



Thromde Finance Policy, Bhutan

July 2012

Royal Government of Bhutan

Foreword

This Finance Policy is intended to support and assist the Thromdes to establish sound Thromde financial management practices, strive towards financial sustainability and self reliance keeping within the principles of decentralization, economy, equity, efficiency, effectiveness, transparency and accountability. It will also facilitate them in addressing their challenges as they evolve from rural economy to urban society of rapid economic growth and urbanization.

The urban population is growing and will continue to grow in the years ahead. It is projected that the urban population would reach 50% of the total population by the year 2020. Therefore, the administration, management, planning, infrastructure development and provision of essential services in a sustainable manner by facilitating direct participation of the people in the development and financial management of their social, economic and environmental well being is vital for the Thromde and its residents.

Furthermore, the Thromde Finance Policy empowers the Thromdes to levy taxes and duties in accordance with procedures and subject to limitations as may be provided for by the Parliament to provide essential services, promote public participation in decision making and to manage the resources and growth of the Thromde in a sustainable manner for the general well being of the residents of the Thromde.

Pursuant to the minutes of the 15th GNH Commission Meeting of 13 December 2010 the Ministry of Works and Human Settlement hereby endorses the Thromde Finance Policy, 2012. I hope this policy in

conjunction with the Local Government Act 2009 will enable Thromde Tshogde to govern and administer Class “A” Dzongkhag Thromdes.

The Thromde Finance Policy shall come into effect from the 30th day of the 5th month of the Water Male Dragon Year corresponding to the 19th day of July 2012.

Tashi Delek

A handwritten signature in blue ink, appearing to be 'Yeshey Zimba', written in a cursive style.

(Yeshey Zimba)

Minister

Ministry of Works and Human Settlement

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Abbreviations

Constitution	The Constitution of the Kingdom of Bhutan
Government	Royal Government of Bhutan
LG	Local Government (Dzongkhag, Gewog, Thromde)
LGA	Local Government Act of Bhutan, 2009
MoF	Ministry of Finance
MoWHS	Ministry of Works and Human Settlement
RAA	Royal Audit Authority
TFP	Thromde Finance Policy

1. Rationale for Thromde Finance Policy

With rapid socio-economic development, the urban centres are becoming economic hubs. This is setting a new trend and requires provision of increased level of basic amenities such as housing, roads, sewerage, water supply, waste management among others in the urban centres. It is in this regard, Thromdes have been instituted as provided in the Constitution of the Kingdom of Bhutan and Local Government Act (LGA) 2009 to facilitate direct participation of people in the development and management of their own social, economic and environmental well-being.

Article 22, Section 2 of the Constitution of the Kingdom of Bhutan states that, “Bhutan shall have local Governments in each of the twenty Dzongkhags comprising the Dzongkhag Tshogdu, Gewog Tshogde and Thromde Tshogde”. Dzongkhag Tshogdus and Gewog Tshogdes are established in 20 Dzongkhags and 205 Gewogs. However, Thromde Tshogdes are established only in four major urban centres viz. Thimphu, Phuentsholing, Gelephu and Samdrup Jongkhar as “Class A *Throms*” under four Dzongkhags (Thimphu, Chhukha, Sarpang and Samdrup Jongkhar). For the remaining 16 Dzongkhags, the Throms are referred to as “Class B

Throms” and are under the administrative control of respective Dzongkhags.

With respect to public finance, Local Governments are governed by the Public Finance Act (PFA) 2007 and amendments thereto and rules and regulation made there under. The Thromde Finance Policy (TFP) is formulated as per the provisions of relevant laws to enable the Thromdes to effectively discharge their responsibilities based on sound financial management principles. This policy is also expected to strengthen Thromde governance besides promoting socio-economic development, preserving cultural heritage, and protecting the environment within the respective Thromdes, thus contributing towards the realization of the goal of Gross National Happiness (GNH).

The TFP seeks to guide how finances required for running the Thromdes (Class A) are raised and managed so as to deliver services and address the challenges of urbanization in ways which enhance social cohesion and encourage the prudent management of natural and other resources.

2. Legislative Framework

TFP is framed in accordance with the relevant provisions of the Constitution of the Kingdom of Bhutan, LGA of Bhutan

2009, PFA 2007 and amendments thereto, Thromde Rules 2011, and other related policies.

3. Objective

The objective of the TFP is to set out guiding principles for establishing sound Thromde finances within which municipal services can be delivered. Towards this end the TFP will focus on the financial mechanisms required to make Thromdes sustainable and provide a framework for prudent financial management covering;

- a) Raising of revenue and resource mobilization;
- b) Budget allocation;
- c) Procurement;
- d) Accounting;
- e) Asset and liability management;
- f) Reporting; and
- g) Auditing.

4. Application

The TFP shall be applicable to all “*Class A Thromdes*” of Thimphu, Phuentsholing, Samdrup Jongkhar and Gelephu and shall be extended to new Throms falling under “*Class A Thromdes*” as and when “*Class B Thromdes*” are upgraded.

5. Principles

The TFP is based on the principles of:

- a) Decentralization;
- b) Economy and equity;
- c) Efficiency and effectiveness;
- d) Transparency and accountability; and
- e) Sustainability and self reliance.

6. Resources

Thromde financial resources shall comprise of the following:

6.1. Revenue

The revenue shall comprise of taxes, levies fees, charges, duties, tolls, etc.

- i) Thromdes shall levy taxes and duties only in accordance with such procedure and subject to limitations as may be provided for by the Parliament;
- ii) For levy of fees and charges, prior approval of the Ministry of Finance shall be obtained.
- iii) In addition to the present taxes, fees and charges levied and collected in accordance to the LGA 2009, Thromdes shall explore other revenue

sources in their effort to meet the broad objectives of TFP.

- iv) Thromdes shall consult the public and create awareness to inform the stakeholders for revision of rates or introduction of new taxes, fees, charges, duties, tolls, etc.;
- v) All planned revision of existing taxes and any new taxes, charges, fees, duties and tolls shall be evaluated against the criteria of affordability, adequacy, elasticity, equity, economic efficiency, administrative capacity and its suitability;
- vi) Tariffs shall be designed based on level of consumption (progressive tariff); and,
- vii) The revenue shall be recorded and accounted as per the Thromde Revenue Manual.

6.2. Government Grants

Thromdes shall receive adequate financial resources from the Government in the form of annual grants until such time the Thromdes are able to sustain on their own resources. The grants shall be in the form of current and capital grants. These grants shall be used for carrying out “*own services*”. For any “*agency services*”, the Thromdes shall receive grants from the respective agencies.

“*Own services*” shall include those services that the Thromdes are primarily responsible for operation and development of Thromdes.

“*Agency services*” shall include those services which will be implemented by Thromdes on behalf of central agencies.

6.2.1. Current Grants:

Thromdes shall receive current grants to the extent of operating deficit¹ for “*own services*”. Such grants shall be phased out based on an agreement signed between the Ministry of Finance and the Thromdes, which shall include the timeline for phasing out the current grants.

6.2.2. Capital Grants:

Thromdes shall receive capital grants to the extent that capital expenditure cannot be financed out of Thromdes’ revenue. These grants shall be used for development of urban infrastructures.

For the receipt of capital grants, Thromdes shall submit justifications along with their sources and application of

¹ Operating deficit is revenue minus current expenditure.

funds. Where possible, Thromdes shall provide the matching contributions to the capital grants. Any unutilized balance of capital grant shall be adjusted from subsequent capital grants to the Thromdes.

Capital and current grants shall be allocated based on principles laid above and shall not be used for purchase of vehicles, study visits, trainings, road shows among others for which prior approval will be required from the Ministry of Finance.

6.3 Loans

Thromdes will require large capital amounts to build new infrastructures. Where grants are not available, it shall be financed through either internal borrowings from the financial institutions within Bhutan or external borrowings obtained through the Ministry of Finance. All borrowings shall be in accordance with relevant provisions of the PFA 2007 and amendments thereto.

For any borrowing raised by the Ministry of Finance for the Thromdes, a subsidiary loan agreement shall be signed between the Ministry of Finance and the Thromdes. The subsidiary loan agreement shall outline the obligations of the

central government and the Thromdes regarding the use of the loan proceed and debt servicing.

7. Budgeting and budget execution

Thromdes shall ensure that budgeting process is participatory, comprehensive, and is consistent with the overall government plans and programs. Thromdes shall adopt a Multi-Year-Rolling-Budget-System (MYRB) based on their Medium Term Fiscal Framework (MTFF) Statements. Thromdes shall ensure timely budget execution in line with stated plans and use the budget for achieving desired outputs and outcomes. For capital and current grants, the Thromdes shall follow the Government budget process.

Thromde budget shall be formulated in accordance with the *Thromde Budget Manual* which shall outline the processes in each budget cycle.

7.1. Accounting

Books of accounts shall be maintained as per the *Thromde Accounting Manual (TAM)*. Thromdes shall prepare monthly accounts and Annual Financial Statements. The TAM shall be based on the Accounting Standards prescribed by the Accounting and Auditing Standards Board of Bhutan

(AASBB). Thromdes shall strive for migrating towards accrual accounting from the present cash basis of accounting. Thromdes shall ensure that the accounting and management information system used are complete, accurate, timely and reliable for effective decision making.

Thromdes shall provide the public, access to information in order to understand how Thromde finances are being managed.

7.2. Reporting

Thromdes shall submit annual reports to Thromde Tshogdes which shall contain, among others, the following:

- a) Annual Financial Statement of the preceding year comprising of statement of all funds received, including revenue, income and subsidies, loans and grants, expenditure incurred along with advances;
- b) List of tenders of works, goods and services awarded along with corresponding budget, recipients and contract value;
- c) Latest annual audited statement along with audit observations;
- d) List of all commercial investments and returns; and

- e) Any other relevant financial and non-financial information.

The above reports shall be published and disseminated for public information using appropriate media.

7.3. Procurement

Thromdes shall ensure that an efficient procurement system is implemented to ensure competitiveness, value-for-money and transparency.

Procurement shall be governed by the procurement rules and regulations 2009.

7.4 Assets and Liabilities Management

Thromdes shall manage their assets and liabilities in accordance with the provisions of the PFA 2007 and amendments thereto and Financial Rule and Regulations. Thromdes shall also invest in creating additional assets as may be required from time to time.

Thromdes shall ensure that a computerised database of all assets and liabilities is maintained for informed decision making. Thromdes shall have a *Property Management Manual*. In the absence of such a manual, the government property management manual shall be followed.

7.5 Auditing

Thromdes shall be subject to audit by the Royal Audit Authority on the sources and application of resources and assets and liabilities management besides the internal control system and performance thereof.

7.5.1 Internal Control and Audit

Thromdes shall ensure that clearly defined and effective policies, systems and procedures for internal control are adopted.

7.5.2 External Audit

The Royal Audit Authority or an audit firm acting under the authority of the RAA shall audit the Thromdes.

8 Institutional Arrangements

The respective Thromdes will implement the TFP. For guiding the implementation of TFP, a Thromde Finance Committee (TFC) shall be established with representatives from relevant government agencies such as, the Ministry of Works and Human Settlement and Ministry of Finance along with representatives from respective Thromdes. The TFC shall meet from time to time to review the smooth implementation of TFP and provide recommendations for any

necessary changes to revise the TFP. This committee shall take overall responsibility for the design and implementation of effective mechanisms and processes to ensure a national framework for the sound management of Thromde finances, making recommendations to and involving other relevant bodies where appropriate.