



ANNUAL GRANTS GUIDELINES FOR LOCAL GOVERNMENTS

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Ministry of Finance
Royal Government of Bhutan


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1. INTRODUCTION

His Majesty, The King stated that *“Local government is not the lowest level of government; it is the nearest and closest level of government for our people.”*

Article 22 Section 1 of the Constitution of the Kingdom of Bhutan states that *“Power and authority shall be decentralized and devolved to the elected local government to facilitate the direct participation of the people in the development and management of their own social, economic and environmental well-being”.*

Article 22 Section 18(c) of the Constitution of the Kingdom of Bhutan states that *“Local Government shall be entitled to adequate financial resources from the government in the form of annual grants”.*

In keeping with the relevant provisions of the Constitution, the 3rd session of the third Parliament also passed the Budget Appropriation Act for FY 2020-21 which inter alia, includes provision of budget to Dzongkhags and Thromdes in the form of annual grants like the Gewogs. For ensuring proper usage of the annual grants, the Ministry of Finance hereby issues the Annual Grants Guidelines for Local Governments (LGs).

2. OBJECTIVES

The main objectives of the Annual Grants are to:

- a. Empower LGs and deepen decentralization process;
- b. Enhance citizen-centric local development, growth and service delivery;
- c. Promote transparency, accountability and ownership; and
- d. Enhance flexibility in the use of resources.



3. DEFINITION AND SCOPE

The Annual Grant is a proportion of national revenue allocated to LGs for undertaking planned programs and activities besides maintaining existing facilities including delivery of services at Local Government level.

The Annual Grants shall be provided as transfers from the Government and shall form part of the annual Budget Appropriation Act. The Annual Grant Guidelines shall be applicable to all LGs and shall come into effect from 1st July 2020.

4. COMPOSITION OF ANNUAL GRANTS

The Annual Grant shall consist of:

4.1. Current Grant:

Current Grant is an amount of budget allocated to LGs for regular operation and maintenance of the Local Government Administrations. The amount of current grant shall be determined based on past trends and resource envelope determined by the Macro-economic Framework Coordination Committee (MFCC). The Current Grant shall be categorized as '**Mandatory**' and '**Controllable**' expenditures.

- a. The '**Mandatory**' expenditures shall include expenses for pay and allowances, other personal emoluments, special allowances, stipends and other benefits.
- b. The '**Controllable**' expenditures shall include expenses for travels, office supplies, utilities, maintenance, operating, hospitality and entertainment etc.

4.2. Capital Grant:

Capital Grant is an amount of budget allocated to LGs for developmental activities. The amount of capital grant shall be based on the approved five-year plan outlay and resources available during the year. Allocations for externally financed activities shall be provided as per the existing practice.



5. USAGE OF ANNUAL GRANTS

5.1 Current grant shall be used to meet expenses defined under mandatory and controllable expenditures.

5.2 Capital grant shall be used for developmental activities such as construction of schools, BHUs, farms roads, community centers, water supply, irrigation schemes and other structures. Except for regular minor repair and maintenances, all major renovations, whether buildings, roads, water supply schemes or irrigation channels must be capitalized and accordingly the budget has to be adjusted from the capital grants.

5.3 The annual grants shall be used to achieve the following LGs' Key Result Areas (LGKRAs):

- a. Enhance Food and nutrition security;
- b. Ensure community health enhanced and water security;
- c. Improve quality of education and skills;
- d. Preserve and promote culture and traditions;
- e. Improve livability, safety and sustainability of human settlements;
- f. Enhance transparent, effective and efficient public service delivery;
- g. Strengthen democracy and decentralization;
- h. Enhance carbon neutral, climate and disaster resilience;
- i. Promote gender equality, and empower women and girls; and
- j. Improve and sustain livelihood of highlanders.

6. BUDGET, RELEASE AND ACCOUNTING

6.1 BUDGET

6.1.1 The Annual Grants shall be provided as per the budget cycle and shall form part of the annual Budget Appropriation Act.

- 6.1.2 The Annual Grants shall be provided as Current Grant and Capital Grants through the Multi-Year Rolling Budget (MYRB) System.
- 6.1.3 The annual grants shall be apportioned by the respective Finance Committees and submit to Dzongkhag Tshogdu, Gewog and Thromdes for endorsement.
- 6.1.4 There shall be a *Maker* and *Checker* for assignment of activities in the MYRB system to be carried out as per the user manual issued by Department of National Budget (DNB).
- 6.1.5 The re-appropriation within the activities shall be carried out based on the delegation of financial powers as per FRR 2016.
- 6.1.6 The Finance Committee shall accord top priority while apportioning the budget to continue and complete the spillover activities.
- 6.1.7 The total expenditure shall not exceed the maximum annual grants allocated for the financial year.
- 6.1.8 Any unspent annual grants shall lapse at the end of the financial year and it shall be adjusted from the outlay in subsequent financial years.
- 6.1.9 The LGs shall use MYRB and electronic Public Expenditure Management System (e-PEMS) for budgeting and accounting purposes.

6.2 RELEASE OF FUND AND ACCOUNTING

- 6.2.1 The Budgetary bodies shall assign prioritized activities to respective LC/PLCs and submit the budget release forecast (BRF) in accordance to the 'Fund Release Guidelines'.
- 6.2.2 Fund releases and booking of expenditures including advances shall be effected through e-PEMS.



6.2.3 The annual grants shall be utilized as per the Financial and Procurement Rules and Regulations, and other notifications issued by MoF from time to time.

6.2.4 The competent authority for approval of the expenditures in e-PEMS shall be the head of the respective budgetary bodies.

7. PROHIBITIONS UNDER ANNUAL GRANTS

The Annual Grants shall not be used for the followings:

- a. Political campaigns;
- b. Donation, contribution and gifts to individuals or organizations;
- c. Private/personal purposes like giving contributions, donations , Semso, gifts, etc. unless otherwise permissible by law;
- d. Investment in financial assets such as shares, interest bearing deposits and deposit in extra budgetary accounts;
- e. Undertake programs/activities that contravene the existing Government policies.

8. RESPONSIBILITY, ACCOUNTABILITY AND TRANSPARENCY

8.1. The LGs shall be responsible for setting annual performance targets as per the guidelines issued by Government Performance Management Division (GPMD).

8.2. The LGs shall be responsible for proper utilization of the annual grants for prioritized activities.

8.3. The LGs shall institute proper monitoring of the activities and maintain proper asset inventory through Asset Inventory Management System (AIMS).



8.4. The LGs shall be responsible and accountable for compliance with the financial and procurement rules and regulations of the Government.

9. OVERSIGHT BODIES

9.1. The GPMD shall be responsible for ensuring realistic target setting based on the annual grants approved by the Parliament.

9.2. The Gross National Happiness Commission (GNHC) shall be responsible for alignment of the activities with the overall plan and monitoring the implementation of the planned activities.

9.3. The Ministry of Finance shall be responsible for reviewing and monitoring of the financial performance of the Annual Grants.

9.4. The Royal Audit Authority shall conduct the audit of the Annual Grants in accordance with the Audit Act of Bhutan.

10. AMENDMENTS AND INTERPRETATION

10.1. This Guidelines shall supersede Guidelines for Gewog Annual Grants 2019 issued by the Ministry of Finance.

10.2. The Ministry of Finance shall be the final authority for interpretation and amendment of the provisions under these Guidelines.

