specialised vehicles, Budgetary Bodies shall not propose budget for procurement of pool vehicles under RGoB financing.
- i. **Budget for Flagship programs:** In order to ensure realistic budgeting for flagship programs, the focal agencies of the flagship programs are advised to consult with stakeholders with respect to their implementation capacity before proposing budget for flagship programs.
- j. **Budget for Dungkhangs:** The sectoral budget proposals pertaining to Dungkhangs must be proposed under respective sectors and not under Dzongkhag Civil Sector.
- k. **Budget for Gewogs:** The annual capital grant for the Gewogs is fixed at 23% of the total CMI and RAF outlay of the 12FYP. Therefore, Annual Capital Grant forGewog under.....Dzongkhag is Nu.m (RAF Nu. million, and CMI Nu.....million).



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While budget under RAF allocation shall be provided to respective Gewogs in the form of annual grants, Gewogs shall collaborate with Dzongkhags and propose activities under CMI allocation with relevant sector of the Dzongkhag Administration. It may be noted that CMI activities are predetermined and that budget proposals under CMI allocation must be for activities from predetermined list.

The budget for FY2020-21 shall be proposed using web based MYRB system (www.myrbpems.bt) and Budgetary Bodies shall be required to submit 'budget write up' along with the detailed cost estimates and relevant supporting documents to the Department of National Budget (DNB) with a copy endorsed to the Gross National Happiness Commission Secretariat (GNHCS) and the Government Performance Management Division (GPMD).

The Budgetary Bodies shall submit budget proposal complete in all respect on or before **10th March 2020**.

(Nim Dorji)
Finance Secretary

Copy to

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