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Ministry of Finance
Royal Government of Bhutan
SECRETARY

MoF/DPBP/LG-Div/2026-27/ 174 September 3, 2026

**Notification**

In alignment with the evolving Government priorities and policies, the Ministry of Finance (MoF) hereby notifies all Local Governments (LGs) that the Annual Grant Guidelines 2024 (AGG 2024) have been revised to strengthen fiscal discipline, clarify and streamline the use of Annual Grants, consolidate expenditure restrictions, and enhance the objectivity, consistency and effectiveness of the Performance-Based Grant (PBG) assessment framework.

Accordingly, the Annual Grant Guidelines 2026 (AGG 2026) are hereby issued as the revised framework, incorporating amendments to the relevant provisions of AGG 2024, including the revised PBG framework applicable to Dzongkhags, Thromdes and Gewogs.

The detailed provisions, assessment criteria, methodologies, procedures and prescribed templates under the revised framework are contained in the AGG 2026, which shall be read together with this Notification.

The AGG 2026 shall apply to all Local Governments (Dzongkhags, Thromdes and Gewogs) and shall take effect from July 1, 2026. All Local Governments shall, therefore, ensure that all planning, budgeting, expenditure and performance-related activities falling within the scope of the revised provisions are undertaken in accordance with AGG 2026.

The AGG 2026 can be accessed and downloaded from the MoF website: www.mof.gov.bt.

**Leki Wangmo**

Copy to:

1. Auditor General, Royal Audit Authority, Thimphu for kind information.
2. Dzongdag, 20 Dzongkhags, for compliance.
3. Thrompon, 4 Thromdes, for compliance.
4. Gup, 205 Gewogs, for compliance.
5. Finance Officer, all LGs for compliance.

# ANNUAL GRANT GUIDELINES FOR LOCAL GOVERNMENTS, 2026

**Ministry of Finance**

**Royal Government of Bhutan**

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## 1. 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 3rd Session of the Third Parliament enacted the Budget Appropriation Act for FY 2020-21, extending the Annual Grants to Dzongkhags and Thromdes.

Further, the 15th and 16th Sessions of the Fourth Lhengye Zhungtshog held on May 30 and June 6, 2024, approved the 13th Five-Year Plan continuing 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 2026 for the Local Governments.

## 2. 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 2026 shall apply to all the LGs allocated with Annual Grants and come into effect from July 2026.

## 3. 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 (RAF) for implementing activities of the approved Five-Year Plan.

## 4. 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, stipends for students, 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 within the H&E ceiling prescribed under Annexure I of the Hospitality and Entertainment Guidelines 2025.

| 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), Annual Key Deliverables (if any) 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. 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;

iv. 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 Guidelines/Frameworks/Rules/Notifications/circulars that may be issued from time to time;

v. 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. 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.
   4. Notwithstanding the above, flexibility shall be considered in exceptional and unavoidable circumstances including disaster response, urgent public service requirements, procurement of essential equipment and furniture for the health and education sectors, maintenance and rehabilitation of school and healthcare infrastructure, replacement of critical ICT equipment, and other exigencies of similar nature and importance requiring immediate interventions.

      Accordingly, Gewogs may submit requests for deviations from the prescribed thresholds and ceilings to the respective Dzongkhag Finance Committee (DFC) for review and approval on a case-by-case basis, using the template provided in ***Annexure I.*** The



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DFC shall exercise due diligence to ensure that such deviations are strictly limited to critical, unavoidable, and exceptional circumstances where non-intervention would significantly compromise direct public service delivery. All such approvals by the DFC shall be supported by adequate justification, formally documented and shared with the DPBP for year-end assessment

5. Any budget requirement that arises due to policy changes and emerging priorities shall be met from the annual block grant.
6. Any investment in farm roads (construction/restoration/ maintenance) must be implemented as per the Guidelines for Farm Road Development Revision Guidelines 2025 and revisions thereof.

## 5. 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. Travel, Political & Ceremonial Activities**

i. Ex-country/overseas training and travel abroad financed from Annual Grants;
ii. Political campaign activities;
iii. Inaugural ceremonies for designated residences and staff quarters;
iv. Conduct of office Rimdos;

**B. Vehicles, Machinery & Equipment**

v. Procurement of vehicles, including heavy machinery such as excavators, waste compactors, and dozers, from Annual Grants (operation and maintenance of existing vehicles is permitted only under the controllable budget);
vi. Procurement and distribution of extension kits;
vii. Procurement of mobile/cell phones/Tablets;
viii. Procurement of statues/choeshams for offices;

**C. Private Goods, Donations & Free Distribution**

ix. Donations, contributions, and gifts to individuals or organizations, including Semso and seed funding, unless otherwise authorized by law;
x. Expenditure for private/personal purposes;
xi. Free distribution of household items, CGI sheets, geysers, and RNR inputs (distribution of RNR inputs shall be as per the CSM Guideline 2025), and footpaths leading to individual households;
xii. Payment of prize money, cash support, and free toolkits;

**D. Financial & Investment Restrictions**

xiii. Investment in financial assets such as shares and interest-bearing deposits;
xiv. Deposits into extra-budgetary accounts;

**E. Infrastructure & Construction**

xv. Construction/maintenance of Archery Bacho and Khuru Bacho;

xvi. Construction of chiwog meeting halls, gates, boundary walls, flag poles, and compound fencing (office premises);
xvii. Construction of guest houses, staff quarters, and designated residences;
xviii. Construction of cafeteria and canteen facilities;
xix. Construction of non-essential sports facilities (except in educational institutions);

**F. Governance & General Compliance**

xx. Undertaking programs/activities that contravene existing Government policies;
xxi. Misclassification of activities to disguise ineligible expenditure;
xxii. Any other expenses/activities notified from time to time by the Ministry of Finance.

Notwithstanding the above, the Ministry of Finance may, in exceptional and duly justified circumstances, approve the implementation of activities listed above on a case-by-case basis. Requests shall be submitted by the respective Dzongkhag/Thromde Administration, while requests from Gewog Administrations shall be routed through the concerned Dzongkhag Administration to the Department of Planning, Budget and Performance (DPBP), using the template provided in ***Annexure II.***

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



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## 6. Performance-Based Grant (PBG) for Dzongkhags and Thromdes

### 6.1 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.

### 6.2 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.

### 6.3 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.

### 6.4 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%** |

### 6.5 Criterion 1: Strategic Performance and Delivery (50%)

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.

#### 6.5.1 Sub-Criterion: Achievement of Annual KPI (including AKD) (50%)

Definition: The Achievement of Annual Performance Agreement (APA) measures the extent to which the Dzongkhag or Thromde has achieved the performance targets committed under its Annual Performance Agreement (APA) for the respective fiscal year. The APA performance results, as finalized and validated by the Office of the



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Cabinet Affairs and Strategic Coordination (OCASC), shall serve as the basis for assessment under this sub-criterion.

Assessment Method: The score under this sub-criterion shall be based on the overall APA achievement percentage, converted to a maximum of 50 points:

*APA Score = Overall APA Achievement (%) × 50*

Where the APA achievement percentage is expressed as a proportion of 1.

For example, if a Dzongkhag achieves 82% of its annual APA targets, its score would be: *82% × 50 = 41 points out of 50*

**Assessment Data Sources**

The assessment shall be based on the official and finalized APA performance results provided by OCASC. DPBP shall not undertake a separate assessment of the individual APA indicators where these have already been assessed and validated through the Government's APA process. The OCASC-validated APA results shall be considered the authoritative basis for determining the score under this sub-criterion.

**Key Considerations for Assessors**

- Only the final APA results for the relevant fiscal year shall be used for the PBG assessment.
- Any revisions to APA targets formally approved during the fiscal year shall be reflected in the final APA assessment.
- Where the APA incorporates Annual Key Delivery (AKD) targets, these shall be assessed as part of the overall APA performance.
- DPBP may seek clarification or supporting information from OCASC or the concerned Dzongkhag/Thromde where necessary.
- The approach ensures consistency, avoids duplication of assessment, and links the PBG directly to the Government's established performance management framework.

### 6.6 Criterion 2: Financial Management (30%)

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.

#### 6.6.1 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 |

### 6.6.2 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 |

### 6.6.3 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 |
| Non- Compliance | One or more activities with budget retained under closed works at the close of FY | 0 / 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.

### 6.7 Criterion 3: Compliance with Relevant Government Policies (20%)

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.

#### 6.7.1 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; 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 |
| 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.

**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
- 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.

### 6.8 Overall Assessment Process

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** |

## 7. Performance-Based Grant for Gewogs

### 7.1 Introduction

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 each FY shall be assessed, based on which the release of the remaining 30% of the annual capital block allocation for subsequent FY shall be made.

### 7.2 Criteria for Performance-Based Grant

| Sl. No. | Criteria | Weightage | Sub-Criteria | Sub 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 | **15%** | Budget allocated for operational capital expenditure. | 5% |
| | | | Budget allocated for multiple small activities. | 5% |
| | | | Budget Allocated for Religious and Cultural Activities within the limit | 5% |
| 4 | Compliance with relevant Government policies, guidelines (AGG), and notifications | **15%** | Compliance with Annual Grant Guidelines | 15% |
| | | **100%** | | **100%** |

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.

### 7.3 Realistic Planning, Budgeting, and Execution (50%)

#### *7.3.1 Sub-criteria 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 points. KPIs or targets that are only partially met will receive no points. The final score under this criterion shall be calculated as follows:*

**(40-(Number of Incomplete Activities * Deduction Factor)).** The deduction factor shall be determined after assessing the maximum number of planned activities for that FY to be assessed.

**Illustrative Example (Deduction Factor = 2)**

| Gewog | Planned Activities | Activities Completed | Incomplete Activities | Score |
|---|---|---|---|---|
| A | 15 | 14 | 1 | 38 |
| B | 5 | 4 | 1 | 38 |

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

| LGKRA | Sub Activity | Budget (Nu. in Million) | Indicator | Baseline (unit) | Annual Target (unit) |
|---|---|---|---|---|---|
| LGKRA 1 | *Construction of chain-link fencing* | *5.00* | *Length of chain-link fencing constructed* | *0 meter* | *1500 meter* |
| LGKRA 2 | *Construction of farm road* | *3.00* | *Number of farm roads constructed* | *0 Nos* | *2 Nos* |
| LGKRA 5 | - | - | - | - | - |

**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 implementation capacity, resource availability, and annual priorities.

**Submission Requirements for Gewogs:**

*Start of the Financial Year:* Each Gewog must complete and submit the template/dashboard/AWP 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/year end report 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.

### 7.3.2 *Sub-criteria 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.

| Performance Band | Condition | Score |
|---|---|---|
| **Full Score** | All new activities/re-appropriations created on or before 31 March | **10/10** |
| **Partial Score** | One non-compliance (excluding post-Q3 disaster activities) | **5/10** |
| **No Score** | 2 and more non-compliance | **0/10** |

### 7.4 Financial Management (20%)

#### *7.4.1 Sub-criteria 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.

#### *7.4.2 Sub-criteria .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. . The scoring under this criterion will be as follows:

| Performance Band | Condition | Score |
|---|---|---|
| Full Score | Cumulative expenditure (incl. advances) ≥ 60% by 31 March | **10 / 10** |
| Partial Score | Cumulative expenditure (incl. advances) ≥ 50% and < 60% by 31 March | **5 / 10** |
| No Score | Cumulative expenditure (incl. advances) < 50% by 31 March | **0 / 10** |

### 7.5 Non-Proliferation of Activities (15%)

#### *7.5.1 Sub-Criteria 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 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.*

### *7.5.2 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 exceeds 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.*

### *7.5.3 Sub-Criteria 3.3: Budget Allocated for Religious and Cultural Activities within the limit (5%)*

**Description & data source for assessment:** The Gewogs may allocate the budget for religious and cultural activities (based on need) up to the total budget limit of 10% of Annual Budget. Budget allocation trends of the Gewog for each FY shall be retrieved from the MYRB System and analyzed to ensure compliance with the specified allocation limits.



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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.

### *7.6 Compliance with the Relevant Government Policies, Guidelines, and Notifications (15%)*

**Description & data source for assessment:** Compliance shall be assessed against the Annual Grant Guidelines (AGG), 2026, including the consolidated Section 05: Prohibited Expenditure list, as well as relevant Government policies and notifications. The DPBP shall document all instances of non-compliance for assessment at the end of the financial year.

Expenditure on any item listed under Section 05: Prohibited Expenditure shall constitute an instance of non-compliance unless prior approval has been accorded by the Ministry of Finance (MoF). Where such approval has been granted by the MoF, the expenditure shall be considered during the assessment and shall not be treated as an instance of non-compliance.

**Assessment Methodology:** Non-compliance is any instance where expenditure, action, or omission is found to violate these instruments; each verified instance is recorded and scored against the matrix below.

| Performance Band | Condition | Score |
|---|---|---|
| Full Compliance | No instances of non-compliance identified | **15 / 15** |
| 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* | **7.5 / 15** |
| Significant Non-Compliance | 2 or more verified instances of non-compliance | **0 / 15** |

**Qualitative Assessment for One Non-Compliance:** Where exactly one instance is identified, a score of 7.5/15 shall normally apply, taking into account nature, severity, impact, and materiality. 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.

### 7.7 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*).

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.

| Sl. no | Gewog | Realistic Planning, Budget & Execution (50%) | | Financial management (20%) | | Non-Proliferation (15%) | | | Compliance with relevant Government policies, guidelines, and notifications | Total Score (%) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Annual Target (40%) | Completion of system requiremen t (10%) | No Closed work (10%) | 60% Expenditu re by the end of Q3 (10%) | Operational capital expenditure within the limit (5%) | Multiple small activities within limit (5%) | Budget Allocated for Religious and Cultural Activities within the limit (5%) | Compliance with AGG (15%) | |
| 1 | A | 40 | 10 | 10 | 10 | 5 | 5 | 5 | 15 | 100 |
| 2 | B | - | - | - | - | - | - | | - | - |

## 8. 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/Thromdes and Gewogs shall be notified of their preliminary scores and given an opportunity to provide clarifications before final scores are confirmed.

## 9. 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.

## 10. Budget, Release, and Accounting

### 10.1 Budget Process

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

10.1.2 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 Multi-Year Rolling Budget (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 or any revisions thereof

10.1.3 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).

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

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

### 10.2 Release of Fund and Accounting

10.2.1 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,

10.2.2 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.

10.2.3 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.

10.2.4 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 or any revisions thereof.

## 11. Responsibility, Accountability, and Transparency

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

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

11.3 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.

11.4 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.

## 12. Oversight Bodies

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

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

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

## 13. Amendments and Interpretation

13.1 This guideline shall supersede Guidelines for Gewog Annual Grants 2019 and Annual Grants Guidelines 2020, 2022, 2023 and 2024 issued by the Ministry of Finance.

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

***

## Annexure I: Template for Request to Exceed Prescribed Expenditure Threshold

To:
The Chairperson
Dzongkhag Finance Committee (DFC)
____________ Dzongkhag

Through:
The Dzongkhag Administration

**Subject: Request for Approval to Exceed the Prescribed Expenditure Threshold under Section 5 (b) of the Annual Grant Guidelines (AGG), 2026**

### 1. Background

In accordance with Section 5 (b) of the Annual Grant Guidelines (AGG), 2026, Gewogs shall adhere to the prescribed expenditure ceilings. In exceptional and unavoidable circumstances, the Dzongkhag Finance Committee (DFC) may approve requests to exceed the prescribed thresholds on a case-by-case basis.

Accordingly, ______________ Gewog seeks approval to exceed the prescribed expenditure threshold for the activity described below.

### 2. Details of the Proposed Expenditure

Financial Year:
Budget Head (OBC):
Detailed Activity name:
Prescribed Ceiling: Nu.
Proposed Expenditure: Nu.
Amount Exceeding Ceiling: Nu.
Percentage Above Ceiling: _____%

### 3. Justification

*(Provide detailed justification explaining why the expenditure is exceptional, unavoidable, cannot be accommodated within the prescribed ceiling, cannot be deferred, and how it serves the public interest.)*

### 4. Grounds for Seeking Exception

☐ Monsoon restoration
☐ Urgent public service requirement
☐ Essential health infrastructure/equipment
☐ Essential education infrastructure/equipment
☐ Replacement of critical ICT equipment
☐ Public safety requirement
☐ Other (specify): ______________

### 5. Assessment of Alternatives

*(Describe alternatives considered and reasons they were not feasible.)*

### 6. Compliance Statement

The Gewog Administration certifies that the request is exceptional and unavoidable; alternatives have been considered; the expenditure represents value for money; procurement rules will be followed; all other AGG provisions remain applicable; and supporting documents are attached.

### 8. Supporting Documents

☐ Cost Estimate
☐ Technical Assessment
☐ Engineer's Estimate
☐ Site Photographs
☐ Gewog Tshogde Resolution
☐ Other Supporting Documents

### 9. Approval Request

The Gewog Administration accordingly request and seeks the Dzongkhag Finance Committee's review and approval.

Submitted by:

**Gup**
**Signature:** ______________

**Dated:**

**For Official Use by the Dzongkhag Finance Committee**

Assessment Criteria:
☐ Exceptional circumstance established
☐ Public interest demonstrated
☐ Adequate justification
☐ Budget availability confirmed
☐ Value for money
☐ Supporting documents complete

Decision: ☐ Approved ☐ Approved with Conditions ☐ Not Approved

Conditions/Remarks:

____________________________________________________________
____________________________________________________________
____________________________________________________________
____________________________________________________________

DFC Meeting No.: ______ Date: ______

Chairperson, Dzongkhag Finance Committee

**Signature**

**Date:**

**Annexure II: Template for Request for Approval to Undertake Activities Listed under Section 5: Prohibited Expenditure of the Annual Grant Guidelines (AGG), 2026**

To:

Head
Department of Planning, Budget and Performance (DPBP)
Ministry of Finance

Through:

The Dzongkhag Administration for Gewogs

Subject: Request for Prior Approval to Undertake an Activity Listed under Section 5 (Prohibited Expenditure) of the Annual Grant Guidelines (AGG), 2026

**1. Background**

Section 5 of the Annual Grant Guidelines (AGG), 2026 specifies activities that are not eligible for financing from Annual Grants. However, the Guidelines provide that the Ministry of Finance may, in exceptional and duly justified circumstances, grant prior approval where the proposed expenditure is necessary to safeguard public interest, maintain continuity of essential public services, or address other compelling circumstances.

Accordingly, _______________ Dzongkhag hereby submits this request for prior approval to undertake the activity described below.

**2. Details of the Proposed Activity**

| Particular | Details |
|---|---|
| Dzongkhag/Thromde | |
| Gewog | |
| Financial Year | |
| Activity Proposed | |
| Estimated Cost (Nu.) | |
| Funding Source | |
| Relevant Prohibited Item under Section 5 | |

**3. Description of the Proposed Activity**

Provide a brief description of:

- the activity proposed;

- the problem statement;
- purpose of the activity;
- the beneficiaries;
- expected outputs; and
- implementation timeline and workplan.

### 4. Justification for Seeking Exception

Provide detailed justification addressing the following:

- Why is the activity necessary?
- Why is the activity in the public interest?
- Why is implementation unavoidable?
- What are the consequences if approval is not granted?

### 5. Alternatives Considered

Describe alternative options considered and explain why they are not feasible.

| Alternative | Reason Not Feasible |
|---|---|
| | |

### 6. Cost Estimates

Detail the cost estimates on a quarterly basis, aligned with the planned activities and implementation schedule

| Sl. No | Activity | Total Estimated Cost (Nu. in million) | FY1 Q1 | FY1 Q2 | FY1 Q3 | FY1 Q4 | FY2 Q1 | FY2 Q2 | FY2 Q3 | FY2 Q4 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | |

### 7. Compliance Statement

The Dzongkhag/Thromde Administration certifies that:

i. the proposed activity represents an exceptional circumstance requiring prior approval;
ii. all reasonable alternatives have been explored;
iii. detailed feasibility study has been completed;
iv. the proposed expenditure is in the public interest and represents value for money;
v. procurement shall comply with all applicable Government procurement rules;
vi. implementation shall comply with all other provisions of the Annual Grant Guidelines; and
vii. the information provided is true and complete.

**8. Supporting Documents**

Attach the following, where applicable.

☐ Technical justification (Drawing and Design)
☐ clearances (Land, environemnt, etc.)
☐ Engineering Cost estimate
☐ Post Completion recurring cost
☐ Dzongkhag/Thromde Finance Committee recommendation
☐ Gewog Tshogde Resolution (where applicable)
☐ Policy/Technical clearance from relevant central agency (where applicable)
☐ Any other supporting document
9. Recommendation of the Dzongkhag/Thromde Administration

The Dzongkhag/Thromde Finance Committee recommends that the Department of Planning, Budget and Performance approve the proposed activity under the exceptional circumstances explained above.

Submitted by:

**Name:**

**Designation:**

**Signature:**

**Date:**

**For Official Use by DPBP**

Assessment Checklist

| Assessment Criteria | Yes | No | Remarks |
|---|---|---|---|
| Activity falls under Section 5 | ☐ | ☐ | |
| Exceptional circumstance established | ☐ | ☐ | |
| Public interest demonstrated | ☐ | ☐ | |
| Adequate justification provided | ☐ | ☐ | |
| Value for money demonstrated | ☐ | ☐ | |
| Supporting documents complete | ☐ | ☐ | |

**Recommendation**

☐ Recommended for Approval

☐ Recommended with Conditions

☐ Not Recommended

Remarks:

________________________________________

________________________________________

Prepared by:

**Name:**
**Designation:**

**Signature**
**Date:**

**Decision of the Department of Planning, Budget and Performance**

☐ Approved

☐ Approved with Conditions

☐ Not Approved

Conditions (if any):

Reasons for rejection (if applicable):

**Head**
Department of Planning, Budget and Performance

Name:

**Signature:**

**Date:**