

[DRAFT V13]

**NATIONAL DECENTRALIZATION POLICY, 2020**



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

**February 2020**

## FOREWORD

## ACRONYMS AND ABBREVIATIONS

CSO	Civil Society Organization
DoRF	Division of Responsibility Framework
DYT	Dzongkhag Yargay Tshogchung
FYP	Five-Year Plan
GNH	Gross National Happiness
GNHC	Gross National Happiness Commission
GYT	Gewog Yargay Tshogchung
ICT	Information and Communications Technology
LG	Local Government
MoHCA	Ministry of Home and Cultural Affairs
RCSC	Royal Civil Service Commission

## TABLE OF CONTENTS

<b>1. INTRODUCTION.....</b>	<b>1</b>
1.1. Evolution of decentralization.....	1
1.2. Anchors.....	2
1.2.1. Royal Aspirations.....	2
1.2.2. Legal and Policy Framework.....	3
<b>2. POLICY ORIENTATION.....</b>	<b>4</b>
2.1. Vision.....	4
2.2. Mission.....	4
2.3. Rationale and Objectives.....	4
2.3.1. Rationale.....	4
2.3.2. Objectives.....	4
2.4. The Scope.....	5
2.5. Guiding Principles.....	6
<b>3. CONCEPT AND FRAMEWORK.....</b>	<b>7</b>
3.1. Concept of decentralization.....	7
3.1.1. Political decentralization.....	7
3.1.2. Fiscal decentralization.....	7
3.1.3. Administrative decentralization.....	7
3.2. Framework for enunciation of policy measures.....	8
<b>4. AMINISTRATIVE DECENTRALIZATION.....</b>	<b>8</b>
4.1. Devolution as the main form of administrative decentralization.....	8
4.2. Harmonization of legal and policy framework.....	10
4.3. Strengthening inter-governmental relations and coordination mechanisms.....	11
4.4. Devolution of human resources management.....	12
4.5. Development of sustainable LG capacity.....	14
4.6. Strengthening Information and Communication Technology (ICT) infrastructure and promoting e-governance.....	15
<b>5. POLITICAL DECENTRALIZATION.....</b>	<b>16</b>

5.1.	<i>Participatory planning and decision making</i> .....	16
5.2.	<i>Improved transparency and accountability mechanisms</i> .....	18
5.3.	<i>Citizen engagement, social accountability and partnership</i> .....	19
<b>6.</b>	<b><i>FISCAL DECENTRALIZATION</i></b> .....	<b>20</b>
6.1.	<i>Progressive fiscal decentralization</i> .....	20
6.2.	<i>Enhancing self-reliance through revenue generation and borrowings</i> .....	21
<b>7.</b>	<b><i>POLICY IMPLEMENTATION FRAMEWORK</i></b> .....	<b>23</b>
7.1.	<i>Priority setting and timeframe</i> .....	23
7.2.	<i>Cost and financing of implementation</i> .....	23
7.3.	<i>Institutional arrangements</i> .....	23
7.4.	<i>Monitoring and evaluation</i> .....	24
7.5.	<i>Policy review and revision</i> .....	24

# 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 the successive Monarchs. The process was conceived, initiated and implemented by the successive Monarchs whose vision was to empower the people through greater people's participation in the decision-making processes.

Key milestones include the enthronement of Bhutan's first hereditary Monarch, Gongsu Ugyen Wangchuck in 1907 through a democratic process of signing a Gyenja (written agreement enthrone the King by the people's representatives); 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 of Bhutan in 1998.

These developments culminated in the peaceful transition of the country from an absolute monarchy to a Democratic Constitutional Monarchy with the adoption of a written Constitution and holding of the first parliamentary elections in 2008. The prime purpose of decentralization has been the participation of citizens in the nation building process and long-term sovereignty, security and well-being of the people.

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 affecting 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 public meeting known as Zomdu pre-existed the establishment of the National Assembly. Its main purpose was to discuss and resolve specific issues or have officials disseminate important information to the communities.

**Phase II** was initiated in the 1980s. Local Government (LG) bodies were established to prepare the people to "participate actively and fully in the decision-making process." DYT were established in 1981 to enhance greater public participation in decision-making at the Dzongkhag level. It consisted of people's representatives, including Gup, Mangmi and Chimi (an elected representative), and it was chaired by the Dzongdag. 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 direct placement of technical staff under them. To broaden and deepen the process of decentralization, GYTs were set up in 1991. These institutions enabled greater participation of people 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 Cabinet elected by the National Assembly, and the post of Prime Minister rotated annually among the Cabinet ministers.

**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. More powers and responsibilities were decentralized to the Dzongkhags, Municipalities and Gewogs by laws made by the National Assembly.

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 more decentralized system of governance. After the adoption of the Constitution, the LG Act of Bhutan 2009 was enacted and subsequently amended in 2014, devolving more power, authority, resources and responsibility to LGs.

## **1.2. Anchors**

### **1.2.1. Royal Aspirations**

The successive Monarchs have placed greatest importance to strengthening LGs through a clear vision and in a deliberate manner. During the Coronation Ceremony in 1974, His Majesty The Fourth King Jigme Singye Wangchuck 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.

Today, His Majesty has recognized that LGs are indispensable avenues for people's participation in democracy, governance and development, and commanded that in the long run, the success of democracy in Bhutan will be determined by the success of LGs. His Majesty has also commanded that the LG is not the lowest level of government but the nearest and closest level of government for the people.

Recognizing the importance of their roles and responsibilities, His Majesty granted Pata to all Dzongkhag Tshogdu Thrizins in December 2016 in Trongsa Chhoetse Dzong and, earlier in the

summer, His Majesty conferred Tashi Khadar and Kabney to all the newly elected Gups (including the Thrizins) in Semtokha Dzong.

The significance of people's participation in the decision-making processes, both at the national and local level, has always been embraced by the successive Monarchs. The Throne has been constantly grooming the people for a decentralized governance and vibrant democracy for over a century since the democratic enthronement of the first hereditary Monarch, Gongsa Ugyen Wangchuck, to this day.

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

- Constitution of the Kingdom of Bhutan 2008
- LG Act of Bhutan 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 supported by administrative machinery staffed by civil servants. The central Government is also required to support LGs in the development of systems, capacities and structures as well as financing their development plans and programs.

Article 22 of the Constitution contemplates, and Section 5 of the LG Act provides for devolution of only executive powers, and not legislative powers, to LGs as the powers and functions of LGs are to be determined by laws made by Parliament.

## **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 LGs that are responsive, well-managed and serving the people with transparency, accountability, efficiency, effectiveness and inclusivity.

### **2.3. Rationale and Objectives**

#### **2.3.1. Rationale**

Despite a rich history of decentralization efforts in Bhutan, it has not been clear as to what extent the powers, functions, authority, responsibilities and resources are to be decentralized further and what are to be retained at the central level. There is no specific, comprehensive decentralization policy articulated as such apart from the laws to provide a strategic vision and framework to this effect. Therefore, there is need for a comprehensive and a clear National Decentralization Policy along with action plans to provide a clear road map for further decentralization.

Cognizant of this fact, the Government directed the Ministry of Home and Cultural Affairs (MoHCA) to develop a National Decentralization Policy. The matter had been deliberated and decided during the 150<sup>th</sup> session of the Lhengye Zhungtshog, held on 9<sup>th</sup> January 2018.

#### **2.3.2. Objectives**

The Policy will guide the decentralization process and empower LGs in achieving the broad objectives of instituting the LGs as provided in Section 4, Article 22 of the Constitution as follows:

- Provide democratic and accountable government for local communities;
- Ensure the provision of services to communities in a sustainable manner;
- Encourage the involvement of communities and community organizations in matters of local governance; and
- Discharge any other responsibilities as may be prescribed by law made by Parliament.

Specific objectives of the policy are to:

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

#### **2.4. The Scope**

As envisaged in Article 22 of the Constitution and Section 5 of the LG Act, LGs shall not have legislative powers. However, all three types of decentralization, as defined under Section 3.1 of this Policy, shall be pursued with devolution as the preferred form of administrative decentralization. Power, authority and responsibility shall be devolved to LGs by law made by Parliament.

As contemplated in the Constitution, the State shall continue to exercise exclusive power and authority over governance and management of public goods and services that are of strategic national importance and priority, such as national security and sovereignty, home and foreign affairs, monetary and fiscal policies.

As sub-national governments under the unitary State, LGs shall have decentralized power, authority and responsibility over socio-economic sectors, such as health and education, agriculture and forest, economic affairs, information and communication, works and human settlement, labor and human resources, which shall be managed in accordance with the national policy and legal framework. The Government shall continue to retain national policy-making, outcome-monitoring and regulatory functions over LGs.

All policy statements and action plans shall be consistent with the provisions of the Constitution, within which opportunities for further decentralization shall be explored to provide a clear long term path towards a better state of decentralized governance system that is most appropriate to the Bhutanese context.

## 2.5. Guiding Principles

The guiding principles of the Policy are as follows:

**Unity and harmony** – Common national identity and commitment to shared national vision shall be strengthened following the Bhutanese path of decentralization.

**Sustainability** – Decentralization shall contribute towards financial, economic, environmental and cultural sustainability of LGs.

**Gradualism and flexibility** – Decentralization shall be done gradually yet progressively and prudently depending on the preparedness. Flexibility shall be considered to take advantage of opportunities as they arise.

**Inclusive participation** – People’s participation shall continue to be at the heart of decentralized system of governance. Women, youth and vulnerable groups shall be encouraged to participate in the decision-making process.

**Non-partisanship** – LGs shall respect and subscribe to the non-partisan nature of the public service. Decentralized local governance shall embrace and respond to the needs of all citizens and shall not consider political affiliations.

**Subsidiarity** – In addition to delivering the public goods and services that are of strategic national importance, the central Government shall also perform those functions that cannot be undertaken effectively and efficiently at the LG level.

**Separation of power and non-subordination** – Powers and responsibilities between the central Government and LGs shall be made clear between political, administrative, technical and financial entities with appropriate check-and-balance mechanism.

There shall be mutual respect, cooperation, coordination and collaboration between tiers of Government. However, national priorities shall prevail over local priorities which shall be determined appropriately by the central Government.

### **3. CONCEPT AND FRAMEWORK**

#### **3.1. Concept of decentralization**

The policy presents three major types of decentralization – political, fiscal and administrative – as defined below in the Bhutanese context:

##### **3.1.1. Political decentralization**

Political decentralization refers to transfer of powers, authorities and responsibilities for decision-making to LGs, such as Dzongkhag Tshogdu, Gewog Tshogde and Thromde Tshogde. It also refers to granting citizens the right to elect their representatives to LGs, such as Thrompon, Gup, Mangmi, Tshogpa and Thuemi. LGs in turn make and implement decisions based on local needs, interests and circumstances, in line with the national policies and laws.

##### **3.1.2. Fiscal decentralization**

Fiscal decentralization refers to transfer of a portion of national revenue to LGs in the form of transfer payment or grants with or without guidelines. It also refers to transfer of power and authority to LGs to raise local revenue through tax, fees, tolls and charges, or borrow money from financial institutions with sovereign guarantee, and make public expenditure/investment thereof.

##### **3.1.3. Administrative decentralization**

Administrative decentralization comprises three major forms, each with different characteristics, namely deconcentration, delegation and devolution, which determine the extent of decentralization as described below:

**Deconcentration**, the weakest form, merely shifts responsibility for decision-making, resource mobilization and implementation of certain public functions from officials of higher to lower levels of the Government, such as departments, regions or branches, without transfer of any power and authority to make decisions.

**Delegation**, the more extensive form, passes authority and responsibility for decision-making, resource mobilization and implementation of certain public functions to semi-autonomous bodies, public corporations, and public-private enterprises or mega projects but they are ultimately accountable to the Government.

**Devolution**, the most extensive form, transfers authority and responsibility for decision-making, resource mobilization and implementation of certain public functions to LGs, such as Dzongkhag Tshogdu, Gewog Tshogde and Thromde Tshogde, granting them high level of autonomy in accordance with national policies and laws, or directives issued by a competent central authority.

### **3.2. Framework for enunciation of policy measures**

The policy statements are presented in a three-caption framework – policy issue analysis, policy statements and strategic policy actions – the purpose of which is outlined against each caption below:

- a) Policy issue analyses are broad statements of issues derived from series of stakeholder consultations, independent reviews and evaluations over the past few years to draw a basis of change;
- b) Policy statements are broad statements of desired changes in the existing system of governance this policy envisages to bring about; and
- c) Strategic policy actions are broad statements of desired actions to guide and help relevant sectors or agencies develop detailed implementation plans.

Further, each policy enunciation framework with various issue analyses, policy statements and strategic actions are grouped under the three types of decentralization to provide clarity.

## **4. AMINISTRATIVE DECENTRALIZATION**

Administrative decentralization, in a nutshell, refers to redistribution of decision-making powers, authorities and responsibilities for planning, financing and management from the central Government to LGs, or to semi-autonomous bodies, public corporations and projects, or from officials of higher to lower levels of the central Government.

### **4.1. Devolution as the main form of administrative decentralization**

#### **a) Policy issue analysis**

The current decentralized system of governance has several practices, systems and processes that are rather following the deconcentration and delegation as the mode of decentralization. This mix mode of decentralization has created confusion over the decentralized functions and undermined the efficiency and effectiveness of LGs.

LGs are vested with the power and authority to formulate and implement their own annual and FYPs and programs in line with national goals and objectives. They are also mandated to promote holistic and integrated area-based planning.

However, there is no adequate capacity and resources at the local level to prepare inclusive and strategic plans to deliver much needed developmental outcomes. The current planning approach is largely sectoral and lacks proper coordination among different sectors at various levels.

#### **b) Policy statement**

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

The Government shall strengthen the current system and practices of development planning by devolving authority, responsibilities and resources to LGs for socio-economic development and public service delivery, empowering them to be creative and innovative in the formulation, implementation and monitoring of their development plans and programs.

#### **c) Strategic policy actions**

- i. The Government shall continue to identify and devolve new administrative and expenditure functions and responsibilities, and matching power and authority to LGs.
- ii. The Government shall review the viability of existing number and size of Gewogs in view of changing local context and initiate territorial reforms to ensure effectiveness and sustainability of LGs.
- iii. The Government shall review the relevance of Dungkhag Administrations, as service centres, and maintain or lift them depending on the actual need and changing local context.
- iv. The Government shall study and develop clear criteria, processes and a master plan for establishment of Dzongkhag Thromde and Yenlag Thromde with an elected Thromde Tshogde or representative in place respectively.
- v. All national policies, plans and programs shall continue to be formulated by the central agencies in consultation with LGs and communities.

- vi. Central agencies and LGs shall implement national policies, plans and strategies at the local level in close consultation and collaboration taking into consideration unique local context of individual LGs in terms of needs, priorities, and resources.
- vii. LGs shall prepare their development plans and budgets in consonance with the national objectives and key result areas in an inclusive and participatory manner. Central agencies shall regulate and provide research and technical support, and periodically monitor and evaluate the programs and projects implemented by LGs.
- viii. The system of centrally budgeted programs implemented as deposit works by LGs shall be reviewed for gradual phaseout and the role of central agencies or line ministries shall also be reviewed and redefined to suit the changing needs.
- ix. Procurement system shall be reviewed to make it more effective, efficient and adaptable to varying local contexts. Special efforts shall be made to make the mechanism more transparent and informative.

#### **4.2. Harmonization of legal and policy framework**

##### **a) Policy issue analysis**

Over the past decades, with decentralization taking place at a gradual pace, 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 challenge 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 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 and support decentralization and devolution as the main system of governance.

All relevant Government agencies shall rationalize and reduce unnecessary and redundant regulations intended for LGs allowing them to be more flexible, innovative, effective and efficient in public service delivery.

LGs shall, however, not frame rules and regulations that are inconsistent with national interests and policies.

**c) Strategic policy actions**

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

**4.3. Strengthening inter-governmental relations and coordination mechanisms**

**a) Policy issue analysis**

The Government and central agencies formulate certain policies, plans and programs that are to be implemented in the Dzongkhags and Gewogs. Similarly, LGs also prepare their own plans and programs in line with the guidelines issued by the GNHC. However, when such policies, plans and programs are formulated without consulting each other, coordination problems arise during the implementation process.

The Division of Responsibilities Framework (DoRF) delineates roles and responsibilities between the central Government and LGs. It outlines the responsibilities of LGs pertaining to regulation and administration; infrastructure development and management; and human resource management and 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 support a well-integrated and harmonized approach to joint planning, implementation and monitoring are strengthened and enforced. The DoRF or any other relevant functional framework shall be revised periodically.

**c) Strategic policy actions**

- i. Based on the principle of subsidiarity, a clear functional and fiscal responsibilities framework shall be drawn up for effective coordination and collaboration between the

central and the local, being mindful of the state policy, national resource position, economy of scale, and local capacity.

- ii. Central agencies shall ensure that their sectoral plans and programs undertaken at the LG level are planned and implemented in close consultation and coordination with LGs and communities concerned.
- iii. Institute an inter-agency coordination mechanism among central agencies, LGs, LG administrations, and regional offices, which will also serve as a conduit for coordination and implementation of resolutions emanating from LGs.
- iv. As devolution of functions, roles and responsibilities to LGs enhances gradually, the Government shall review, amend and enforce, as appropriate, the DoRF in consultation with LGs and relevant agencies to ensure an effective, efficient and well-coordinated devolution of power, authority and resources to LGs.
- v. MoHCA shall institute a mechanism to enforce the LG laws and rules and regulations for effective implementation and compliance.

#### **4.4. Devolution of human resources management**

##### **a) Policy issue analysis**

The Royal Civil Service Commission (RCSC) as the central personnel agency of the Government is mandated by the Constitution and the Civil Service Act to:

- a) Promote and ensure an independent and apolitical civil service that will discharge its public duties in an efficient, transparent and accountable manner;
- b) 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 Governments, both central and local;
- c) Ensure that uniform rules and regulations on recruitment, appointment, staffing, training, transfers and promotion prevail throughout the civil service; and
- d) Maintain “small, compact and efficient civil service”.

The Constitution, Civil Service Act and Bhutan Civil Service Rules are clear about the nature, quality, functions and system of the civil service. The terms and conditions of the civil service under which the civil servants shall be hired, developed, deployed, remunerated and rewarded

are well-defined. However, practical challenges still persist with regard to staff strength, recruitment and deployment of civil servants to LGs.

While the LG Act requires the administrative machineries of LGs be staffed by civil servants, the ultimate authority to approve the staff strength and recruitment is vested in the RCSC and parent agencies. LGs have very limited authority over human resource management functions. With the decentralization of more financial authority and resource by the central Government, LGs are concerned about their staff strength and capacity for performance.

#### **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 management functions. The RCSC shall review the BCSR, **as and when needed, to transfer appropriate authorities to LGs, decentralizing certain human resource management functions.**

#### **c) Strategic policy actions**

As the central personnel agency of the Government, the RCSC shall:

- i. Study the size, level and capacity of LGs based on their functional workload, and accordingly determine the human resource requirements.
- ii. Transfer appropriate authority to LG administrations to carry out human resource management functions, including administrative actions.
- iii. Ensure that LG administrations are adequately staffed with competent key civil service personnel with domain expertise.
- iv. Review roles of the regional offices and reorganize them to ensure optimum utilization of human resource and enhance public service delivery.
- v. Review the existing reward and recognition system from time to time to incentivise civil servants who serve in difficult environment.

#### **4.5. Development of sustainable LG capacity**

##### **a) Policy issue analysis**

LGs are supported by the central Government in the development of administrative, technical and managerial capacities and structures that are responsive, transparent and accountable. However, it is difficult to ensure financial sustainability for developing the capacity of LG functionaries.

With the election of new LG members every five years and high attrition or transfer of civil servants from peripheral postings, there is loss of institutional memory and built-in capacity of LGs, resulting in recurring need for capacity development.

Capacity development strategies and activities, whether supply-driven or demand-driven, do not necessarily reflect the actual capacity development need of the LG functionaries. Therefore, a robust strategy is required for efficient use of limited resources.

##### **b) Policy statement**

The central Government and LGs shall make substantial investments to maintain and upgrade the capacities of LGs, as and when required.

##### **c) Strategic policy actions**

- i. Capacity development needs shall be reviewed and a more comprehensive and robust strategy formulated and implemented for the LG functionaries, both elected representatives and civil servants.
- ii. Both tailor-made and bespoke training modules shall be provided for the LG functionaries at Dzongkhag, Thromde and Gewog levels, which could be financed through central budget allocations or from their annual grants.
- iii. LGs shall be encouraged to plan and implement capacity development programs and activities on their own within the broad guidelines framed by the Government.
- iv. MoHCA and relevant central agencies shall develop institutional partnerships with training providers both in public and private sectors for delivery of capacity development programs to LGs and communities.

- v. Responsibility for human resource planning and development shall gradually be handed over to LG administrations and financed through a secured and predictable funding mechanism.
- vi. The Government shall provide adequate resources for capacity development of LGs.
- vii. LGs shall make efforts to establish public libraries in their jurisdictions to promote readership, learning, research and innovation.

#### **4.6. Strengthening Information and Communication Technology (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 System; and Revenue Assessment and Management Information System; Government-to-Citizens (G2C) services, Government-to-Government (G2G) services; e-payments, Digital Drukyul, e-procurement and mobile banking. Community Centers with public access to internet have also been established in almost all Gewogs. However, there are challenges, such as poor connectivity, accessibility, user knowledge, and system not being robust.

##### **b) Policy statement**

The Government shall strengthen e-governance to enhance transparency and efficiency in delivering public services. To this end, 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. The use of ICT shall continue to be an important contributor to socioeconomic development and enhancement of e-governance in pursuit of good governance at all levels.

##### **c) Strategic policy actions**

The Government shall:

- i. Continue to digitalize the public service delivery systems and processes nationwide, promoting and developing appropriate ICT infrastructure and systems that are capable of seamless integration and interoperability.

- ii. Encourage and strengthen e-governance for transparent, accountable and paperless governance and public service delivery, as far as possible, bridging the digital gap across LGs and communities.
- iii. Promote and strengthen secure and reliable web-based systems and create digital identities and signatures for all citizens enabling them to access essential public services through user-friendly digital platforms.
- iv. Support the development of appropriate ICT infrastructure and systems to promote accountable and democratic local governance, community engagement, social accountability and public service delivery at the LG level.
- v. Continue to strengthen ICT infrastructure and systems, including connectivity and use of ICT for documentation and information sharing.
- vi. Build capacity and create awareness amongst LGs on the use of ICT for delivering or accessing public services.
- vii. Support the development of ICT systems by LGs for the delivery of public services and strengthening transparency and accountability mechanism.
- viii. Study and assign the management of G2C services to an appropriate agency for effective and efficient delivery of public services.

## **5. 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. The underlying rationale is that decisions made with greater participation will be better informed and more relevant to diverse interests and needs of the society.

### **5.1. Participatory planning and decision making**

#### **a) Policy issue analysis**

The Constitution and the LG Act require the promotion of holistic and integrated area-based development planning, and active participation of citizens in the formulation of annual and FYPs, taking into account unique local needs, priorities and resources.

The five-year and annual plan preparation guideline of the GNHC guides the planning processes and ensures that local plans are aligned to the National Key Result Areas. Similarly, the Local Development Planning Manual requires a participatory approach in the formulation, implementation and monitoring and evaluation of LG plans.

The objective is to incorporate the local perspective within the national context of planning and prioritization. However, challenges persist, such as poor participation of people in Zomdu, weak representation, low participation of women, youth and vulnerable groups, poor evidence-based planning, and shortage of local capacity.

#### **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**

- i. To enhance inclusive and meaningful participation of local communities and strengthen compliance to LG laws and planning guidelines and manuals.
- ii. New mechanisms for mobilizing and ensuring meaningful participation and voice of women, youth and vulnerable groups shall be developed and implemented.
- iii. The central Government and LGs shall support and promote bottom-up participatory local governance processes and engagement through capacity building.
- iv. Capacities at the local level shall be developed to institutionalise participatory planning, budgeting, implementation and monitoring and evaluation processes.
- v. Local capacity shall be developed to promote informed, evidence-based and strategic decision-making at the grassroots level.
- vi. Management information systems shall be developed to promote systematic data collection; data analysis; and ensure safe storage and management of information for improved evidence-based planning, monitoring and decision-making.

- vii. Local development planning processes and methods shall be reviewed periodically and new planning approaches will be explored to meet the evolving needs of LGs and communities.
- viii. All LG administrations shall have clear service charters and standard operating procedures for effectiveness and transparency of public service delivery.

## **5.2. Improved transparency and accountability mechanisms**

### **a) Policy issue analysis**

The Constitution grants 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 the public.

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**

Transparency and accountability are key to building social trust and curbing corruption. Therefore, measures shall be put in place to ensure that citizens, civil societies, media and other stakeholders have access to LG decisions, plans, budgets and expenditures to enhance transparency and accountability. LGs and elected representatives shall be proactive and responsive to the needs and priorities of citizens.

### **c) Strategic policy actions**

- i. The Government shall improve access to internet services and promote responsible use by the citizens, including local communities.
- ii. LGs shall have strategies and mechanisms for enhanced information sharing on various media platforms besides the normative function of LG functionaries on information sharing.
- iii. The Government shall explore and adopt social accountability mechanisms, including mechanisms for LG performance assessment and citizen satisfaction survey.

- iv. The Government and LGs shall inform and educate communities on relevant laws, policies, standards and guidelines on transparency and accountability.
- v. LGs shall promote, institute and enhance transparency and accountability mechanisms and be transparent and accountable to their respective constituents.

### **5.3. Citizen engagement, social accountability and partnership**

#### **a) Policy issue analysis**

LGs are required by laws to ensure public participation in the formulation of their plans and programs. Furthermore, LG sessions are also open for public participation as observers, except for some closed-door sessions.

However, public participation is minimal in most cases, which could be attributed to various reasons, such as lack of time, lack of information about LG sessions, meeting fatigue or apathy of citizens. In addition, there is limited engagement between LGs, private sector, Civil Society Organizations (CSOs) and Community-Based Organizations (CBOs).

#### **b) Policy statement**

Efforts shall be made to enlarge space and opportunities for enhanced community participation and LG accountability. LGs shall undertake innovative and proactive measures to encourage public participation in Zomdu and LG sessions.

Engagement and partnership between LGs and private sectors, CSOs, CBOs and other stakeholders shall be promoted and strengthened.

#### **c) Strategic policy actions**

- i. Inclusive community engagement mechanisms shall be established and operationalized in the villages, including ICT-based mechanisms, such as virtual Zomdu to address time constraint and other limitations.
- ii. 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.
- iii. Outsourced services for capital projects shall have in place strong joint monitoring mechanisms, including involvement of community monitoring committees for enhanced budget and expenditure transparency and supervision of works for quality assurance.

- iv. The Government shall promote engagement of universities, institutes, private sector and CSOs in certain areas based on national policies and comparative advantages.
- v. LGs shall conduct awareness programs to encourage community participation in LG sessions and community engagement platforms.
- vi. A Local Governance Champion Fund shall be created for the purpose of recognizing and rewarding top performing LGs to promote learning, creativity and innovation in local governance and public service delivery.

## **6. FISCAL DECENTRALIZATION**

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

There are four key elements of fiscal decentralization usually called “pillars” or “building blocks” of fiscal decentralization as follows:

- Expenditure assignment
- Inter-governmental fiscal transfer
- Revenue assignment
- Sub-national borrowing

### **6.1. 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 FYs. However, LGs continue to face shortage of resources to finance their increasing local development needs and priorities.

LGs also face challenges pertaining to spending capacity and underutilization of allocated funds. Problems arise due to shortage of skilled personnel, lengthy procurement procedures, and non-availability of competent contractors at the local level.

#### **b) Policy statement**

While maintaining strict fiscal and public financial management discipline, a gradual and progressive allocation of grants to LGs, with more flexibility over its use, will ensure more efficient and effective decentralized service delivery.

Therefore, progressive measures shall be taken to increase and untie grants from the national outlay and ensure that inter-governmental fiscal transfer mechanisms are more flexible, predictable and timely in the use of financial resources.

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

The mandate for mobilizing resources from external sources shall vest in the central Government. LGs shall mobilize resources from only domestic sources subject to limitations prescribed by law made by Parliament.

#### **c) Strategic policy actions**

- i. The Annual Grants for LGs shall be allocated progressively, commensurate with increased functions, roles and capacity of LGs.
- ii. LGs shall have enhanced autonomy on the use of Annual Grants in a gradual and progressive manner.
- iii. 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.
- iv. The Multi-Year Rolling Budget framework shall be reviewed to make it more efficient and effective for the implementation of capital projects.

### **6.2. Enhancing self-reliance through revenue generation and borrowings**

#### **a) Policy issue analysis**

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

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

**b) Policy statement**

LGs shall be given more autonomy to expand own source revenue generation, including the authority to determine fees, charges and tolls based on a clear guideline issued by the Government, and make collection mechanisms more efficient and effective.

The Government shall consider revision of rates, expansion of local tax base and strengthening of 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 opportunities allowing LGs to access other sources of funds such as borrowings from domestic sources.

**c) Strategic policy actions**

Towards enhancing LGs' financial self-reliance, the following actions shall be taken:

- i. Review and revise rural and municipal tax rates;
- ii. Review and strengthen rural tax collection mechanisms;
- iii. Review and revise the rates of fees, tolls and charges for provision of services by LGs;
- iv. Decentralize some of the revenue sources as own source revenue for LGs which are better suited and easier for LGs to administer and collect;
- v. Update the inventory of public and private properties under the jurisdictions of LGs;
- vi. The Government shall continue to support LGs for enhanced local economic growth and income generation to become self-sustaining LGs; and
- vii. The Government shall conduct a study in some pilot LGs to determine whether it would be feasible to allow commercial borrowing by LGs. The study report shall, among others, recommend terms and conditions under which LGs will be allowed to borrow and invest.

## **7. POLICY IMPLEMENTATION FRAMEWORK**

The Policy shall be implemented in a phased and 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 representatives from relevant stakeholders.

The Task Force shall also serve as compliance monitoring committee for effective implementation of the laws that have direct relevance to local governance. The Task Force shall monitor and report on the compliance and also ensure consistency of bye-laws made by LGs.

### **7.1. Priority setting and timeframe**

The central Government shall review and revise this 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.

### **7.2. Cost and financing of implementation**

The Government shall finance the implementation of 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

### **7.3. Institutional arrangements**

The MoHCA shall be the lead coordinating agency to carry out the following functions:

- a) Identify, coordinate support from all Government stakeholders contributing to the Action Plan, especially LGs and sector ministries and agencies.
- b) Monitor the progress of the Action Plan components and prepare progress reports for submission to the Government.
- c) Liaise with and support all Government institutions to fully integrate decentralization principles in their areas of responsibility.

- d) Facilitate engagement of citizens, civil societies and private sector in the implementation of the policy through various means, such as participation, awareness program, and engagement and partnership.
- e) Share and disseminate information related to the implementation of the decentralization process with all stakeholders, at both central and local level.
- f) Conduct or outsource studies and assessments of the LG performance within the decentralized governance framework.

#### **7.4. Monitoring and evaluation**

A comprehensive monitoring and evaluation framework shall be developed to measure the progress and maintain report on the implementation of the Action Plan. Each strategic action shall, at least, have clearly stipulated milestones, target indicators, means of verification, designated responsibility, and budget.

#### **7.5. Policy review and revision**

The MoHCA shall review this policy at least once every five years and recommend its revision, if deemed necessary, to the Government.

## **ANNEXURE**

### **DEFINITION AND GLOSSARY**

#### **Autonomy**

The right or condition of local self-government

#### **Chiwog**

Collection of villages and constituency for a Tshogpa election

#### **Druk Gyalpo**

King of Bhutan.

#### **Dzongdag**

District Administrator/Chief Executive of a district

#### **Dzongkhag**

District

#### **Dzongkhag Tshogdu**

District Assembly

#### **Dzongkhag Yargay Tshogdu**

District Assembly established in 1981 which has now evolved into Dzongkhag Tshogdu by 2008

#### **Dzongkhag Yenlag Thromde**

District Satellite Town

#### **Empowerment**

Enabling a person or institution with power, authority, capacity or resource.

#### **Gewog**

County, a territorial constituency for election of a Gup or Mangmi.

#### **Gewog Tshogde**

County Council

#### **Gewog Yargay Tshogchung**

County Council established in 1991, which became Gewog Tshogde in 2008.

**Gup**

A head of Gewog and chairperson of Gewog Tshogde

**Gyalyong Tshogdu**

National Assembly of Bhutan

**Local Government**

The term refers to Dzongkhag Tshogdu, Gewog Tshogde or Gewog Tshogde, and includes their respective administrative machineries.

**Mangmi**

An elected representative of Gewog, who is also a Deputy Chairperson of the Gewog Tshogde.

**Social contract**

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

**Thromde**

Municipality

**Thromde Tshogde**

Municipal Council

**Thrompon**

Municipal Mayor who is an elected head of Thromde and Chairperson of Thromde Tshogde

**Tshogdrung**

Secretary to Dzongkhag Tshogdu

**Tshogpa**

An elected representative of an LG constituency

**Yenlag Thromde**

Satellite Town

**Zomdu**

A public meeting of people from a Gewog, Chiwog or village, depending on need