

# **Budgetary Reforms in the Royal Government of Bhutan**

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## Acronyms and Abbreviation

APA	-	Annual Performance Agreement
APO	-	Annual Performance Objective
AU	-	Administrative Unit
BRF	-	Budget Release Forecast
COFOG	-	Classification of Functions of Government
DMEA	-	Department of Macro-Economic Affairs
DNB	-	Department of National Budget
FIC	-	Financing Item Code
FO	-	Focal Officer
FRR	-	Financial Rules and Regulation
GFS	-	Government Finance Statistics
GNHC	-	Gross National Happiness Commission
GPMD	-	Government Performance Management Division
GPMS	-	Government Performance Management System
GR	-	General Reserve
LZ	-	Lhengye Zhungtshog
MYRB	-	Multi-Year Rolling Budget
OBC	-	Object Classification
PEMS	-	Public Expenditure Management System
PFA	-	Public Finance Act
PlaMS	-	Planning and Monitoring
PPCM	-	Planning and Policy Coordination Meeting

## Table of Contents

<b>I. EXECUTIVE SUMMARY</b> .....	2
II. Introduction & Rationale .....	3
1. Objectives.....	3
1.1. To enhance existing Line Item Budgeting.....	3
1.2. To ensure budgetary discipline and efficient resource allocation.....	3
1.3. To deepen decentralization process.....	3
2. Strategies.....	3
2.1. Budget Proposal.....	4
2.1.1. Top Down Budget Ceiling.....	4
2.1.2. Bottom up proposal from Agency.....	4
2.2. Budget Recommendation .....	6
2.3. Budget Approval.....	6
2.4. Budget Revision .....	6
2.4.1. Supplementary incorporation of funds for Donor and RGoB at DNB .....	8
2.4.2. Re-appropriation of budget at Agency and DNB level .....	8
2.4.4. <b>Withdrawal for DNB:</b> .....	9

## I. EXECUTIVE SUMMARY

Since the launch of the Country's First Five Year Plan in 1960 till the commissioning of the Twelve Five Year Plan, the country has witnessed paradigm shift in the budgeting process which served as bedrock for allocation of scarce resources for achieving objective and planned targets.

Taking cognizance of the importance of budget for boosting business activities and accelerating economic growth of the country, the budgeting system moved from traditional and conventional method to modern and ICT based budgeting system that is more dynamic, faster and reliable. The replacement of a manual based budgeting system to a standalone computer (BAS) and to a modern real time Budgeting System (MYRB) is one of the time-tested budgeting systems which stands testimonial thus far.

However, there are opportunities for the budgeting system to be further improved and enhanced to make the system more robust and dynamic to accommodate changing priorities viz. plans and policies, fiscal decentralization, etc. The present government budgeting is a mix of *program and line item budgeting* viewed as inflexible and rigid that was assessed as one of the drawbacks by PEFA Report 2016. Hence, this short paper presents the reforms recommended to address the drawbacks of the current budgeting system. However, these reforms should not cause or require systematic changes either in MYRB or PEMS.

The paper also brings into account the advantages and scope of integration between relevant PFM system of MYRB, PEMS and Government Performance Management System (GPMS). The integration of three systems will establish proper linkages between Planning, Budgeting and Accounting through mix-mode data sharing system that will be reliable and credible source of information for the relevant authorities.

The points provided in this paper will serve as a reference source for DNB, DPA and GPMD for undertaking any reforms in the future. The paper will also be an institutional memoir of the government budgeting system and an important source of information for all officials who are part of the Public Financial Management System.

## II. Introduction & Rationale

Government Budget is an important fiscal instrument through which resources are allocated and distributed annually to the budgetary bodies. It is therefore, imperative to have a sound budgetary system to enable both the government and budgetary bodies for efficient allocation of resources and implementation of planned programs and activities.

The Multi Year Rolling Budget (MYRB) System introduced in 2010 was a paradigm shift in the budgeting process from a manual to a real and virtual system connecting DNB with Budgetary Bodies. Today, budget preparation and management is being done through online and on real time basis and information are being shared through an integration of MYRB, PEMS, GPMS and PLaMs.

However, with the changing plans and policies and varying needs of the implementing agencies, there is a need to improve the existing budgeting system. The present government budgeting is a mixed of *program and line item budgeting* is an internationally accepted budgeting practices; however, it has been viewed as control, inflexible and a rigid system. This was also pointed out as one of the drawbacks in the PEFA Report 2016.

Within these drawbacks of the present system, *“Flexibility with Responsibility and Accountability”* is the foundation on which this paper intends to work on budget reform exercise initiated by DNB. However, keeping in mind the interdependency and interconnectivity of other systems such as PEMS and GPMS, changes and improvements under MYRB system will not have adverse impact or require significant changes in the depended systems.

While initiating the reform exercise, references were made to the prevailing Public Financial Laws, Policies, Rules and Regulations, Manuals and Guidelines and International best practices.

### 1. Objectives

- 1.1. To enhance existing Line Item Budgeting
- 1.2. To ensure budgetary discipline and efficient resource allocation
- 1.3. To deepen decentralization process
- 1.4. To provide Flexibility with Responsibility and Accountability
- 1.5. To minimize administrative burden

### 2. Strategies

The principles, concepts, organizational, functional, and economic and object classifications will be followed as in the budget manual 2016. *As per the Public Expenditure and Financial Assessment Report of the World Bank of 2010 and 2016 of the Royal Government of Bhutan, the Budget Formulation, Execution and Reporting are based on every level of Administrative, Economic and Functional classifications using GFS/COFOG standards.*

The framework of budgeting is in the form of **Cascaded Performance Budgeting Structure** and improvements are made in the existing MYRB system to accommodate changes:

### 2.1. Budget Proposal

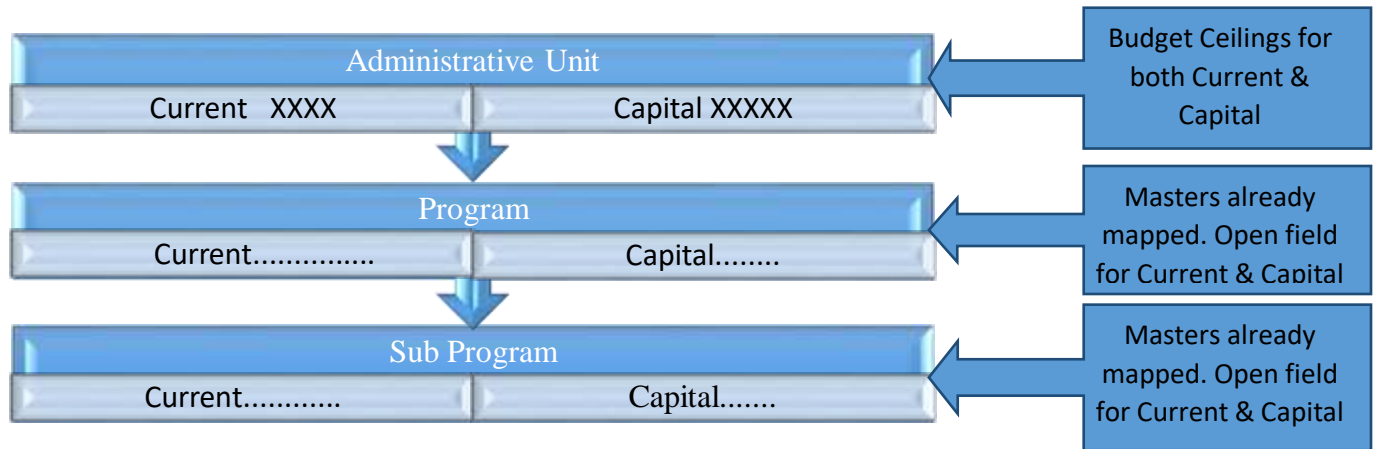
The Budget Proposal phase has two processes: 1) *Top down: Budget Ceiling allocation at Administrative Unit, and 2) Bottom up: Budget Proposal by Agencies based on annual Performance Objectives (Strategic Objectives).*

#### 2.1.1. Top Down Budget Ceiling

The Budget Call Notification will prescribe *budget ceilings for both Current and Capital* of the respective agencies. The *ceiling will include both RGoB and External funds.* The Call Notification as usual will contain budgetary policies and guidelines for preparation of budget.

The proposal phase in MYRB will be activated and budgetary agencies will have access to the *allocated ceilings in the MYRB system for Current and Capital Expenditures at Administrative Unit.* The MYRB System will provide mapped Masters of all budgetary agencies at Administrative Unit, Functional (Program and Sub Program) in the cascaded flow as shown below:

**Flow Chart 3.1**



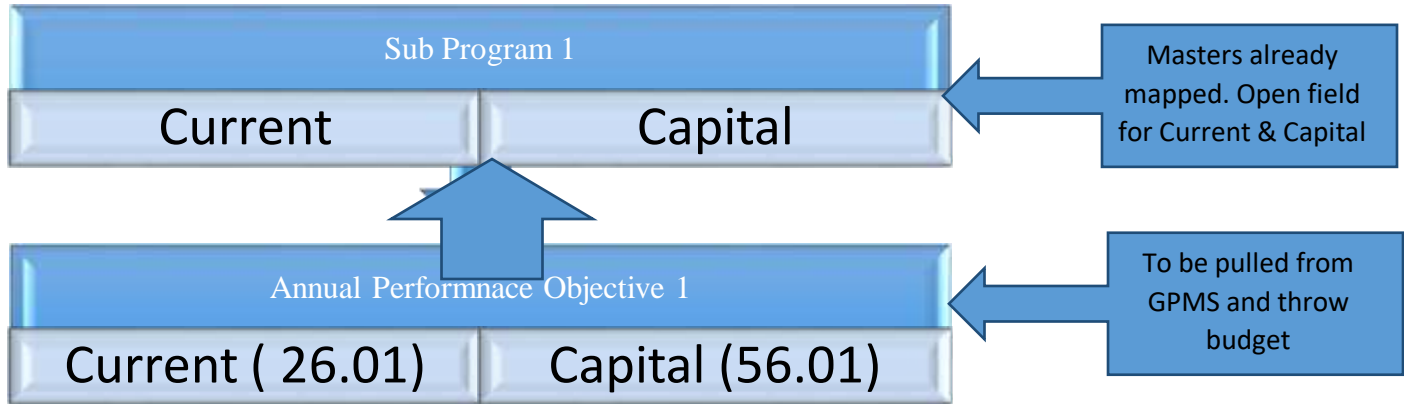
#### 2.1.2. Bottom up proposal from Agency

Following the *Budget Call Notification* guidelines, the agencies will prepare budget proposal. Keeping within the budget ceilings, the Agency will deliberate on further allocations/distributions of budget under each of the Annual Performance Objectives with its departments, divisions/sectors and field offices. The budget allocations should be defended and justified as per the APOs. This system of deliberations and allocation within the agency will strengthen *equity, transparency and inculcate sense of responsibility and accountability.*

Once budget is prepared at APO level, the agencies will submit the proposal in hard copy with detail write ups and justifications along with tentative list of activities. The list of activities will contain spill over activities as priority of the agencies for execution after budget approval. *The system also has provisions to view the tentative list of activities as drop down under each of the APOs.*

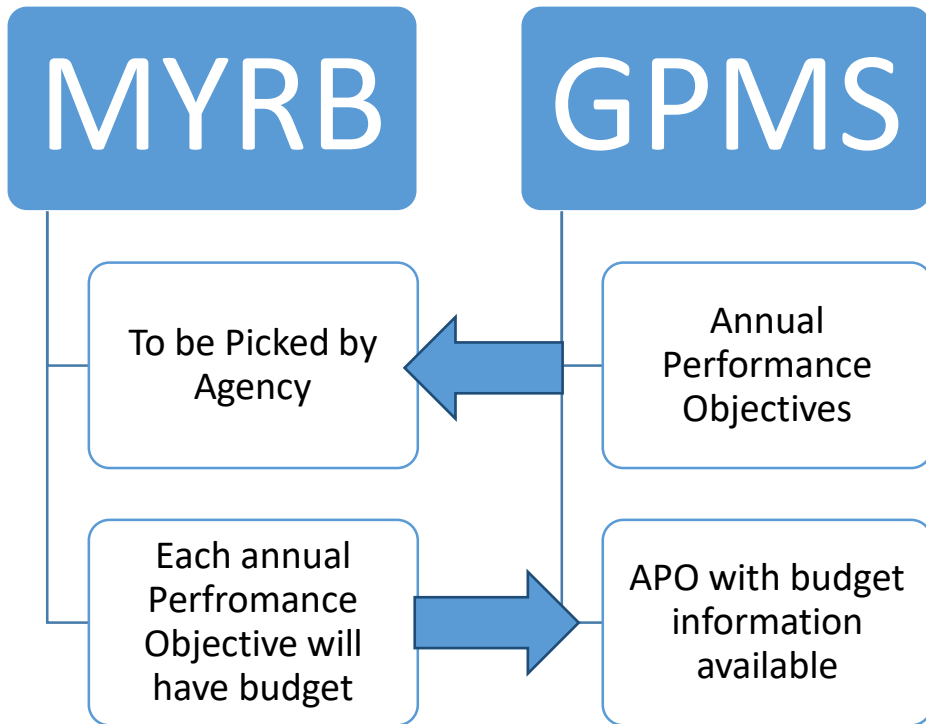
The MYRB system will facilitate agencies *Financing Items Codes (FICs for RGoB and Donors) under each of the activity for both Current and Capital.*

*Flow Chart 3.2*



Linkage of MYRB with GPMS

*Flow Chart 3.3*



## 2.2. Budget Recommendation

Once the proposals are received, the budget proposal will be pushed to the Recommended Phase at **Annual Performance Objective Level**. Any changes in the allocations after the budget discussion and presentation to PPCM and LZ, **the DNB will make changes at APO** of the respective agencies.

## 2.3. Budget Approval

Once Recommended Budget is endorsed by the LZ, the budget will be pushed to the Approved Phase at **Annual Performance Objective Level**. Any changes in the allocations after the budget discussions in the Parliament, **the DNB will make the changes at APOs** of the respective agencies.

*Note: The Budget report to be presented to the Parliament will be at AU and APOs level with tentative list of activities along with the targets to be achieved during the financial year.*

## 2.4. Budget Revision

Subsequent upon Budget Approval and passed by the Parliament, the Approved Budget will be pushed to Revision Phase in the MYRB system by the IT personnel of the Department. Thereafter **MoF will issue Budget Notification along with the policy decisions and guidelines** of the government for the Financial Year.

All the Budgetary Agencies will have access to their budgets at the **APOs**. The details of FICs, & OBCs for both current and capital will be available as a **drop down pick list** below the APO.

***The Agencies will finalize their draft activities with Key Performance Indicators/Success Indicators and Targets and accordingly AP Agreement signed. Once APA is signed, based on their list of priorities and readiness, activities will have to be created and linked to each of the APOs and budget apportioned accordingly.***

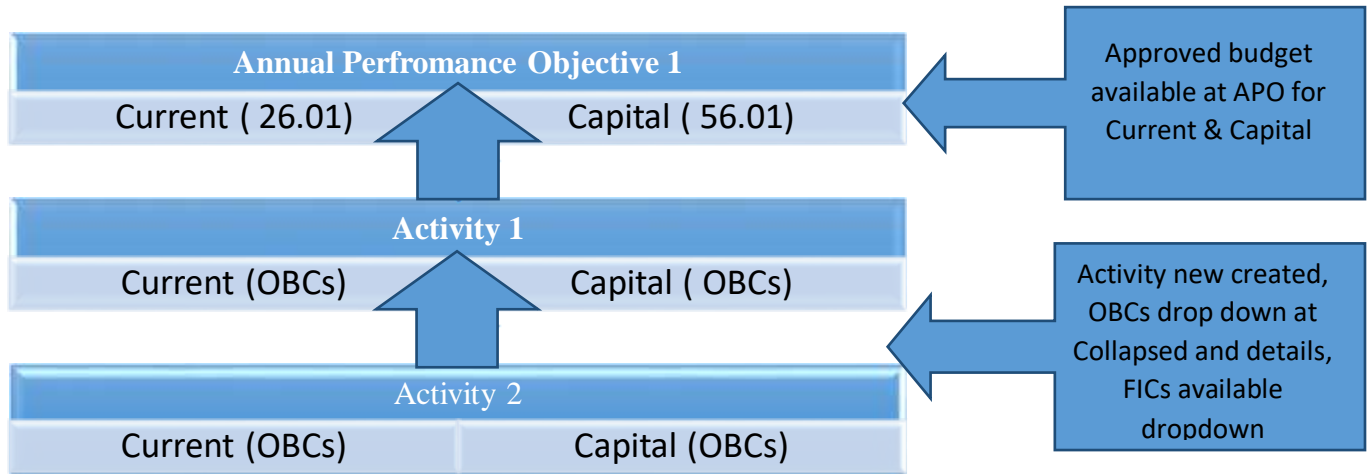
*Eg: All budgetary Agencies will have APO1: Operation and Direction Services under which Activity - Direction and Supplementary Services can be the first priority to be created for getting first quarter release. The next priority will be ongoing and spill over activities for which budget is required for making payment depending on the physical progress of the works.*

This arrangement will enable agencies to prioritise their activities and apportion budget depending on the readiness to implement the activity. Under this arrangement, the agencies will not seek any additional or supplementary budget until the allocated budget is exhausted. It is also expected to minimize instances of re-appropriations as agencies will have flexibility to create new activities.

Once activity is created, it will be updated in the MYRB and accordingly gets pushed to PEMS without any major changes. At this stage the DNB will constantly monitor the creation of activities and use of budget under each activity and OBCs. Any instances of mismatch or not in line with the system practice will be corrected accordingly.



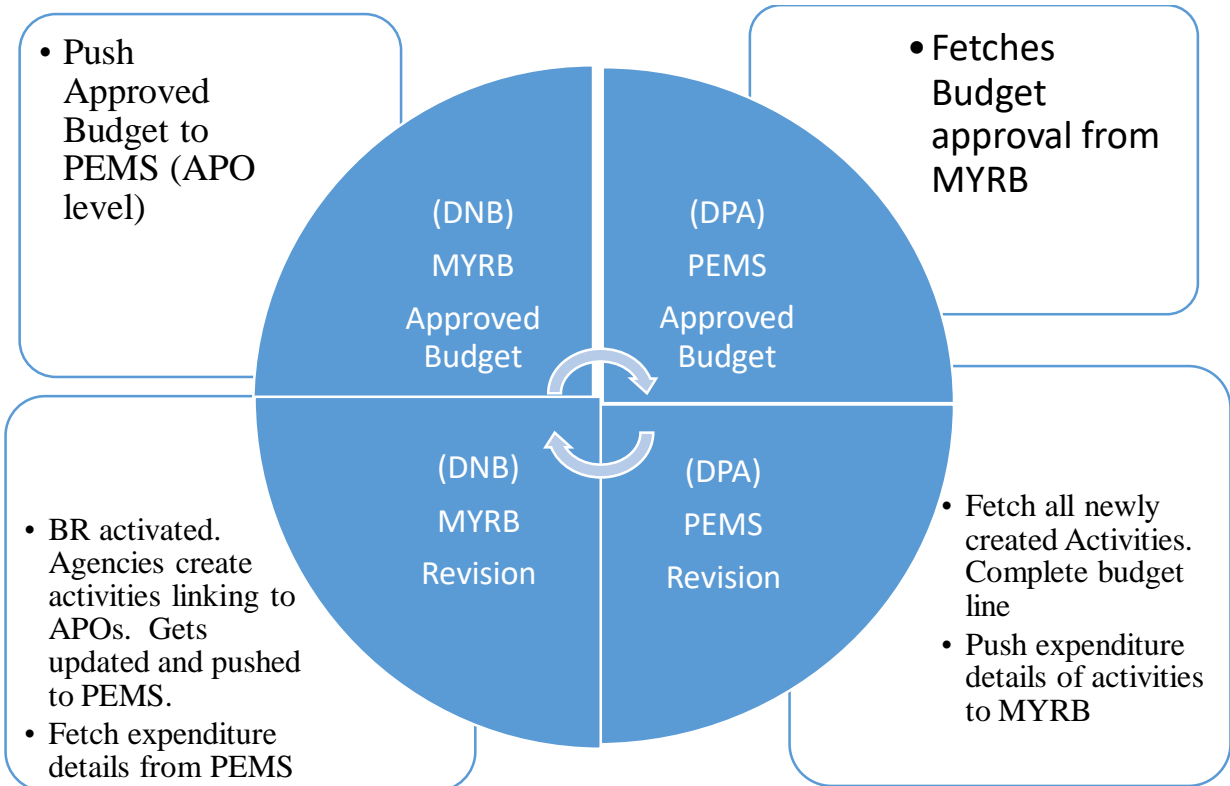
**Flow Chart 3.4**



**Flow of information/data between MYRB & PEMS**

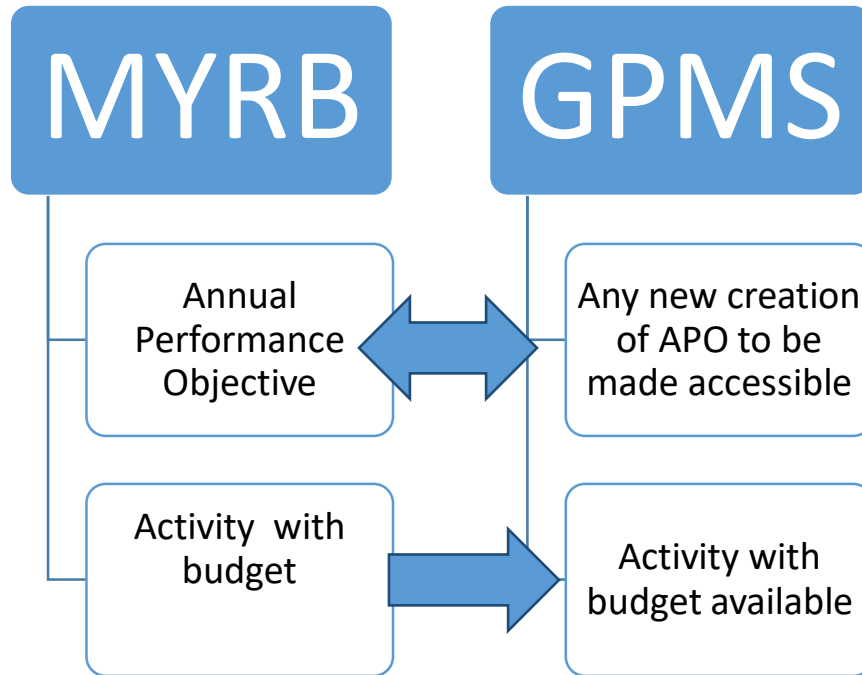
Diagram depicting relationship between MYRB and PEMS at Approval and Revision Phases

**Flowchart 3.5**



Linkage of MYRB with GPMS

**Flowchart 3.6**



**2.4.1. Supplementary incorporation of funds for Donor and RGoB at DNB**

In the Budget Revision Phase, incorporation of supplementary budget for Donor and RGoB funded projects and programs will be incorporated by DNB for respective agencies at APOs. The Agencies will incorporate the activities upon receipt of confirmation of supplementary incorporation from the DNB by creating appropriate activities as in the following:

1. *DNB will Sanction Supplementary Incorporation at APO level (AU/Dept/FO/Program/Sub Program and APO) and inform the respective agencies through the system.*
2. *GNHC, DMEA in consultation with respective Agency and GPMD will indicate the APOs for which the supplementary from the donor is recommended.*
3. *Agencies will incorporate activities to the extent of supplementary budget sanctioned by selecting appropriate budget lines.*

**2.4.2. Re-appropriation of budget at Agency and DNB level**

The system will facilitate incorporation of re-appropriations for both DNB and Agency level. Although there should not be any re-appropriations required for agencies, however, provision will be made for agencies to carry out re-appropriations within the ***Delegation of Financial Power***.

Re-appropriations by way of technical adjustments can be carried out at all levels by DNB within the powers delegated to MoF by PFA.

- 2.4.3. **Transfer of fund:** Transfer of fund can take place under two situations:
  - 2.4.3.1. **Employee on transfer:** Agencies will carry out transfers requisition and incorporations of salaries and allowances and PF for the employee transferred from one agency to another following the existing practices.
  - 2.4.3.2. **Additional Fund:** Agencies will put up fund requisitions for additional fund to DNB. The DNB will provide through technical adjustments from the General Reserve after approval by a competent authority. Transfers from GR to Agencies will be done by DNB.

The system will facilitate transfer of salaries and emoluments to the agencies for intra and inter transfer of employees.

- 2.4.4. **Withdrawal for DNB:** The system will facilitate DNB for any withdrawal of Budget of the Agency. The Budgetary Agencies cannot withdraw budget from their budget appropriations. DNB can do the withdrawal incorporations after getting approval from a competent authority.

**Table 1 shows the Consolidated flow of Annual Budget Preparation and Management under the New System in operation**

*Table 1*

New			New			New		
Proposal	Budget Ceiling		Recom/Approval	Recom/Approval		Revision		
Administrative Unit	Current	Capital	Administrative Unit	Current	Capital	Administrative Unit	Current	Capital
Department	Current	Capital	Department	Current	Capital	Department	Current	Capital
Field Office	Current	Capital	Field Office	Current	Capital	Field Office	Current	Capital
Program	Current	Capital	Program	Current	Capital	Program	Current	Capital
Sub Program	Current	Capital	Sub Program	Current	Capital	Sub Program	Current	Capital
APOs	Current	Capital	APO	Current	Capital	APOs	Current	Capital
Tentative list of activities			Tentative list of activities			Activity	Current	Capital
						Sub Activity	Current	Capital
						FIC	Current	Capital
						OBC	Current	Capital
						Budget	Current	Capital

**Conclusion**

The new dimension and paradigm shift in the planning process has necessitated for change in budgeting system as well. The advancement in the Information & Communication Technologies creates an enabling virtual environment for a development of a system with better interfaces.

There is a need for revamping of the old conventional and traditional method of budgeting and development of a robust and dynamic budgeting system that would cater smartly to the emerging needs and priorities.

There a need to relive the clerical functions and enable the budget officers to focus more toward analytical studies, budget formulation best practices, which could be emulated in the Bhutanese context and environment.

Therefore, the higher level of budgeting will ensure flexibility in managing the resources at the same time foster ownership, responsibility and accountability.

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