



# **ANNUAL GRANT GUIDELINES FOR LOCAL GOVERNMENTS**

**July 2024**  
**Ministry of Finance**  
**Royal Government of Bhutan**

*Ref*

**01.Introduction:** Based on the provisions of the Constitution of the Kingdom of Bhutan, the 10th Session of the Lhengye Zhungtshog approved the allocation of the annual budget to Gewogs in the form of Annual Grants starting from the Financial Year (FY) 2019-20. Subsequently, the 3<sup>rd</sup> Session of the Third Parliament enacted the Budget Appropriation Act for FY 2020-21, extending the Annual Grants to Dzongkhags and Thromdes.

Further, the 15<sup>th</sup> and 16<sup>th</sup> Sessions of the Fourth Lhengye Zhungtshog held on May 30 and June 6, 2024, approved the 13<sup>th</sup> Five-Year Plan including the allocation of Annual Grants to the Local Governments.

The objectives of allocating the Annual Grants are to:

- a. Enable LGs to allocate funds to priority local development needs that are within their mandates and are consistent with the National Priorities;
- b. Enhance the ability of local governments to swiftly and effectively respond to emerging community needs including disaster;
- c. Promote fiscal prudence and effective prioritization;
- d. Encourage LGs to involve community members in decision-making processes and ensure that diverse voices are represented;
- e. Enhance citizen-centric local development, growth, and service delivery;
- f. Promote transparency, accountability, and ownership;
- g. Improve LG capacities and systems for the provision of quality services.

Thus, to ensure proper utilization of the Annual Grants, the Ministry of Finance (MoF) hereby issues the Annual Grants Guidelines 2024 for the Local Governments.

**02.Definition & Application:** The Annual Grant is a portion of national resources allocated to LGs for public service delivery and executing planned programs and activities. The Annual Grants are provided as block grants and are a part of the Annual Budget Appropriation Act.

The Revised Annual Grants Guidelines 2024 shall apply to all the LGs allocated with Annual Grants and come into effect from 1st July 2024.

**03.Composition of annual grants:** The annual grants to LGs shall consist of:

- a. **Current Grant:** The Current Grant is an amount of budget allocated to LGs for regular operation and maintenance of the LG Administrations. The amount of the Current Grant shall be based on actual rates/pay scale, past trends, and the resource envelope determined by the Macro-economic Framework Coordination Committee (MFCC). The Current Grant shall be categorized as 'Mandatory' and 'Controllable' expenditures.

- i. The '**Mandatory**' expenditures shall include expenses for pay and allowances, provident funds, other personal emoluments, special allowances, stipends, and other benefits.
  - ii. The '**Controllable**' expenditures shall include expenses for travel, utilities, rental of properties, supplies and materials, maintenance of properties, operating expenses, and hospitality & entertainment;
- b. Capital Grant:** Capital Grant is an amount of budget allocated to LGs based on the Resource Allocation Formula for implementing activities of the approved Five-Year Plan.

#### 04. Usage of Annual Grants

- a. Current Grants:** The Current Grant shall meet expenses defined under Mandatory and Controllable Expenses.
- i. Expenses such as property tax, patient diet, textbooks for schools, or any recurrent expenses with statutory and contractual obligations shall be accorded priority while apportioning the controllable budget.
  - ii. The budget for Hospitality & Entertainment shall be apportioned from the controllable block allocation within the H&E ceiling as below:

Nu. in million

Sl. No.	LG Category	Amount	Reference
1	Dzongkhag	0.150	DPBP/Div/SG/2022-23/946 dated June 26, 2023
2	Drungkhag	0.030	Appendix 1 of the FMM, FRR 2016.
3	Gewog	0.020	Limit as per the Guidelines for the Operation of Govt. CD accounts Jan 2024,
4	Thrompon/Thromde*	0.080	Appendix 1 of the FMM, FRR 2016

*\*To be apportioned from the internal revenue of the respective Thromdes*

- b. Capital Grant:** The Capital Block Grants shall be utilized for implementing activities contributing towards the achievement of the following Local Government Key Result Areas (LGKRA) and overall national priorities:

**LGKRA 1:** By 2029, Dzongkhag, Gewogs, and Thromdes have a vibrant local economy with enhanced productivity and diversified local products;

**LGKRA 2:** By 2029, more children/youths have access and benefit from quality education and skills development;

**LGKRA 3:** By 2029, more residents of the Dzongkhags, Gewogs, and Thromdes enjoy improved health and well-being;

**LGKRA 4:** By 2029, Dzongkhag, Gewogs, and Thromdes have proactive social protection and support measures;

**LGKRA 5:** Safety and disaster risks in Dzongkhag, Gewogs, and Thromdes are mitigated and managed at all times;

**LGKRA 6:** National identity, culture, and values are strengthened among the members of the local communities;

**LGKRA 7:** Dzongkhags and Thromdes offer public services that are citizen-centric and delivered seamlessly in an efficient and effective manner.

- i. In view of competing priorities, those projects/activities with economic/social returns must be accorded the highest priority;
- ii. Ensure that any infrastructure development caters to the majority of the beneficiaries at the LGs and that proper cost-benefit analysis is carried out;
- iii. Any financing for disaster-related activities for restoration and reconstruction in LGs must be prioritized and provisioned from the annual capital block grant;
- iv. The total expenditure shall not exceed the maximum Annual Grants allocated for the financial year unless supplementary incorporations are made by the Government following the due process during the FY;
- v. Ensure strict compliance with the Notifications issued by:
  1. Ministry of Home Affairs vide notification no. CHAA/PPD(37)/2023/430 dated November 13, 2023.
  2. MoF Budget Notifications issued on July 16, 2024 vide notification no. MoF/Budget Notification/2024-25/24
  3. MoF Notifications/circulars that may be issued from time to time;

vi. For optimal and efficient utilization of the capital block grant, the following conditions shall strictly apply for implementation by the **Gewogs**:

1. The annual total expenditure on Furniture (OBC 54.01), Office Equipment (OBC 54.02), Computers and Peripherals (OBC 54.03), Chadri Items (OBC 52.08) including administrative infrastructure (renovation/maintenance of office buildings including gates and compound walls) in the Gewog shall not exceed Nu. 0.200 million per annum;
2. The Gewogs may implement multiple small activities critical for the community within the total budget limit of Nu. 0.300 million per annum.
3. Any budget requirement that arises due to policy changes and emerging priorities shall be met from the annual block grant;
4. Any investment in farm roads (construction/restoration/maintenance) must be implemented as per the Guidelines for Farm Road Development Revision 2019 and revisions thereof.
5. Depending on the need but not to exceed 10% of the annual grant may be used for activities related to the preservation and promotion of cultural and religious heritages and in compliance with Ministry of Home Affairs notification no. CHAA/ PPD(37)/2023/430 dated November 13, 2023.

**05. Prohibitions under Annual Grants:** Irrespective of the type of grants (current/capital), the Annual Grants shall not be used for the following, but not limited to:

- a. Ex-country training and travel abroad;
- b. Operation and maintenance of vehicles except under a controllable budget;
- c. Political campaigns;
- d. Donations, contributions, and gifts to individuals or organizations;
- e. Private/personal purposes like giving contributions, donations, Semso, gifts, etc.
- f. Investment in financial assets such as shares, interest-bearing deposits, and deposits in extra-budgetary accounts;
- g. Undertake programs/activities that contravene the existing Government policies;

- h. Procurement of vehicles, including heavy machines such as Excavators, Dozers, etc.
- i. Private goods such as Supply/Distribution of free handouts (RNR inputs, household items, CGI sheets, geysers, footpaths leading to individual households, etc.)
- j. Construction/maintenance of archery/khuru bacho etc.

**Note: Capital block grant/mandatory allocation shall not be re-appropriated for any controllable expenses.**

## **06. Budget, Release, and Accounting**

### **6.1 Budget Process**

6.1.1 During the budget formulation phase, the LGs shall submit the KPIs and targets for the new FY aligned to the 13th FYP LGKRA. These indicators and targets shall form part of the criteria for assessing the performance of the LGs.

6.1.2 The Annual Grants shall be provided as Current Grants and Capital Grants through the Multi-Year Rolling Budget (MYRB) System.

6.1.3 Upon approval of the annual grant for the FY, the Dzongkhag/Thromde Finance Committee and Gewog Administration shall;

- a. Apportion the Annual Grants to the planned activities/programs and submit them to Dzongkhag Tshogdu (DT), Thromde Tshogde (TT), and Gewog Tshogde (GT) for approval;
- b. Finalization of capital activities to be implemented during the FY must be only upon completion of pre-requisite formalities such as surveys, drawings, designs, estimates, clearances, etc.
- c. Ensure that planning/budgeting of activities to be implemented during the FY must be finalized, apportioned, and incorporated in the MYRB System within the end of the second quarter except for disaster-related activities;
- d. Ensure that any re-appropriation must be as per Financial Rules and Regulations, 2016.

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

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

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

## **6.2 Release of Fund and Accounting**

6.2.1 The LGs shall assign prioritized activities to respective LC/PLCs and submit the Budget Release Forecast (BRF) as per the implementation plan and under the Fund Release Guidelines,

6.2.2 Fund releases shall be strictly based on the apportionment of the budget as per section 4.b.(v) and booking of expenditures including advances shall be effected through e-PEMS.

6.2.3 The Annual Grants shall be utilized as per the Financial and Procurement Rules and Regulations, and other notifications issued by MoF from time to time.

6.2.4 The competent authority for approval of the expenditures in e-PEMS shall be based on the delegation of financial authority as per the Financial Rules and Regulations 2016.

## **07. Responsibility, Accountability, and Transparency**

7.1 The LGs shall be responsible for the proper utilization of the Annual Grants for prioritized activities.

7.2 The LGs shall institute proper monitoring of the activities and maintain proper asset inventory through the Government Inventory Management System (GIMS).

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

7.4 The Chairperson of the Finance Committee/Head of the Gewog Administration shall be responsible and accountable for compliance with the financial and procurement rules and regulations of the Government.

## **08. Oversight Bodies**

8.1 The Ministry of Finance shall be responsible for reviewing and monitoring the progress and financial performance of the Annual Grants.

8.2 The Royal Audit Authority shall conduct the audit of the Annual Grants in accordance with the Audit Act of Bhutan.

8.3 The Anti-Corruption Commission shall review and investigate complaints related to the Annual Grants in accordance with the Anti-Corruption Act of Bhutan.

### 09. Amendments and Interpretation

9.1 This guideline shall supersede Guidelines for Gewog Annual Grants 2019 and Annual Grants Guidelines 2020, 2022, and 2023 issued by the Ministry of Finance.

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

### 10. Performance-Based Grant (PBG) for Gewogs

To provide strong incentives to Gewogs to improve effective operations and service delivery, the performance assessment of capital grant utilization will be conducted. As such, Gewog's performance for FY 2024-25 shall be assessed, based on which the release of the remaining 30% of the annual capital block allocation for FY 2025-26 shall be made.

#### Criteria for Performance-Based Grant

Sl. No.	Criteria	Weightage	Sub-Criteria	Weightage
1	Realistic Planning, Budgeting and Execution	50%	Achievement of annual Target/KPI	40%
			Complete all system requirements (MYRB) such as the creation of new activities on or before the end of the third quarter (except for disaster activities and unless otherwise).	10%
2	Financial Management	20%	Closed works at the close of FY and adjustment thereof.	10%
			Cumulative expenditure (excluding advance) of at least 60% by the end of the 3rd quarter.	10%
3	Non-proliferation of activities	10%	Budget allocated for operational capital expenditure.	5%
			Budget allocated for multiple small activities.	5%
4	Compliance with relevant Government	20%	Compliance with Annual Grant Guidelines	10%



	policies, guidelines (AGG), and notifications		Audit observations as of date.	10%
		<b>100%</b>		<b>100%</b>

## 11. Assessment Methodology

The performance of the Gewogs shall be assessed based on the criteria and sub-criteria provided in the table above, with specific weights allocated to each aspect.

1. *Realistic Planning, Budgeting, and Execution (50%)*
  - *Sub-criteria 1.1: Achievement of the Annual Targets (40%)*

**Description & data source for assessment:** Measure progress against the annual targets set by respective Gewogs at the beginning of the FY. Use performance data and reports submitted at the end of the FY to assess the achievement level. The Gewogs' score under this criteria will be proportionate to the rate of achievement of annual targets.

**Example:** Suppose a Gewog has 10 activities/KPIs/targets for a particular FY. Each activity/KPI/target that is fully achieved (100%) will receive a maximum score of 25 points. KPIs or targets that are only partially met will receive no points. The final score under this criterion will be the aggregate of the scores for all 10 KPIs or targets.

For the assessment of Gewogs' Annual Targets, the following template or dashboard shall be used:

LGKRA	Sub-Activity	Budget (Nu. in million)	13FYP Target	Annual Target
LGKRA 1:				
LGKRA 2:				
LGKRA 3:				

**\*Note:** It is not necessary for the Gewogs to initiate numerous activities supporting all the LGKRAs within a single FY. Activities can be initiated based on the Gewog's capacity, resource availability, and annual priorities.

### Submission Requirements for Gewogs:

*Start of the Financial Year:* Each Gewog must complete and submit the template/dashboard to the DPBP after finalizing their activities and budget allocations.

*End of the Financial Year:* Each Gewog must resubmit the completed dashboard, highlighting the progress and achievements of their annual targets.

**Note:** *The submitted dashboards will form the basis for evaluating the annual targets of each Gewog. It will be shared with the Royal Audit Authority for reference. Failure to submit the same will result in a zero score under this criterion.*

- *Sub-criteria 1.2: Complete all system requirements in MYRB on or before the end of the third quarter (except for disaster activities and unless otherwise)-10%.*

**Description & data source for assessment:** Complete all the system requirements such as the creation of new activities on or before the end of the third quarter (exceptions for disaster activities). DPBP shall verify records in the MYRB system to ensure new activities are created within the allowed timeframe and exceptions are appropriately documented.

*Full compliance - Score 10*

*1 non-compliance- Score 5*

*2 and more non-compliance- Score 0*

2. *Financial Management (20%)*

- *Sub-criteria 2.1: Closed works at the close of FY and adjustment thereof (10%).*

**Description & data source for assessment:** Assess the amount of approved budget retained under closed works at the close of FY and adjustments made. Financial statements and project closure reports from e-PEMS shall be reviewed for assessment.

If a Gewog retains a portion of its budget and activities in closed works, its score under the given criteria will be reduced. The reduction in the score will be directly proportional to the percentage of budget and activities (in %) retained under closed works.

- *Sub-criteria 2.2: Cumulative expenditure of at least 60% for activities initiated in the FY by the end of 3rd quarter (10%)*

**Description & data source for assessment:** DPBP shall Review the expenditure of respective Gewogs by the end of the third quarter. Data to be retrieved from the MYRB system and e-PEMS. Gewogs meeting the threshold of 60% expenditure shall get the full score of 10 under this criterion. Expenditure range: less than 60% - Score 0

3. *Non-Proliferation of Activities (10%)*

- *Sub-Criteria 3.1: Budget allocated for operational capital expenditure is within the limit (5%)*

**Description & data source for assessment:** The share of the approved budget utilized (including advances) under Object Code (OBC) 54.01, 54.02, 54.03 & 52.08 should be at most Nu. 0.20 million. Financial reports and records from the MYRB System shall be reviewed to ensure expenditures under these object codes are within the stipulated limit.

The excess amount will be calculated on a prorated basis, and the score will be assigned accordingly. A higher excess amount will result in a greater deduction.

**Example:** *If a Gewog spends Nu. 0.350 million cumulatively under these OBCs (meaning, it exceeded by Nu. 0.150 million). The score calculation is as follows:*  
*=0.150 (exceeded amount)/0.20 (limit amount)x5% (weight) =3.75% (exceeded)*  
*=5 (total weight under this criteria)-3.75 (% exceeded) = 1.25*  
*=Thus, the particular Gewog will get a score of 1.25 against the total score of 5.*

**Similarly,** *If another Gewog spends Nu. 0.600 million under these OBCs (meaning, it exceeded by Nu. 0.400 million). The score calculation is as follows:*

*=0.400 (exceeded amount)/0.20 (limit amount)x5% (weight) =10 (exceeded)*  
*=5 (total weight under this criteria)-10.00 (exceeded) = -5*  
*=Thus, the particular Gewog will get a score of 0.00 against the total score of 5 under this criteria, and also 5 points will be deducted from the overall score.*

*Sub-Criteria 3.2: Budget allocated for multiple small activities is within the limit (5%)*

**Description & data source for assessment:** The Gewogs may implement multiple small activities critical for the community within the total budget limit of Nu. 0.300 million per annum. Budget allocation trends of the Gewog for FY 2024-25 from the MYRB System shall be analyzed to ensure compliance with the specified allocation limits.

The excess amount will be calculated on a prorated basis, and the score will be assigned accordingly. A higher excess amount will result in a greater deduction.

**Example:** *If a Gewog spends a cumulative amount of Nu. 0.400 million for multiple small activities. The score calculation is as follows:*  
*=0.100 (exceeded amount)/0.30 (limit amount)x5% (weight) =1.66% (exceeded)*  
*=5 (total weight under this criteria)-1.66 (% exceeded) = 3.34*  
*=Thus, the particular Gewog will get a score of 3.34 against the total score of 5.*

**Similarly, If another Gewog spends Nu. 0.700 million, (meaning, it exceeded by Nu. 0.400 million. The score calculation is as follows:**

**=0.400 (exceeded amount)/0.30 (limit amount)x5% (weight) =6.66% (exceeded)**

**=5 (total weight under this criteria)-6.66 (exceeded) = -1.66**

**=Thus, the particular Gewog will get a score of 0.00 against the total score of 5 under this criteria, and also 1.66 points will be deducted from the overall score.**

4. *Compliance with the Relevant Government Policies, Guidelines, and Notifications (20%)*

● *Sub-Criteria 4.1: Compliance with Annual Grant Guidelines (10%)*

**Description & data source for assessment:** Check compliance with the Annual Grant Guidelines, 2024. Ensure all the provisions under this guideline are followed. DPBP shall document the cases of non-compliance for assessment at the end of the FY.

● *Sub-Criteria 4.2: Audit Observations as of the date (10%)*

**Description & data source for assessment:** Review the number and status of unsettled audit observations as of June 30, 2025. Verify Gewog's efforts in addressing them. Ensure corrective actions are taken to resolve outstanding audit issues. The source of data is the Royal Audit Authority.

*Full compliance - Score 10*

*1-2 audit observations- Score 5*

*3 and more audit observations- Score 0*

**Overall Assessment**

The overall performance score for each Gewog will be calculated by summing the weighted scores from each of the four main criteria, with the total possible score being 100% (*sample as in table below*).

The evaluation will involve a combination of quantitative analysis of financial records, audit reports, and system compliance checks, as well as qualitative assessments of planning and execution effectiveness.

By adhering to this methodology, the assessment will provide a balanced and thorough evaluation of each Gewog's performance in alignment with the Annual Grant Guidelines and objectives.

Annual Grants Guidelines for Local Governments, July 2024

Sl. no	Gewog	Realistic Planning, Budget & Execution (50%)		Financial management (20%)		Non-Proliferation (10%)		Compliance with relevant Government policies, guidelines, and notifications		Total Score (%)
		Annual Target (40%)	Completion of system requirement (10%)	No Closed work (10%)	60% Expenditure by the end of Q3 (10%)	Operational capital expenditure within the limit (5%)	Multiple small activities within limit(5%)	AGG (10%)	Audit (10%)	
1	A	40	10	10	10	5	5	10	10	100
2	B	-	-	-	-	-	-	-	-	-