Royal Government of Bhutan

PERFORMANCE-BASED GRANT ASSESSMENT FRAMEWORK

For Dzongkhags and Thromdes

August 2026

Ministry of Finance

Table of Contents

1. Introduction

In accordance with Section 8 of the Budget Appropriation Act FY 2026-27, the Performance-Based Grant (PBG) Assessment framework is hereby introduced for Dzongkhags and Thromdes, commencing from FY 2026-27.

The PBG mechanism represents a significant shift in the way capital block grants are allocated to Local Governments (Dzongkhags and Thromdes). Rather than disbursing grants on an entitlement basis alone, the mechanism links a portion of grant releases to demonstrated performance, incentivising Dzongkhags and Thromdes to plan realistically, execute in a timely manner, manage public resources prudently, and adhere to established laws, rules, and regulations.

As FY 2026-27 constitutes the first year of implementation of the PBG mechanism for Dzongkhags and Thromdes, the performance assessment undertaken after the closure of FY 2026-27 shall establish the baseline and form the basis for determining the release of 30 percent of the Annual Capital Block Grant allocations for FY 2027-28.

Key Implication for FY 2026-27:

The FY 2026-27 assessment is a baseline assessment. Results will directly determine whether 30% of each Dzongkhag's or Thromde's Annual Capital Block Grant for FY 2027-28 is released. All entities are expected to treat this first assessment cycle with the same rigour as subsequent years.

2. Objectives

The PBG mechanism is designed to achieve the following objectives:

1. **Strengthen local government planning and budget execution** through realistic planning, timely implementation, and efficient resource utilisation.
2. **Improve public service delivery** by ensuring planned activities and annual targets are fully achieved within the fiscal year.
3. **Promote sound public financial management** through compliance with government financial rules and the prudent use of public resources.
4. **Strengthen internal controls** by ensuring timely system compliance, proper activity management, and the timely completion and closure of works.
5. **Enhance accountability** by promoting transparent reporting and prudent stewardship of public resources. Performance assessment results shall be shared with the Royal Civil Service Commission (RCSC) to support performance management, strengthen institutional accountability, and drive continuous performance improvement.

3. Scope

The PBG mechanism shall apply to all Dzongkhags and Thromdes. The performance of each Dzongkhag and Thromde shall be assessed in accordance with the criteria and guidelines set out in this document, and the results shall be used to determine the release of 30 percent of the Annual Capital Block Grant allocations.

The performance of Dzongkhags and Thromdes shall be assessed across three key dimensions:

- Strategic performance and service delivery
- Sound financial management
- Compliance with relevant Government policies, guidelines, and notifications

> **Note to Assessors:**
>
> A score of zero in any sub-criterion does not automatically disqualify an entity from receiving PBG. However, consistent low performance across criteria will substantially reduce the grant allocation. Assessors must refer to the Annual Grant Guidelines and any applicable notifications issued by the Ministry of Finance. In the event of any conflict between these guidelines and a subsequent notification, the more recent Ministry of Finance instruction shall prevail.

4. Assessment Criteria at a Glance

The following table provides a consolidated overview of all criteria, sub-criteria, and their respective weightages:

Sl.	Criteria	Weight	Sub-Criteria	Sub-Weight
1	**Strategic Performance and Delivery**	**50%**	Achievement of Annual KPI (including AKD)	50%
2	**Financial Management**	**30%**	Cumulative expenditure (including advance) of at least 60% by end of Q3	20%
			Complete all system requirements (MYRB) — new activities on or before end of Q3	5%
			Closed works at close of FY and adjustments in e-PEMS	5%
3	**Compliance with Relevant Government Policies**	**20%**	Compliance with Guidelines, Notifications, incl. Annual Grant Guidelines	20%
	TOTAL	**100%**		**100%**

5. Criterion 1: Strategic Performance and Delivery (50%)

5.1 Background and Rationale

The Strategic Performance and Delivery criterion is the single most heavily weighted pillar of the PBG assessment, accounting for half of the total available score. This reflects the central objective of the PBG mechanism: to ensure that public resources translate into tangible outputs and outcomes at the Dzongkhag and Thromde levels.

Annual KPIs (Key Performance Indicators) including those linked to the Annual Key Delivery (AKD) targets represent the formal commitments made by each entity at the beginning of the fiscal year. They serve as the primary accountability instrument through which the Government can assess whether planned activities and services have actually been delivered to the citizens.

5.2 Sub-Criterion: Achievement of Annual KPI (including AKD) — 50%

Definition: An activity or target is considered 'achieved' when it has been fully and successfully completed within the fiscal year, as evidenced against the planned targets set at the beginning of the year.

All-or-Nothing Rule:

Targets that are only partially met will receive no credit under this criterion. Partial completion does not qualify as achievement. Only targets that are fully delivered within the fiscal year are counted.

Assessment Method: The score awarded under this sub-criterion is directly proportional to the rate of KPI achievement. The formula applied is:

Score = (Number of KPIs fully achieved ÷ Total number of planned KPIs) × 50

Illustrative Example: If a Dzongkhag planned 20 KPI targets and fully achieved 14, the score would be calculated as: $(14 \div 20) \times 50 = 35$ out of 50.

Performance Band	Condition	Score
Full Achievement	100% of planned KPIs fully met	**50 / 50**
Proportionate Achievement	Between 1%–99% of KPIs fully met	**Proportionate**
No Achievement	0% of planned KPIs met	**0 / 50**

5.3 Assessment Data Sources

- Annual Work Plans and Activity-Level KPI Registers submitted at the start of the FY
- Progress reports and physical verification records
- e-PEMS activity completion records and closure status

- AKD performance tracking reports

5.4 Key Considerations for Assessors

- Partial completion must be treated as non-achievement, regardless of the percentage completed.
- If a planned KPI target is revised during the year through an approved amendment process, the revised target is used as the benchmark.
- Targets related to AKD are included in the KPI count and assessed using the same all-or-nothing rule.
- Assessors should cross-verify physical progress against financial expenditure records to ensure consistency.

6. Criterion 2: Financial Management (30%)

6.1 Background and Rationale

Sound financial management is a prerequisite for effective public service delivery. The Financial Management criterion assesses whether Dzongkhags and Thromdes are managing their budget allocations in a timely, disciplined, and system-compliant manner throughout the fiscal year.

This criterion is sub-divided into three distinct sub-criteria, each targeting a specific dimension of financial management: the proper closure and adjustment of completed works; timely system compliance; and satisfactory expenditure progress by the third quarter.

6.2 Sub-Criterion A: Cumulative Expenditure of at Least 60% by End of Q3 — 20%

Definition: This is the highest-weighted sub-criterion under Financial Management, reflecting the importance of maintaining steady and timely expenditure progress throughout the fiscal year. Entities are expected to have utilised (including advances disbursed) at least 60% of their approved budget by the 31st of March.

Assessment Method: The cumulative expenditure figure inclusive of advances is taken as of 31 March of the relevant fiscal year. A three-tier scoring scale applies, recognising that entities approaching but not fully meeting the 60% threshold have demonstrated reasonable progress, while those significantly below indicate inadequate budget execution.

> **Reference Date: 31 March of the relevant fiscal year**
>
> Advances disbursed are included in the cumulative expenditure figure.

Performance Band	Condition	Score
Full Score	Cumulative expenditure (incl. advances) ≥ 60% by 31 March	**20 / 20**
Partial Score	Cumulative expenditure (incl. advances) ≥ 50% and < 60% by 31 March	**10 / 20**
No Score	Cumulative expenditure (incl. advances) < 50% by 31 March	**0 / 20**

6.3 Sub-Criterion B: Completion of System Requirements (MYRB) — New Activity Creation on or Before End of Q3 — 5%

Definition: Multi-Year Roll-over Budget (MYRB) activities require that all new activities or re-appropriations be created and entered in the system on or before the 31st of March (end of the Third Quarter). This ensures adequate time for implementation, and monitoring within the fiscal year.

Any creation or re-appropriation of new activities in the system after the 31st of March is treated as non-compliance. The only exception recognised under this sub-criterion is for disaster-related activities that arise after the Third Quarter deadline, which are assessed separately.

Deadline: 31st March (end of Third Quarter)

Exception: Disaster activities that arise after the Third Quarter are excluded from non-compliance assessment.

Performance Band	Condition	Score
Full Compliance	All new activities/re-appropriations created on or before 31 March	**5 / 5**
Non-Compliance	Any new activity/re-appropriation created after 31 March (excluding post-Q3 disaster activities)	**0 / 5**

6.4 Sub-Criterion C: Closed Works at Close of FY and Adjustment in e-PEMS — 5%

Definition: This sub-criterion examines whether the budget retained under 'closed works' at the end of the fiscal year has been appropriately identified and adjusted in the electronic Public Expenditure Management System (e-PEMS).

Closed works refer to activities or projects that have been physically completed but where the associated budget has not been formally closed or re-appropriated within the system. Retention of budget under closed works beyond the fiscal year creates fiscal distortions, inflates apparent budget utilisation, and reduces transparency.

Assessment Method: The assessment team reviews the total value of budget retained under closed works at year-end and the corresponding adjustments recorded in e-PEMS. The assessment applies a binary standard: an entity with no closed works at the close of the fiscal year receives the full score; any instance of budget retained under closed works, regardless of the amount, results in a score of zero under this sub-criterion.

Performance Band	Condition	Score
Full Compliance	No budget retained under closed works; all adjustments made in e-PEMS	**5 / 5**
No Compliance	One or more activities with budget retained under closed works at the close of FY	**0 / 5**

6.5 Key Considerations for Assessors

- All three sub-criteria under Financial Management are assessed independently; poor performance on one sub-criterion does not excuse performance on another.
- The e-PEMS system is the authoritative data source for all financial data. Manual overrides or supplementary records are not accepted unless formally approved.
- Disaster activities should be clearly documented with evidence of post-Q3 occurrence before the deadline exemption is applied.

7. Criterion 3: Compliance with Relevant Government Policies (20%)

7.1 Background and Rationale

The Compliance criterion ensures that Dzongkhags and Thromdes operate within the legal and regulatory framework established. Beyond financial performance, responsible governance requires strict adherence to applicable guidelines, rules, regulations, and notifications, particularly those that govern how public funds may and may not be used.

This criterion carries a 20% weight in the total PBG score, reflecting the government's commitment to accountability, transparency, and the rule of law at all levels of public administration.

7.2 Sub-Criterion: Compliance with Policy Directives and Regulations — 20%

Definition: The assessment team reviews whether the entity has complied with:

- The Annual Grant Guidelines (AGG), with particular reference to the list of prohibited expenditure categories specified therein;
- Relevant Rules and Regulations issued by central government agencies (Ministry of Finance, Ministry of Home Affairs, etc.); and
- All applicable Notifications and Circulars issued.

Non-compliance is defined as any instance where expenditure, action, or omission by the entity is found to be in violation of the above instruments. Each verified instance of non-compliance is recorded and applied against the scoring matrix below.

Performance Band	Condition	Score
Full Compliance	No instances of non-compliance identified	**20 / 20**
One/Minor Non-Compliance	Exactly 1 verified instance of non-compliance subject to qualitative assessment of the type, nature, impact, and materiality of the action*	**10 / 20**
Significant Non-Compliance	2 or more verified instances of non-compliance	**0 / 20**

*** Qualitative Assessment for One Non-Compliance:**

Where exactly one instance of non-compliance is identified, a score of 10 out of 20 shall apply. However, the score shall take into account the nature, severity, impact, and materiality of the non-compliance. A score of **zero** shall be awarded where the non-compliance involves wilful misuse of funds, a material breach of core regulations, or has significant financial consequences, notwithstanding that only one instance was identified.

Prohibited Expenditure (Annexure 1):

Expenditure on items explicitly prohibited under the Annual Grants Guidelines (AGG), budget notifications, or other applicable rules and regulations issued by central government agencies shall constitute an instance of non-compliance, irrespective of the intent or circumstances. Assessors shall refer to the applicable AGG, budget notifications, and other relevant notifications in force during the assessment period to determine the list of prohibited expenditure items.

7.3 Key Considerations for Assessors

- Each independent instance of non-compliance is counted separately. Multiple violations of the same rule may be treated as separate instances.
- The assessment team shall refer to the applicable Annual Grants Guidelines (AGG), budget notifications, amendments issued during the financial year under review, and other relevant government notifications, rules, and directives in force during the assessment period, including the prohibited list/restricted activities as per Annexure 1.
- Compliance findings that are the subject of ongoing dispute or legal proceedings should be flagged for escalation prior to finalising the score.
- Assessors must maintain a documented evidence log for each non-compliance finding, including the specific rule breached, the nature of the breach, and supporting evidence.

8. Overall Assessment Process

8.1 Score Aggregation

The total PBG score for each Dzongkhag or Thromde is calculated by summing the scores achieved across all sub-criteria. The maximum achievable score is 100 points, distributed as follows:

Criteria / Sub-Criteria	Max. Points	Cumulative Total
1. KPI Achievement (incl. AKD)	50	**50**
2a. Expenditure ≥ 60% by Q3	20	**70**
2b. MYRB System Compliance (Q3 deadline)	5	**75**
2c. Closed Works & e-PEMS Adjustment	5	**80**
3. Policy Compliance	20	**100**
TOTAL	**100**	**100**

8.2 Data Sources and Verification

- Primary data source: e-PEMS (electronic Public Expenditure Management System) for all financial data including expenditure, closed works, and MYRB for budget activities, and adjustments.
- KPI performance data: Annual Work Plans, Dzongkhag/Thromde activity registers, progress reports submitted, and field verification where applicable.
- Compliance data: Annual Grant Guidelines, Ministry of Finance notifications/circulars, regulatory frameworks from relevant government agencies.
- All data used in the assessment must be current as of the reference dates specified in each sub-criterion.

8.3 Frequency and Timeline

The PBG assessment is conducted annually, following the close of each fiscal year. Assessments typically commence after the completion of year-end accounts and the finalisation of e-PEMS data. Dzongkhags and Thromdes are notified of their preliminary scores and given an opportunity to provide clarifications before final scores are confirmed.

8.4 Appeals and Disputes

Any Dzongkhag or Thromde that disputes a preliminary score finding may submit a formal representation to the Ministry of Finance within the stipulated period following the issue of preliminary results. Representations must be supported by documentary evidence. Final scores are binding once confirmed by the Ministry of Finance.

9. Quick Reference Scoring Summary

#	Criteria	Weigh t	Scoring Rule	Data Source	Max Score
1	**KPI Achievement (incl. AKD)**	50%	Proportionate to % of KPIs fully achieved; partial = 0	Work Plans / MYRB	**50**
2a	**Expenditure by 31 March**	20%	Full (20) if ≥60%; Partial (10) if ≥50% and <60%; Zero (0) if <50%	e-PEMS	**20**
2b	**MYRB System Compliance (Q3)**	5%	Full (5) if compliant; Zero (0) if any activity created after 31 March	e-PEMS	**5**
2c	**Closed Works & e-PEMS Adjustment**	5%	Full (5) if no closed works at FY close; Zero (0) if one or more activities with budget retained in closed works	e-PEMS	**5**
3	**Policy & Guidelines Compliance**	20%	Full (20) if 0 breaches; 10 if 1 breach (subject to qualitative assessment of type, nature, impact and materiality); Zero if ≥2 breaches	AGG / Notifications /Circulars/ Prohibited Expenditure List	**20**

Disclaimer and Effective Period:

These guidelines are prepared in accordance with the Performance Based Grant framework for Dzongkhags and Thromdes. They are to be read in conjunction with the Annual Grant Guidelines , relevant financial regulations, and any superseding notifications issued by the Ministry of Finance. In case of any conflict, the latest notification or instruction issued by the Ministry of Finance shall prevail.

Annexure 1: Prohibited Expenditure List/ Restricted Activities

1. Construction/maintenance of Archery/Khuru Bacho
2. Construction of gates, compound fencing and office boundary walls
3. Construction/reconstruction of designated residence, chiwog meeting halls, guest house and staff quarters
4. Inaugural ceremonies for designated residence and staff quarters
5. Construction of Cafeteria and Canteen
6. Construction of non-essential sports facilities (except educational institutions)
7. Conduct of office *rimdos*
8. Footpaths leading to individual households
9. Free distribution of CGI sheets, geysers, household items and RNR Inputs.
10. Donations to individuals or organizations
11. Expenditure on gifts, semso, contributions, or seed funding, unless otherwise authorized by law.
12. Payment of prize money, cash support and free toolkits
13. Ex-country/overseas travel financed from Annual Grants
14. Procurement and distribution of extension kits
15. Procurement of vehicles, heavy machinery (Excavators, Dozers, etc.)
16. Procurement of mobile/cell phones/Tablets
17. Procurement of Statues/Choeshams for offices
18. Purchase of shares or financial investments,such as interest bearing deposit
19. Deposits into extra-budgetary accounts
20. Misclassification of activities to disguise ineligible expenditure
21. Any other expenses/activities notified from time to time.

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