

**NATIONAL DECENTRALIZATION POLICY, 2019
(FINAL DRAFT)**



**MINISTRY OF HOME AND CULTURAL AFFAIRS
ROYAL GOVERNMENT OF BHUTAN
THIMPHU**

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FOREWORD

ACRONYMS AND ABBREVIATIONS

BCSR	Bhutan Civil Service Rules and Regulations
CSO	Civil Society Organization
FYP	Five-Year Plan
GNH	Gross National Happiness
GNHC	Gross National Happiness Commission
ICT	Information and Communications Technology
LDPM	Local Government Planning Manual
LG	Local Government
MoF	Ministry of Finance
MoHCA	Ministry of Home and Cultural Affairs
MYRB	Multi Year Rolling Budget
NKRA	National Key Result Area
RCSC	Royal Civil Service Commission

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1. INTRODUCTION

1.1 Evolution of decentralization

Decentralization of power and authority in Bhutan took place in a deliberate and unique manner over the last century under the visionary leadership, counsel and guidance of successive Monarchs.

The process was conceived, initiated and implemented by successive Monarchs whose vision was to empower the people through greater peoples' participation in the decision making processes. The primary purpose of decentralization was to ensure the long term security, sovereignty and well-being of the people.

Key milestones include the enthronement of Bhutan's first hereditary Monarch, Gonga Ugyen Wangchuck in 1907 through a democratic process of signing a *Genja* (written agreement); establishment of the National Assembly in 1953; Dzongkhag Yargay Tshogchung (DYT) in 1981; Gewog Yargay Tshogchung (GYT) in 1991; and the devolution of full executive authority to a Cabinet elected by the National Assembly in 1998.

These developments culminated to the peaceful transition of Bhutan from an absolute monarchy to a Democratic Constitutional Monarchy with the promulgation of a written Constitution and holding of the first parliamentary elections in 2008.

Broadly, the decentralization initiatives have been carried out in four phases as follows:

Phase I began with the establishment of the Gyalyong Tshogdu (National Assembly) in 1953 by the Third Druk Gyalpo Jigme Dorji Wangchuck. The nature of this Assembly gradually changed from a consultative body to one whose decision was binding. The reasons for setting up this body were three-fold: to discuss issues facing people and identify solutions; to come up with ideas and plans for the development of the country; and to record revenues and expenditures. It should also be noted that a form of meeting known as 'Zomdu' pre-existed the establishment of National Assembly for people to gather and meet to discuss and resolve specific issues or have officials disseminate important information to the communities.

Phase II was initiated in the 1980s. LG (LG) bodies were established to prepare people "to participate actively and fully in the decision-making process." Dzongkhag Yargay Tshogchungs were established in 1981 to enhance greater public participation in decision making related to development issues and programmes of the Dzongkhag. It consisted of

people's representatives, including Gups and Mangmis and it was chaired by Dzongdags. Decentralized development planning received greater impetus in the country's fifth Five-Year Plan (1981-1986) and the administrative capacities of Dzongkhags were enhanced through greater delegation of authority and placement of technical staff directly under the Dzongkhags. To enhance the process of decentralization further, GYTs were set up in 1991. These institutions enabled greater public participation in the decision making process.

Phase III of decentralization and democratization took place in 1998 with the election of members of the Lhengye Zhungtshog (Cabinet) by the peoples' representatives in the National Assembly for a period of five years. Executive powers were devolved to the elected Cabinet, and the post of Prime Minister rotated annually among the members of the Cabinet.

Phase IV commenced with the enactment of the Municipal Act in 1999, DYT Chathrim in 2002, GYT Chathrim in 2002, LG Act in 2007 and Thromde Act in 2007. After adoption of the Constitution in 2008, the LG Act 2009 was enacted and subsequently amended in 2014.

All of these phased developments have evolved into the articulation and adoption of the Constitution in 2008, transitioning Bhutan into a Democratic Constitutional Monarchy with a decentralized system of governance.

1.2 ANCHORS

1.2.1 Royal aspirations

During the Coronation of His Majesty the Fourth Druk Gyalpo in 1974, His Majesty commanded that a little effort on the part of the people will be much more effective than a great deal of effort on the part of the Government.

The successive monarchs have always placed greatest importance to strengthening the LGs through a deliberate and a planned manner. His Majesty the King has often emphasized that for LGs are indispensable avenues for participation in democracy and development. In the long run, the success of democracy in Bhutan will be determined by the success of LGs.

His Majesty has also commanded that He has been working hard to prepare the people to fully participate with alertness and commitment, in the system of deciding matters of the country. It is important to promote participation of people in the system of decision making. His Majesty the King has commanded that the LG is not the lowest level of Government but it is the nearest and closest level of Government for the people. His Majesty has also

commanded that decentralization and empowerment of the grass-roots has been a constant process, culminating in the transfer of powers from the Throne to the people under democracy. In the exercise of this power, LGs are invaluable to the people.

In recognition of the importance of their responsibilities, all elected leaders (*Gups*) received *Dhar* from the Throne since the first LG election. Further, due importance was also accorded to the post of Chairperson (*Thridzin*) of Dzongkhag Tshogdu with the award of *Pata* (Sword) to them by His Majesty the King in December 2016 with the firm conviction of their capabilities to make decisions for local development and to serve their communities and the Tsa-wa-Sum.

1.2.2 Legal and Policy Framework

Decentralization is enshrined in Article 22, Section 1 of the Constitution of the Kingdom of Bhutan, 2008, which states that: “Power and authority shall be decentralized and devolved to elected LGs to facilitate the direct participation of the people in the development and management of their own social, economic and environmental well-being.”

The Decentralization Policy also draws upon the principles, priorities and objectives outlined in policy documents and legal frameworks, most notably being the following:

- LG Act 2009
- Bhutan 2020: Vision for Peace, Prosperity and Happiness
- Economic Development Policy 2016
- 2030 Agenda for Sustainable Development

According to the Constitution and the LG Act, all 20 Dzongkhags shall have LGs comprising Dzongkhag Tshogdu, Gewog Tshogde, and Thromde Tshogde, and they shall be supported by administrative machinery staffed by civil servants.

2. POLICY ORIENTATION

2.1 Vision

A well devolved and effective decentralized system of governance in pursuit of a vibrant democracy and Gross National Happiness (GNH).

2.2 Mission

To create Local Governments (LG) that are responsive, managed well and serve the people with transparency, accountability, efficiency, effectiveness and inclusivity.

2.3 Rationale and Objectives

2.3.1 Rationale

Despite the rich history of decentralization efforts in Bhutan, no clear and comprehensive decentralization policy or action plan has ever been articulated to provide a strategic vision and framework through which devolution of powers, functions, authority and resources to LGs shall proceed.

Consequently, the 150th session of the Lhengye Zhungtshog, held on 9th January 2018 approved and directed the Ministry of Home and Cultural Affairs (MoHCA) to develop a national Decentralization Policy.

The development of the policy and an accompanying Action Plan shall enable the Royal Government to assess decentralization challenges so far; formulate a clearer future direction for changes needed to provide stronger impetus to decentralization; and identify strategic actions to be implemented.

2.3.2 Objectives

The policy is to enable LGs to achieve their objectives as stated in the Constitution, Article 22, Section 4: (a) provide democratic and accountable government for local communities; (b) ensure the provision of services to communities in a sustainable manner; (c) encourage the involvement of communities and community organizations in matters of local governance; and (d) discharge any other responsibilities as may be prescribed by law made by Parliament.

The specific objectives of the policy are to:

- Establish a coherent policy and legal framework that provides strategic guidance for unity of purpose, coordinated and integrated approach to decentralization among all government stakeholders.
- Improve the enabling environment for LGs to be more self-reliant, autonomous with adequate human and financial resources to fulfill their devolved functions, roles and responsibilities.

- Outline clear roles and responsibilities between central and LGs for gradual devolution of power, functions and authority of LGs.

2.4 Scope

The policy covers administrative, political and fiscal decentralization from central to LGs.

2.5 Guiding principles

The following are the guiding principles of the Policy:

- i. **Unity and harmony:** Common national identity and shared commitment shall be required to achieve a distinctive Bhutanese path of decentralization.
- ii. **Sustainability:** Decentralization shall contribute towards the financial, economic, environmental and cultural sustainability at/or the LGs.
- iii. **Gradualism and flexibility:** Decentralization of power, authority and functions with matching and adequate financial and human resources shall be done progressively, yet prudently and gradually in a phased manner. Flexibility shall be considered to take full advantage of possibilities and opportunities of decentralization as they arise.
- iv. **Inclusive Participation:** Participation shall be at the centre of a democratic and decentralized system of governance as it brings opportunities for citizens to engage in and influence community development and LG decision-making processes. Inclusiveness shall be crucial for providing women, youth and vulnerable community members the opportunity to participate and voice out their needs and opinions during community development and local governance processes.
- v. **Non-partisanship:** Non-partisanship shall be a fundamental principle for decentralization. LGs shall respect and subscribe to the non-partisan nature of public service. Decentralized local governance shall embrace and respond to the needs of all citizens and shall not consider political affiliations.
- vi. **Subsidiarity:** In general, central Government shall perform only those functions that cannot be undertaken effectively and efficiently at the LG level.

- vii. Separation of power and non-subordination:** There shall be clear separation of powers, functions and responsibilities as well as checks and balances between political, administrative and technical entities, and between central and local governments.

There shall be mutual respect, coordination and collaboration between levels of Government. In cases where national priorities should take precedence over LG priorities, central Government shall take appropriate decisions

3. FRAMEWORK FOR ENUNCIATION OF POLICY MEASURES

The policies related to administrative, political, and fiscal decentralization are stated using the three common captions' framework as described below:

- Policy issue analysis is derived from independent reviews, evaluations, assessments and stakeholder consultations pertaining to decentralization and local governance which were conducted over the past few years.
- Policy statements broadly describe the changes the policy envisages.
- Strategic policy actions shall guide the Action Plan.

The framework serves to provide the basis for policy change statement and the strategic actions required for implementation of the Policy statements.

4. THE CONCEPT

Decentralization generally refers to empowerment of LGs through transfer of political, administrative and fiscal powers, authority and responsibilities from central Government to LGs for deciding and implementing public functions, providing goods and services, and enhancing local economy and development.

In general, there are three major forms of decentralization: political, administrative, and fiscal. Sometimes, market decentralization is also considered as one additional form of decentralization. Also there are three processes of decentralization, each with different characteristics namely; deconcentration, delegation and devolution, which determines the extent of decentralization.

Deconcentration is considered to be the weakest form of decentralization as there is no benefit to LGs out of it. Here central Government only relocates its responsibilities for certain services to different levels of institutions in hierarchy or to its regional branch

offices without transfer of any decision-making authority. Here, the central Government is simply creating or sustaining its branch offices

Delegation is considered to be a more extensive form of decentralization. Here central Government transfers specific responsibilities and authority for decision making and administration of public functions to LGs and semi-autonomous organizations/bodies which are not wholly controlled by the central Government, but ultimately accountable to it.

Devolution is considered to be the purest or at least the most extensive form of decentralization as it provides LGs with substantive decision-making power and authority. Here, the central Government devolves and transfers responsibilities and authority for decision-making for revenue generation and its use, planning and prioritization, financing, budgeting and expenditure/investment management to LGs within clear and legally recognized geographical boundaries and framework.

In this context, the Government shall pursue devolution as the preferred form of decentralization within the boundaries of unitary form of Government, where central Government will continue to retain policy making, research and regulatory functions including providing and managing public goods and services of strategic national importance with multidimensional and co-sharing nature. The devolution of power, authority, functions, and resources shall happen progressively, but gradually, to ensure that both local and central Government are well sensitized and prepared.

5. ADMINISTRATIVE DECENTRALIZATION

Administrative decentralization refers to redistributing authority, responsibility, human- and financial resources for provision of public services among different levels of Government. It is the transfer of responsibility for planning, financing and management of certain public functions from the central Government and its agencies to LGs.

5.1 Devolution as the main mode of administrative decentralization

(a) Policy issue analysis

The current decentralized system of governance has practices, systems and processes that are rather following de-concentration and delegation as the mode of decentralization. This mix of decentralization creates confusion over decentralized functions and undermines the capacity and effectiveness of the LGs.

In addition, the LGs have the authority to formulate and implement their own annual and five year plans in line with national goals and objectives. They are also mandated to promote holistic and integrated area-based planning.

However, there is a lack of capacity and resource constraints at the local level to prepare inclusive and strategic plans, and thus deliver much needed developmental outcomes. The current planning approach is largely sectoral and there is lack of coordination between the different sectors.

(b) Policy statement

The Government shall pursue devolution as the preferred form of administrative decentralization. The devolution of power, authority, functions, and resources shall happen progressively, but gradually, to ensure that both local and central Government are well sensitized and prepared.

The Government shall strengthen and improve the current system and practices of development planning by giving enhanced autonomy to plan, implement and monitor the LG plans and programs.

(c) Strategic policy actions

1. Government shall continue to identify and devolve new administrative and expenditure functions and responsibilities, and matching power and authority to LGs.
2. Government shall study and initiate territorial reforms and mergers of Gewogs to create right area for a Gewog, right number of Gewogs, and to create a viable and sustainable local governance at the Gewog level in accordance with changing local context.
3. Government shall study and develop clear criteria, processes and a master plan for establishment of Thromdes with an elected municipal government in place.
4. All national policies, plans and programmes shall continue to be formulated by the central agencies in consultation with the LGs and communities.
5. LGs and respective central agencies shall be responsible for implementing national policies and strategies through local and agencies' development plans, taking into consideration unique local needs, priorities and resources.
6. LGs shall prepare their development plans and budgets in consonance with the national goals and objectives in an inclusive and participatory manner. Central agencies shall

regulate, provide research and technical support and periodically monitor and evaluate the programs and projects implemented by the LGs.

7. The system of centrally budgeted programs implemented as deposit works by LGs shall be gradually phased out, and the role of central agencies/line ministries shall be reengineered and redefined to suit the changing needs.

5.2 Harmonization of legal and policy framework

(a) Policy issue analysis

Over the past decades, with decentralization taking place on a gradual basis, a wide range of legal, policy, administrative and operational documents have been produced to guide the decentralized system of governance. However, the policy and legal frameworks are not consistent with each other and this poses challenges to effective inter-governmental coordination, planning, implementation and monitoring processes. Also, most of the legal and policy frameworks are silent on decentralization although they are pertinent to national, local and rural development. In addition, there are several rules and regulations formulated by the centre that are rather affecting LGs flexibility, creativity, effectiveness and efficient functioning of LGs.

(b) Policy statement

All relevant Government agencies shall harmonize their legal and policy frameworks to promote practices, systems and processes that enhance decentralization and devolution as the main system of governance.

All relevant Government agencies shall also rationalize and reduce unnecessary and redundant regulations intended for LGs to allow LGs to be more flexible, innovative, effective and efficient in serving the people and the communities.

LG shall, however, not frame rules and regulations that are inconsistent with national interest and policies.

(c) Strategic policy actions

1. The Government agencies shall continually review their respective legislations, policies, strategies, guidelines, rules and regulations with a view to developing a clearer and harmonized legal and policy framework including formulation of new legislations or amending the existing ones to comprehensively incorporate changes required with respect to decentralization.

2. The Government shall continually sensitize civil servants, elected representatives and all other stakeholders on the legal and policy frameworks pertaining to decentralization.

5.3 Strengthening inter-governmental relations and coordination mechanisms

(a) Policy issue analysis

The Division of Responsibilities Framework (DoRF) delineates roles and responsibilities between the central Government and the LGs. It outlines the responsibilities of LGs related to regulatory/administrative functions; infrastructure and capacity development; and human resource development. However, coordination challenges continue to exist at all levels. Principles of subsidiarity and separation of power are not fully observed.

(b) Policy statement

The decentralization process shall ensure that mechanisms for coordinating efforts and establishing effective processes and systems that supports a well-integrated and harmonized approach to joint planning, implementation and monitoring are strengthened and enforced. DoRF and any other related functional framework shall be revised periodically.

(c) Strategic policy actions

1. All planning, budgeting, implementation, monitoring and evaluation activities undertaken at the LG level is routed through and in coordination with the central agencies and LG administrations concerned at Dzongkhag, Thromde and Gewog level.
2. Institute an inter-agency coordination mechanism between central, LGs, LG administration, and regional offices, which will also serve as a conduit for coordinating resolutions emanating from LGs.
3. As devolution of functions, roles and responsibilities to LGs gradually enhances, the Government shall continuously review, amend and enforce, as appropriate, the DoRF in consultation with the LGs and relevant agencies to ensure an effective, efficient and well-coordinated devolution of authority, power and resources to LGs.
4. MoHCA shall institute a mechanism and enforce the laws (example LG Act) and regulations governing LGs for effective implementation.

5.4 Devolution of human resources management

(a) Policy issue analysis

The Royal Civil Service Commission is mandated to promote and ensure an independent and apolitical civil service that will discharge its public duties in an efficient, transparent and accountable manner; ensure that civil servants render professional service, guided by the highest standards of ethics and integrity to promote good governance and social justice, in implementing the policies and programs of the Government; ensure that uniform rules and regulations on recruitment, appointment, staffing, training, transfers and promotion prevail throughout the civil service. Furthermore, the Constitution allows LGs to be staffed by civil servants.

While the Civil Service Act and BCSR are clear on human resource functions related to the civil service, practical challenges still prevail with respect to inadequate staffing, delays in deployments and transfers and limited human resource authority.

(b) Policy statement

The RCSC and line ministries shall ensure that all LG administrations have the requisite number of competent human resources in all service delivery domains and have adequate decentralized authority in human resource functions. The RCSC shall review the BCSR to meet the human resource requirements, including transfer of appropriate authority for human resource functions to both central and Local Governments.

(c) Strategic policy actions

1. RCSC shall study size, levels and capacities of the LGs based on their functional burden, and accordingly determine human resource and staff allocation of functions.
2. RCSC shall empower LG administrations to carry out human resource functions, including administrative actions.
3. RCSC shall ensure that LG administrations are adequately staffed with key civil service personnel.
4. Government and RCSC shall study the role of regional offices and reorganise or merge with the Dzongkhags to enhance better and optimum utilisation of resources to improve service delivery and enhance efficiency.
5. A system of recognition and incentives shall be developed to encourage and reward civil servants to work in LGs and remote places.

5.5 Developing sustainable LG capacity

(a) Policy issue analysis

LG are supported by the Government in the development of administrative, technical and managerial capacities and structures which are responsive, transparent, and accountable for the civil servants. Capacity development is continuously required to train newly elected LG functionaries. This imposes challenges and financially sustaining capacity development. An absence of a capacity development strategy leads to unsatisfactory performance of the LGs leading to poor socioeconomic development.

Frequent transfer of civil servants and change in elected representatives leads to loss of institutional memory and built capacity.

(b) Policy statement

For LGs to successfully deliver on their mandates, coordinated and substantial investments shall be made by the Government and the LGs to continuously maintain and upgrade the capacities of LGs.

(c) Strategic policy actions

1. The comprehensive capacity development needs and strategy shall be revised, and implemented for elected representatives, civil servants and other local level functionaries.
2. The Government in collaboration with relevant agencies shall continue to provide both tailor-made and dynamic modules for trainings and capacity development for the elected representatives, civil servants and functionaries at Dzongkhag, Thromde and Gewog levels which could be financed from LGs or central budget allocations.
3. LGs shall be encouraged to conduct their own capacity development programs and activities.
4. MoHCA and relevant central agencies shall develop institutional partnerships with training providers both in public and private sectors for delivery of capacity development programmes to Local Governments and the communities.
5. Responsibility for human resource planning and development shall gradually be handed over to LG administrations and financed through a secured and predictable funding mechanism.

6. The Government shall provide adequate resources for capacity development of LGs.

5.6 Strengthening ICT infrastructure and promoting e-governance

(a) Policy issue analysis

Use of ICT in the country has expanded rapidly over the past decade. The improved broadband and ICT infrastructure has enabled LGs to access and use electronic systems such as: Government Performance Management System; Public Expenditure Management System; Multi-Year Rolling Budget (MYRB) System; and Revenue Assessment and Management Information System, e-payments, mobile banking, Government-to-Citizens (G2C), Government-to-Government (G2G). Community Centers with public access to internet have also been constructed in all 20 Dzongkhags. However, there are challenges, such as connectivity, poor accessibility, poor user knowledge, system not being robust.

(b) Policy statement

The Government shall continue to improve internet connectivity, user literacy, and strengthen the use of ICT-based systems and e-governance at the LG level for enhanced public service delivery and use. ICT shall continue to be an important contributor to socioeconomic development and in the enhancement of e-governance and good governance.

(c) Strategic policy actions

1. The Government shall continue to make use of ICT for effective and efficient public administration, public service delivery and as a tool to enhance information sharing; strengthening community engagement and social accountability for enhanced decentralization.
2. The Government shall continue to improve and strengthen ICT infrastructure and systems including connectivity across all levels of LG.
3. The Government shall promote use of ICT for documentation at the LG.
4. The Government shall build capacity and create awareness amongst LGs on the use of ICT for delivering or accessing services.
5. The Government shall support the development of ICT systems by the LG for the delivery of services.

6. Government shall study and transfer responsibility and management of G2C services to the Gewog and Dzongkhag administrations to enhance better and optimum utilization of resources and improve service delivery.

6. POLITICAL DECENTRALIZATION

Political decentralization in general refers to giving citizens and their elected representatives more power in public decision-making. It is associated with pluralistic politics and representative Government, but it also supports democratization by giving citizens, and their representatives, more influence in the formulation and implementation of policies. Decisions made with greater participation will be better informed and more relevant to diverse interests and needs of the society.

6.1. Participatory planning and decision making

(a) Policy issue analysis

The Constitution requires the promotion of holistic and integrated area-based development planning, and the participation of citizens in the formulation of annual and five-year plans.

The five-year and annual plan preparation guideline of the GNHC directs the planning processes and ensures that local plans are aligned to the National Key Result Areas (NKRA).

The Local Development Planning Manual (LDPM) requires a participatory approach in the formulation, implementation and monitoring and evaluation of LG plans. However, challenges persist with regard to poor participation in Zomdus, local ‘elite capture’, low participation of women, youth and vulnerable groups, weak evidenced-based planning, and lack of capacity to formulate plans.

(b) Policy statement

The Government shall continue to improve and strengthen participatory and transparent planning and decision-making processes.

LGs shall create effective bottom-up and socially inclusive local governance processes. Implementation and monitoring and evaluation processes shall be further strengthened and made participatory and transparent to improve the quality of public services and infrastructure projects.

(c) Strategic policy actions

1. To enhance inclusive and meaningful participation, compliance to LG rules and planning manuals will be strengthened.

2. New mechanisms for mobilizing and ensuring meaningful participation and voice of women, youth and vulnerable groups shall be developed and implemented.
3. Central Government/LGs shall support and promote bottom-up participatory local governance processes and engagement through capacity building and training.
4. Capacities at LG level shall be developed to successfully carry out and institutionalise participatory planning, budgeting, implementation and monitoring and evaluation processes.
5. Capacity development shall be provided for promoting informed, evidence-based and strategic decision making.
6. Management Information Systems shall be developed to promote systematized data collection; analysis of data; and ensure safer storage and management of information to improve evidence-based planning, performance monitoring and sound decision-making processes.
7. Local development planning processes and methods shall be reviewed periodically and new planning approaches will be explored to meet the evolving needs of the LGs and the communities.

6.2. Improved transparency and accountability mechanisms

(a) Policy issue analysis

The Constitution provides right to information as a fundamental right to every Bhutanese citizen. Furthermore, the LG Act provides guidance on how LGs shall be transparent and accountable to its citizens.

However, ineffective public notification, lack of information sharing mechanism, limited accountability mechanism and ineffective implementation of the LG Act and Regulations are some of the challenges faced at the LG level.

(b) Policy statement

Measures shall be put in place to ensure citizens, civil society, media and other local stakeholders have access to LG decisions, plans, budgets and expenditures to enhance

transparency and accountability. LGs and elected representatives shall be responsive to the needs of the citizens.

(c) Strategic policy actions

1. Government shall improve access to internet services and promote responsible use by the citizens, including local communities.
2. LGs shall have strategies and mechanisms for enhanced information sharing on various media platforms besides the normative function of the LG functionaries on information sharing.
3. Government shall explore and adopt social accountability tools, including mechanisms for LGs performance assessment and citizen satisfaction surveys.
4. Central and Local Governments shall inform and educate the communities on relevant laws, policies, standards and guidelines.
5. Local Governments shall not only be transparent and accountable to the people in their respective constituencies but shall also promote, institute and enhance transparency and accountability mechanisms.
6. Tendering, contracting and procurement mechanisms shall be reviewed periodically to make it more effective, efficient and adaptable to the local context. Special efforts shall be made to make the mechanism more transparent and informative.

6.3. Deepened citizens' engagement, social accountability, and partnership

(a) Policy issue analysis

LGs by law are required to ensure public participation in the development of their plans and programs. Further, the public are allowed to participate as audience in all sessions of LGs except for closed door sessions.

However, public participation is minimal in most cases, which could be due to apathy on the part of communities, limited time due to other responsibilities, limited awareness amongst communities about LG sessions and other governance forums. In addition, there is limited engagement between LGs and private, public sectors, Civil Society Organizations (CSO) and Community Based Organizations (CBOs).

(b) Policy statement

Efforts shall be made to enlarge space and opportunities for enhanced community participation and LG accountability. LG shall be encouraged to undertake innovative and proactive measures to create awareness and interest amongst the public on LG sessions and forums including Zomdu.

Engagements and partnerships between LGs and public, private sectors, CSOs, CBOs and other stakeholders shall be promoted and strengthened.

(c) Strategic policy actions

1. Inclusive community engagement mechanisms shall be established and operationalized in the villages, including through use of ICT – such as virtual Zomdu to address time and other limitations.
2. A community engagement guideline shall be developed as a general framework to facilitate enhanced engagement of community members in local governance and community development processes.
3. Outsourced services for capital projects shall have in place strong joint monitoring mechanisms, including involvement of community monitoring committees for enhanced budget expenditure tracking and supervision of works.
4. Promote partnerships and institute mechanisms for collaboration between LGs and private, public sectors, CSOs, CBOs and others.
5. LG shall conduct awareness programs to encourage community participation in LG sessions and forums.

7. FISCAL DECENTRALIZATION

Fiscal decentralization is the transfer of expenditure and revenue responsibilities to the LG. It involves giving discretion and autonomy on fiscal decision making power and management responsibilities to the LG.

There are four key elements of fiscal decentralization usually called "pillars" or "building blocks" of fiscal decentralization. They are:

- i. Expenditure assignment
- ii. Inter-governmental fiscal transfer

- iii. Revenue assignment
- iv. Sub-national borrowing

7.1 Progressive fiscal decentralization

(a) Policy issue analysis

As per the Constitution, LGs are entitled to adequate financial resources from the Government in the form of annual grants to make them self-reliant and self-sustaining units. Allocation of grants to LGs has increased steadily throughout the past Five-Year Plans. However, LGs still has shortage of resources to finance increasing local development needs and priorities.

Challenges related to spending capacity and underutilization also persist in the LG. Problems arise due to shortage of skilled personnel, lengthy tendering and procurement procedures and non-availability of qualified contractors at the local level.

(b) Policy statement

A gradually progressive allocation and more flexibility in the use of inter-governmental transfer of financial resources to LGs will enable more efficient and effective decentralized service provision while maintaining strict fiscal and public financial management discipline. Progressive measures shall be undertaken to increase and untie grants from the national outlay and ensure that inter-governmental fiscal transfer mechanisms enable a more flexible, predictable and timely use of financial resources.

The Government shall also explore allowing LGs to access other sources of funds such as borrowings from the central Government or domestic financial institutions and revenue from local taxes within overall macroeconomic framework and conditions.

The mandate for mobilizing external resources shall vest with the central Government and not with the LGs.

(c) Strategic policy actions

1. The Annual Grants for LGs shall be allocated progressively, commensurate with increased functions, roles and capacity of LGs.
2. The LGs shall have enhanced autonomy on the use of the Annual Grants.

3. Resource allocation formula for Annual Grants allocation to Dzongkhags, Gewogs and Thromdes shall be reviewed and revised periodically to adequately reflect the changing socioeconomic needs of the country-.
4. The MYRB framework shall be reviewed to make it more efficient and for effective implementation of capital projects.

7.2 Enhancing self-reliance through own source revenue generation and borrowings.

(a) Policy issue analysis

LGs receive annual grants from the Government for undertaking planned programs and activities, managing and maintaining existing service infrastructure and delivery of services. In addition, the Constitution and LG Act also empower LGs to levy, collect, and appropriate taxes, duties, tolls, and fees subject to limitations as may be provided for by law.

However, except for Thromdes, LGs generate only about 1% from their own sources because of small population base, low level of socioeconomic development, limited tax base, and nominal rates.

(b) Policy statement

LGs shall be given more autonomy to expand own source revenue generation and make collection mechanisms efficient.

Government shall consider revision of rates, expansion of local tax base and strengthening tax administration in a manner that does not conflict with the national taxation policies and laws. Due processes shall be established to ensure imposition of taxes and determination of tax rates do not cause undue burden on the people.

The Government shall also explore allowing LG to access other sources of funds such as borrowings from internal sources.

(c) Strategic policy actions

In terms of enhancing self-reliance, the decentralization process shall:

1. Review and revise the rural/Thromdes tax rates.
2. Review and strengthen the rural tax collection mechanisms.

3. Review and revise the rates of fees, tolls and charges for provision of services by LGs.
4. Decentralize some of the revenue sources as own source revenue for LGs which are better suited and easier for LGs to administer and collect as taxes.
5. Update the inventory of properties in the LGs.
6. Government shall continue to support LGs to enhance local economic growth and income generation to become self-sustaining local governments.
7. Government will conduct studies to determine if it is feasible to allow LGs to commercially borrow. This could be done by piloting in few Dzongkhags. If found feasible the study shall cover aspects, among others, under what conditions they will be allowed to borrow, whether it should be for social or commercial projects and should the Central Government guarantee the borrowing.

8. POLICY IMPLEMENTATION FRAMEWORK

The policy shall be implemented in a phased and a coordinated manner by the Government in collaboration with relevant stakeholders. It will be implemented by formulating an Action Plan which shall be developed by a task force comprising relevant stakeholders.

9. PRIORITY SETTING AND TIMEFRAME

The central Government shall review and revise the policy as and when deemed necessary. The time frame shall be elaborated in the Action Plan.

The action plan shall clearly detail out which interventions will be implemented in the short, medium and long term. It shall have clear timelines, indicators, baseline and targets.

10. COST IMPLICATIONS AND FINANCING OF IMPLEMENTATION PLAN

The central Government shall finance the implementation of the decentralization process and explore additional financial resources from:

- Bilateral and multilateral development partners
- Private sector investments
- Contributions through community participation and local development projects
- Public Private Partnership

11. INSTITUTIONAL ARRANGEMENTS

The MoHCA shall be the lead coordinating agency undertaking the following functions:

- Identify, coordinate and harmonize support from all Government stakeholders contributing to the Action Plan, especially LGs and sector ministries and agencies.
- Monitor the progress of the Action Plan components and prepare progress reports to the Government.
- Liaise with and support all Government institutions to fully integrate decentralization principles in their areas of responsibility.
- Facilitate effective engagement of the citizens, civil society and the private sector in Policy implementation through information sharing, promoting transparency and participation in decision making processes and reinforcing capacities.
- Share and disseminate information related to the implementation of the decentralization process with all stakeholders at central and local level.
- Perform or outsource analyses, assessments and recommendations related to LG performance within the decentralized governance framework.

12. MONITORING AND EVALUATION

A comprehensive monitoring and evaluation framework shall be developed to measure the progress and maintain information related to the implementation of the Action Plan. All strategic actions shall, at minimum, have clearly stipulated milestones, target indicators, means of verification, designated responsibilities and budgets.

13. POLICY REVIEW AND REVISION

The MoHCA shall review the policy at least once every five years and revise if required.

ANNEXURE

DEFINITION AND GLOSSARY

- 1. Autonomy**
The right or condition of self-government.
- 2. Chiwog**
Collection of villages and constituency for *Tshogpa* elections.
- 3. Druk Gyalpo**
King of Bhutan.
- 4. Dzongdag**
District Administrator/Chief Executive of a district.
- 5. Dzongkhag**
District
- 6. Dzongkhag Tshogdu**
District Assembly.
- 7. Dzongkhag Yargay Tshogdus**
District Assembly established in 1981 which has now evolved into Dzongkhag Tshogdu.
- 8. Dzongkhag Yenlag Thromde**
District Satellite Town
- 9. Empowerment**
Enabling a person or institution with power and authority.
- 10. Gewog**
County, the territorial constituency for election of Gup and Mangmi.
- 11. Gewog Tshogde**
County Council

12. Gewog Yargay Tshogchung

County Council established in 1991.

13. Gup

Elected leadership/head of Gewog.

14. Gyalyong Tshogdu

National Assembly

15. LG

A form of public administration unit which, in a majority of contexts, exist as the lowest tier of administration within a state.

16. Mangmi

An elected representative of Gewog, who is also a Deputy Gup.

17. Social contract

A compact or agreement between the ruled and their ruler defining the rights and duties of each.

18. Thromde

Municipality

19. Thromde Tshogde

Municipal Council

20. Thrompon

Municipal Administrator/Mayor, who is also the Chairperson of Thromde Tshogde.

21. Tshogdrung

Secretary to the Dzongkhag Tshogdu.

22. Tshogpa

An Association or Committee or an elected representative of a Chiwog.

23. Yenlag Thromde

Satellite Town

24. Zomdu

A meeting of residents of villages or communities.