



ANNUAL GRANTS GUIDELINES FOR LOCAL GOVERNMENTS



July 2022
Ministry of Finance
Royal Government of Bhutan

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 10th Session of the Lhengye Zhungtshog has approved the allocation of budget to the Gewogs in the form of Annual Grants starting Financial Year (FY) 2019-20. Subsequently, the 3rd Session of the Third Parliament has also passed the Budget Appropriation Act for FY2020-21 to the Dzongkhags and Thromdes in the form of Annual Grants.

For ensuring proper usage of the Annual Grants, the Ministry of Finance (MoF) 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 the 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 resources allocated to LGs for undertaking planned programs and activities besides maintaining existing facilities including delivery of services at the 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 Revised Annual Grants Guidelines shall be applicable to all LGs and shall come into effect from 1st July 2022.

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



the Current Grant shall be based on past trends and the 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, provident funds, other personal emoluments, special allowances, stipends, and other benefits.
- b. The 'Controllable' expenditures shall include expenses for travel, utilities, office supplies, operation & maintenance, hospitality, and entertainment for Dzongkhags and Thromdes within the ceiling prescribed in the Revised Delegation of Financial Power 2016, etc.

4.2 Capital Grant: Capital Grant is an amount of budget allocated to LGs for implementing the activities based on the approved five-year plan 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:

5.1.1 Current Grant shall be used to meet expenses defined under Mandatory and Controllable expenditures.

5.1.2 Expenses such as land tax, property tax, patient diet, or any recurrent expenses with statutory and contractual obligations shall be accorded priority while apportioning the controllable budget.

5.1.3 Expenses for hospitality and entertainment for Gewogs shall not be apportioned from the controllable expenses as it is to be met out of the retained revenue within the ceiling prescribed in the Guidelines on Operations of Gewog Current Deposit Account 2022.

5.2 Capital Grant:

5.2.1 Capital Grant shall be used for developmental activities in achieving key result areas which will ensure a better return on investment in terms of social development and economic prosperity. The Annual Grants shall be used to achieve the following Local Government Key Result Areas (LGKRAs):

- a. Create gainful employment and local economy enhanced;
- b. Enhance food and nutrition security;
- c. Ensure community health enhanced and water security;
- d. Improve quality of education and skills;
- e. Preserve and promote culture and traditions;



- f. Improve liveability, safety and sustainability of human settlements;
- g. Enhance transparent, effective and efficient public service delivery;
- h. Strengthen democracy and decentralization;
- i. Enhance carbon neutral, climate and disaster resilience;
- j. Promote gender equality, and empower women and girls; and
- k. Improve and sustain the livelihood of highlanders.

5.2.2 In line with the main focus of the FY 2022-23 budget on “Accelerating economic recovery through strategic investments in areas of food self-sufficiency, human capital development, sustainable infrastructure development, and improved social security”, the LGs shall ensure that the activities implemented under the Annual Grants are aligned to the overall national priorities viz water, road, agriculture, health and education and accordingly include in the Annual Performance Agreement.

5.2.3 For the purpose of financing disaster related activities, the LGs shall strictly adhere to the Operational Guideline for Disaster Financing, 2017. As such, the LGs shall prioritize and provision an adequate budget from the Annual Grants to finance recovery and reconstruction activities. However, the budget for financing response and relief activities and immediate restoration of essential public infrastructures and services shall be processed with MoF during the FY.

5.2.4 While the prerogative for prioritizing the Annual Grants rest on the respective LGs; Dzongkhag Tshogdu (DT), Thromde Tshogde (TT), and Gewog Tshogde (GT)), LGs for now must strictly refrain from executing non-developmental activities (eg. New construction or major renovation of offices/staff quarters, site development, construction of gates, fencing, boundary walls, maintaining Bacho, etc.)

5.2.5 Towards achieving the national goal of food and nutrition security, Gewogs may prioritize procurement of heavy earth moving and agricultural machineries from the allocated Annual Grants, where genuinely required, upon approval of the respective Gewog Tshogde (GT). However, the Gewog must ensure that recurrent costs associated with operation and maintenance of the machineries is met from hiring of the machineries.

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 Grants and Capital Grant through the Multi-Year Rolling Budget (MYRB) System.

6.1.3 The Dzongkhag/Thromde Finance Committee and Gewog Administration shall;

- a. review the proposals as per the Capital Budget Proposal Format (CBPF) issued by the MoF (Annexure I) and ensure completion of prerequisites as specified in the CBPF. Proposed activities failing to fulfill the requirement in the CBPF shall be de-prioritized;
- b. apportion the Annual Grants and submit it to Dzongkhag Tshogdu (DT), Thromde Tshogde (TT), and Gewog Tshogde (GT) for approval;
- c. ensure that the budget for farm roads is realistic and the cost overruns are minimized, the Dzongkhag Finance Committee and the Gewog Administration shall ensure to apportion budget for farm roads only upon completion of surveys, drawings, designs, and estimates;
- d. ensure to minimize non-essential imports and prioritize domestically produced materials for works and goods to the extent possible;
- e. ensure construction of infrastructures cater to the majority of the beneficiary at the LGs and proper cost-benefit analysis carried out as per the CBPF;
- f. ensure all activities apportioned from the Annual Grants are congruously aligned to the Annual Performance Agreement and other existing Government policies.

6.1.4 There shall be a Maker and Checker for the assignment of activities in the MYRB system to be carried out as per the user manual issued by the Department of National Budget (DNB).

6.1.5 The total expenditure shall not exceed the maximum Annual Grants allocated for the financial year unless supplementary incorporations are made by the Government during the FY.

6.1.6 Any unspent Annual Grants shall lapse at the end of the financial year.

6.1.7 The LGs shall use MYRB and the electronic Public Expenditure Management System (e-PEMS) for budgeting and accounting purposes.

6.1.8 The LGs shall use the Budget Monitoring Tool (BMT) for updating the physical and financial plans and progress on a timely basis.



6.2 RELEASE OF FUND AND ACCOUNTING

6.2.1 The LGs shall assign prioritized activities to respective LC/PLCs and submit the Budget Release Forecast (BRF) as per the BMT financial plan and in accordance with 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 LGs.

7. PROHIBITIONS UNDER ANNUAL GRANTS

7.1 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 permitted by law;
- d. Investment in financial assets such as shares, interest-bearing deposits, and deposits in extra-budgetary accounts;
- e. Undertake programs/activities that contravene the existing Government policies.
- f. Procurement of vehicles.

8. RESPONSIBILITY, ACCOUNTABILITY, AND TRANSPARENCY

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

8.2 The LGs shall be responsible for the 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 the Government Inventory Management System (GIMS).

8.4 For ensuring transparency, the Member Secretary (Head of Finance Section) of the Finance Committee in the case of Dzongkhags and Thromdes and Gewog Administrative Officer of Gewogs shall provide periodic updates on budget and expenditure for activities approved by the DT/TT/GT along with the dissemination of any budget-related information to the LGs.



8.5 The Chairperson of the Finance Committee/Head of the Gewog Administration 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 the 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 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 guideline shall supersede Guidelines for Gewog Annual Grants 2019 and Annual Grants Guidelines 2020 issued by the Ministry of Finance.

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



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Annexure I

FY 2022-23 Capital Budget Proposal Format (CBPF)																	
1. Administrative Information																	
1.1: Sub-Activity Name	Mention Sub-Activity name: Eg, Construction of Higher Secondary School at Laya																
2. Rationale, Objectives and Scope																	
2.1: Assessment of Need	-Describe the problem/issues that the proposed sub-activity will address -If the activity is not implemented, what would be the likely impact on the community?																
2.2: Sub-Activity Description	Infrastructure: Quantify in terms of units such as kms/no. of room/floors /20 bedded hostel/hospital etc with exact location/sites. Non-Infrastructure: Procurement, Training, Professional service, etc.																
3. Implementation Cost and Financing																	
3.1: Financing	Choose financing																
3.2: Total Estimates	Total estimated cost including all over head /associated costs during the execution of the activity. Total Estimates: Nu..... million Double click below to provide detail cost bifurcation:  Detail cost bifurcation																
3.3: Budget proposed for the Financial Year	Indicate total budget proposed for the FY 2022-23 under respective OBC. Choose OBC Nu.....million Choose OBC Nu.....million Choose OBC Nu.....million Choose OBC Nu.....million Choose OBC Nu.....million																
3.4: Activity implementation plan	Financial plan for each FY: <table border="1"> <thead> <tr> <th></th> <th>FY 2018-19 (Actual Expdt)</th> <th>FY 2019-20 (Actual Expdt.)</th> <th>FY 2020-21 (Actual Expdt)</th> <th>FY 2021-22 (Projected expdt)</th> <th>FY 2022-23 (Estimated budget)</th> <th>FY 2023-24 (Estimated budget)</th> <th>Nu. In millions FY (Estimated budget)</th> </tr> </thead> <tbody> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>		FY 2018-19 (Actual Expdt)	FY 2019-20 (Actual Expdt.)	FY 2020-21 (Actual Expdt)	FY 2021-22 (Projected expdt)	FY 2022-23 (Estimated budget)	FY 2023-24 (Estimated budget)	Nu. In millions FY (Estimated budget)								
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3.5: Implication on recurrent cost	Indicate likely annual implication on recurrent cost upon completion of the activity: 1. O & M cost: Choose an item. If "Yes" indicate amount Nu.... 2. HR cost: Choose an item. If "Yes" indicate amount Nu.... If "No", mention how you are going to manage the recurrent cost for both?																
4. Implementation Readiness																	
4.1: Feasibility study	Have you carried out the feasibility study? Choose an item.																
4.2: Drawing and	Indicate whether all Drawings/designs are ready & finalized:																



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Designs	Choose an item.
4.3: Clearances	Indicate status of all clearances required for the implementation of the activity are obtained: <input type="checkbox"/> Environment <input type="checkbox"/> Culture <input type="checkbox"/> Forest <input type="checkbox"/> Community <input type="checkbox"/> e-Gov Endorsement
5. Linkages	
5.1: Linkages to Agency program	Indicate to which AP (Agency Programs) the sub-activity contributes to?
5.2: Linkages to APA	Indicate relevant objective & SI of the proposed sub-activity. Objectives: Success Indicator:
6. Beneficiary	
6.1: Targeted beneficiaries	Identify the target group (Community/Civil servants/Schools/Gender/Youths). Indicate the numbers of beneficiaries (e.g., no. of household, population, students, teachers, patients, employees, etc.)
6.2: Employment impact	Provide approximate estimates of number of people that will be temporally or permanently employed by the /in the project during the investment and operating period.
6.3: Environment and climate impact	Provide preliminary analysis of the environment impacts during the construction and operating period of the project/activity. What are some of the environment and climate benefit of the proposed sub-activity?
7. Project Risk and uncertainty	
7.1: Key risk	Identify the key risks associated with the proposed sub-activity during implementation and after completion.
7.2: Risk mitigation measures	Identify the measures to mitigate or address the key risks identified.



