

Joint Annual Review of the Local Governance Support Programme (LGSP) & Decentralisation Outcome Evaluation

Annual Review Report

Final Report

Mission 16th – 27th August, 2010

September 3, 2010

List of Contents

List of Contents.....	ii
List of Abbreviations	iii
1. Background and Introduction	1
2. Overall Progress of Decentralisation Reforms and the Impact of LGSP	2
3. Effective and Transparent Financing Mechanism for LG Service Delivery	5
4. Inclusive, Efficient Accountable Public Expenditure Management Procedures for LGs	9
5. National Support / Training Mechanism for LG Personnel and Elected People	12
6. Policy, Regulatory, Support and Supervision Functions.....	16
7. Integrated Public Service and Information.....	17
8. M&E, Programme Management and Aid Modalities.....	18
9. Conclusions and Recommendations	24
10. Annexes.....	28
Annex 1: Terms of Reference	28
Annex 2: Review of Recommendations from 1 st JAR and Follow –Up	37
Annex 3: Programme Management Issues and Changes	45
Annex 4: Up-dating of the Risks Assessment of LGSP	47
Annex 5: Overview of LMs' Training and Capacity Building	52
Annex 6: Institutions Met.....	54
Annex 7: Minutes from the Debriefing Session on August 27, 2010	57
Annex 8: Mission Programme of the Joint Annual Review.....	61

List of Abbreviations

ACG	Annual Capital Grant (to local government)
AGG	Annual Grant Guidelines
APR	Annual Programme Review
BAS	Budget and Accounting System
BPFFS	Budget Policy and Fiscal Framework Statement
CB	Capacity Building
CC	Climate Change
c/CPAP	Common Country Programme Action Plan
CD	Capacity Development
CDG	Constituency Development Grant
Danida	Danish International Development Assistance
DD	Draft Document (Draft Document of the SESP)
DenvOs	District Environmental Officers
DLG	Department of Local Government (of MoHCA)
DIT	Department of Information Technology
DNB	Department of National Budget
DP	Development Partner
DPA	Department of Public Accounts
DT	<i>Dzongkhag Tshogdu</i> (District Council)
DYT	Dzongkhag Yargay Tshogdu
EC	European Commission
FMA	Financial Management Arrangement (of LGSP)
FYP	Five-Year Plan (of Bhutan)
GA	Gewog Accountant
GAO	Gewog Administrative Officer
GG	Good Governance
GGA	Good Governance Agency
GLOF	Glacial Lake Outburst Flood
GNHC	Gross National Happiness Commission (of RGoB)
GT	<i>Gewog Tshogde</i> (Block Council)
GYT	Gewog Yargay Tshogchung
ICBP	Integrated Capacity Building Plan
JAR	Joint Annual Review
JART	Joint Annual Review Team
JICA	Japan International Cooperation Agency
LDD	Local Development Division (of GNHC)
LDPM	Local Development Planning Manual
LG	Local Government
LGDP	Local governance Development Programme (JICA supported)
LGSP	Local Governance Support Programme

LOD	Liaison Office of Denmark (in Thimphu, Bhutan)
MC	Minimum Conditions
MDG	Millennium Development Goals
MoA	Ministry of Agriculture (of Bhutan)
M&E	Monitoring and Evaluation
MoF	Ministry of Finance
MoHCA	Ministry of Home and Cultural Affairs
MoWHS	Ministry of Works and Human Settlement
MYRB	Multi-Year Rolling Budget
NECS	National Environment Commission Secretariat
NGO	Non-Government Organisation
NPAG	National Plan of Action for Gender
OSS	One Stop Shop
PBGS	Performance-Based Grants
PEFA	Public Expenditure and Financial Accountability
PEI	Poverty and Environment Initiative
PEM	Public Expenditure Management
PEMS	Public Expenditure Management System
PFM	Public Finance Management
PlaMS	Planning and Monitoring System
RAA	Royal Audit Authority
RGoB	Royal Government of Bhutan
RNR	Renewable Natural Resources
SC	Steering Committee
SCM	Steering Committee Meeting
SDC	Swiss Agency for Development and Cooperation
SEA	Strategic Environmental Assessment
SESP	Sustainable Environment Support Programme
SWOT	Strengths Weaknesses Opportunities and Threats
ToR	Terms of Reference
TOT	Training of Trainers
TWG	Technical Working Group
UN	United Nations
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme
UNCDF	United Nations Capital Development Fund
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change

Joint Annual Review of the Local Governance Support Programme (LGSP) & Decentralisation Outcome Evaluation

1. Background and Introduction

This Annual Review Report presents the findings and recommendations of the second joint annual review (JAR) of the Local Governance Support Programme (LGSP) 2008-2013. The review took place from August 16-27, 2010 and reviewed all the 5 outputs in the LGSP with a principle focus on the annual capital grants and capacity building components of the programme.

The original ToR of June 2010 was modified in July to include a Decentralisation Outcome Evaluation. During the mission inception meeting with the Royal Government of Bhutan (RGoB) and Development Partners (DPs) on August 16, 2010 it was clarified and agreed that the team would limit its work on the Decentralisation Evaluation to a brief (three pages) introductory overview “headline” review of the framework conditions for LGSP impact on the status of decentralisation in Bhutan and the impact of LGSP. The actual Decentralisation Outcome Evaluation would instead be conducted in extension of the annual review by the UNDP consultant on the team.¹ The results will be attached as an Annex to the Annual Review Report.² Thus the Annual Review Report will feed into, and provide a framework for, the Decentralisation Outcome Evaluation.

The Joint Annual Review Team consisted of Preeta Lall, (SDC), David Jackson, (UNCDF), Phuntsho Namgay (UNDP), Jesper Steffensen, team leader (LOD). Staff from GNHC, UNDP/UNCDF, LOD and Helvetas accompanied the team during the field visits and in some of the meetings. The JART benefited from the meetings with key central stakeholders as well as from a field trip to Chhukha Dzongkhag/Chapchha Gewog and Haa Dzongkhag/Eusu Gewog. The mission programme is included in Annex 8. The JART made use of a Mission Preparatory Note, which was prepared by the JART and shared with the stakeholder a week prior to the mission.

The JART is grateful for the support and guidance received from the representatives of the RGoB and the DPs. While the review is based on mutual discussions and dialogue with all stakeholders involved in LGSP, the findings and recommendations outlined below, solely represent the opinion of the team (and not necessarily the formal view of their respective institutions), and are subject to approval by the RGoB and the DPs.

A detailed de-briefing note was presented at the De-briefing Session on August 27, 2010, and comments to this note have been addressed in this Final Annual Review Report, see the minutes from this meeting in [Annex 7](#).

The report has the following structure. The first section presents an overall view of the status of decentralisation in Bhutan and the impact of LGSP – providing a contextualisation of the report and a structure for the decentralisation outcome evaluation. The following sections review the main achievements and challenges in the 5 outputs of the LGSP. Recommendations are included in the final part of each chapter and summarized in Chapter 9. An analysis of the implementation of the recommendations from last (2009) Joint Annual Review is included as [Annex 2](#).

¹ LOD, SDC and Austria agreed with the Joint Annual Review Team's concerns regarding the need to use different research modalities for a review versus an evaluation, the comprehensive scope of the ToR compared with the limited time of the review, given the fact that the review was already expanded in scope compared with the last joint annual review (the current review is looking at all 5 outputs) with less time for the team in Bhutan.

² The Evaluation Report will be produced by Mr. Phuntsho Namgay, UNDP consultant with support from the UN agencies in the week after the submission of the final review report, i.e. on September 10, 2010.

2. Overall Progress of Decentralisation Reforms and the Impact of LGSP

In his coronation speech to the nation in 1974 the fourth king stated that (central) government cannot deliver all the development needs of the people. This speech began a steady process of devolving powers and responsibilities to local levels of the state administration, and of creating space for democratic contestation of elections at local and national levels, culminating in the first national democratic election of 2008. The contribution of LGSP to decentralization in Bhutan is best appreciated by placing the programme in the chronological context of this reform process as illustrated in Box 1.

Box 1: Decentralization in Bhutan – major milestones

- 1974 – Coronation speech of 4th king
- 1981 – The Dzongkhag Yargay Tshogchungs (DYT) were established
- 1981 – 5th five year plan includes DYT councils in all Dzongkags
- 1991 – Geog Yargay Tshogchungs (DYT) councils established for Gewogs
- 1997 – *Gewog Development Facilitating Activity Initiatives*
- 1998 – 4th king devolves all executive powers to council of ministers
- 1999 – GG99 policy road map for political and administrative reform
- 1999 – Creation of autonomous municipal councils
- 2002 – Election of all Gups
- 2002 – Administrative powers devolved to DYT and GYT
- 2002 – DYT and GYT chathrims which encompassed detailed regulations
- 2003 – *Decentralization Support Programme*
- 2003 – *Local Governance Development Programme*
- 2005 – GG+ second policy road map detailing further reform
- 2005 – Election of all Gups³
- 2007 – Local Governments Act of Bhutan
- 2008 – **LGSP begins**
- 2008 – New constitution adopted, article 22 “power and authority shall be decentralized”
- 2008 – First democratic national election
- 2008 – The new annual grant system established with the Annual Grant Guidelines
- 2010 – The Local Government Act adopted
- 2010 – Ongoing work on the LG regulations and functional assignments
- 2010 – Draft Strategy on the Capacity Development Vision and Strategy

(Items in *italics* indicate the start dates of DP programmes in support of decentralization)

The process chronicled above has been well documented.⁴ The salient feature to be absorbed is that LGSP inherits the legacy of its predecessors and is situated within a long-term national reform process. This opening section of the JAR will reflect on the impact of LGSP on the process it began in 2008 – thus setting the scene for the detailed sections that follow and the wider

³ Out of the 205 Gups elected in 2005, about 105 were new Gups, elected for the first time, others were re-elected. A training programme was put in place for the newly elected Gups, who had not previously been elected.

⁴ For example the UNDP Decentralisation Outcome Evaluation (2005) provides information on the earlier period and DSP, LGSP and LGDP programme documents and reviews account for progress since then, e.g. “Draft final Evaluation of the Decentralisation Support Programme”, April 2008 by UNCDF/UNDP, Richard Slater, and the Report: “Lessons Learned from the Block Grant Pilot Projects”, RGOB; UNCDF/UNDP and JICA, Final Report, March 2008.

decentralization outcome evaluation included as a subsequent Annex. This impact will be examined in terms of political, administrative and fiscal decentralization.

Political Decentralisation

Key recent developments: Local elections in 2002 elected Gewog heads (Gups) who also represent the Gewog on the Dzongkhag Council (DT). Their mandates have been continuously extended. In 2005 election of Gups was again held and a third round of elections is now due (although the date has not yet been set). The central government elected in 2008 supports further decentralization reform.

Impact of LGSP: In macro terms LGSP has had a limited impact on political decentralization. However there is a significant micro impact, which may become apparent at the local elections. The block grant awards and planning system for the 10th five-year plan as well as the capacity building (CB)⁵ support have raised local awareness of the development challenges, and made dialogue on local resource allocations more relevant. This could positively influence the standard of debate during the election campaign. Additionally, local government (LG) finance should enable successful candidates to meaningfully contribute to local development, further entrenching local democracy.

Perspectives for the future: An emphasis on communications – including the use of notice boards and radio to disseminate grant allocations and guidelines – linked with a transparent performance based system would further enhance political decentralization whilst safeguarding against descent to ‘pork barrel’ politics at the local level.

Administrative Decentralisation

Key recent developments: Since 2008 LG capacity has increased. This is partly due to the placement of Gewog Administrative Officers (GAOs) and Gewog Accounting Officers. At the Dzongkhag level there has been a strengthening of the Human Resource and the Planning Functions. Although LG personnel posted at the Dzongkhag remain tethered to their ‘parent’ ministries there is a Dzongkhag Administrative Committee that can coordinate their capacity development. At central level the Department of Local Government (within the Ministry of Home and Cultural Affairs) has been re-established, which creates the potential for champion and mentor of LG at central level. Finally work has begun on re-assigning functions between the various levels of local government. The staffing autonomy of LGs is low, and the hiring, firing, promotions, disciplining of staff remains the responsibility of the respective ministries and Royal Civil Service Commission (for higher levels). However, there is a degree of dual reporting: The staff are partly accountable to the LG bodies (DT and GT) for the tasks assigned to them. There are no plans to change this system. The elected representatives are paid minimally despite their own assessment that this is a full time job. This can prove to be deterrent to worthy candidates who are considering standing for elections.

Impact of LGSP: Whilst many of these developments fall within the overall trend established in Box 1, some aspects can be directly attributed to LGSP. The rollout of the Integrated Capacity Building Plan (ICBP) has had a major impact on the awareness and capacity of the GAOs.⁶ Training GAOs

⁵ In this report the words capacity development (CD) and capacity building (CB) will be used interchangeable, as this is the case in the documents reviewed. However, the team is aware that CD is sometimes used to reflect the broader support to the individuals, organisations and systems and procedures.

⁶ The LGDP (JICA financed) programme supported the development of the ICBP curriculum as a minimum package for local government. LGSP supported its rollout through a Training of Trainers (ToT) cascade.

as trainers of the GTs has whetted their appetite for more capacity strengthening. LGSP has also provided a basic set of material support to each Gewog (computers, office equipment etc) that complements the ICBP training. The increase of the funding available has promoted discussions on local priorities, and strengthened capacity through a “learning by doing” approach, see below. The LG planning manual that will shortly be disseminated holds potential to complement all the efforts invested so far in capacity building.

Perspectives for the future: LGSP is supporting the production of a Capacity Development (CD) Strategy that will provide a framework for an improved curriculum for LG training, capacity building grants (more demand-driven approach), and a greater public awareness of the decentralized system. This is both an opportunity and a challenge. LGSP has the potential to significantly influence the decentralization process through a meaningful strategy that goes beyond providing capacity to implement the grant system and instead enhancing capacity to manage an integrated local development at the Gewog and Dzongkhag levels. Whether LGSP can rise to that challenge will partly depend on whether its new institutional home (DLG) can become the main central body that supports LGs, and of course LGSP can support DLG in this direction.

Fiscal Decentralisation

Key recent developments: The lessons from the LG grants piloted by the predecessor projects⁷ have been adopted by government through the LGSP supported new fiscal transfer system – the formula-based annual capital grant system. This demonstrates an increased and very high level of allocation per capita compared with regional standards and fiscal decentralization is in many ways ahead of its political and administrative counterparts.⁸ The majority of the funds to LGs are now based on a poverty sensitive transparent allocation formula with largely discretionary capital grants⁹. However there has been little progress to date on LG own source revenues¹⁰ and there are also question marks over the fiscal sustainability of the grant system, which is still heavily financed by external support.

Impact of LGSP: This is very high. LGSP resources and technical assistance underpin fiscal decentralization and have a decisive impact. The programme provides government with the wherewithal and confidence to proceed with this fundamental reform. Nevertheless, LGSP has not yet fully engaged all stakeholders in this process. Some key officials (including in the Ministry of Finance and at local level) do not yet fully appreciate the system and see it as LGSP specific rather than a holistic LG financing arrangement. The financial reporting cannot currently distinguish the discretionary annual formula-based capital grants from other local capital expenditure, centrally allocated, and there has been insufficient awareness and training in the system at Central Government and LG levels.

⁷ See, e.g. the Report: “Lessons Learned from the Piloting of Block Grants”, RGOB, UNCDF/UNDP and JICA, March 2008.

⁸ The grants have increase from the piloting amount of about 5-9 USD per capita for the Gewogs in 2007 to the present about 35 USD per capita for Gewogs (rural population) and 54 USD for the Dzongkhags (rural pop) in FY 2010/11. This is a very high amount compared to the neighbouring countries, but it also reflects the relatively high infrastructure costs in Bhutan. The grants are used to support the implementation of the locally derived Five Years Plans (FYP) and 20 % of this grant is discretionary as it can be allocated outside of these plans based on annual priorities (is included in the annual plans and budgets).

⁹ This has also been acknowledged in the present draft PEFA Report: “Bhutan – Public Financial Accountability Assessment, Draft Report, January 2010 “ which has assessed the system as “A” (top score on all three sub-dimensions of the intergovernmental fiscal transfer system).

¹⁰ In the Gewogs visited the internally generated revenues were less than 1 % of the total revenues (between 12-20,000 Nu) and the tax levels and ceilings have not been adjusted in many years. Although data on this is scanty, there seems to have been no improvement in the overall level of the past 5 years.

Perspectives for the future: LGSP is in the frontline of supporting this aspect of the reform process. This includes broadening fiscal decentralization by making the LG finance system more comprehensive, incorporating line ministries, strengthening local revenue generation and working closely with the Ministry of Finance.

The remainder of this report will examine the LGSP in detail and arrive at a set of conclusions and recommendations designed to enhance the impact of LGSP on the decentralization process. The annex on Decentralization Outcome Evaluation, submitted in conjunction but one week after the submission of the final report on the review, will provide further details on the status, trends in decentralization and the impact of the ongoing support.¹¹

3. Effective and Transparent Financing Mechanism for LG Service Delivery

An output of LGSP is the development of an effective and transparent mechanism for LG infrastructure and service delivery including establishing of a capital grant facility, MCs (minimum conditions) /results measures for Gewog accessing these grants, review and analysis of rural taxes and financial regulations and LG grant formula.

The JART noted that some of the main *achievements* have been:

- An overall grant facility has been developed and is in operation with annual formula-based capital grants – established in FY 2008/09 with financial support from Development Partners (DPs) from 2009/10 containing the following features:
 - The available annual pool of resources for discretionary formula-based annual capital grants, although somehow lower than 1/5 of the predicted Five Year Plan (FYP), has increased every year;
 - Needs-based and poverty sensitive allocation formula, based on 3 core criteria: (i) population, (ii) poverty and (iii) size of the territory), combined with extra support to the smaller LGs¹² (equal share as a fourth criterion) forms the basis of annual transfers;
 - The new grant system is involving both Dzongkhags and Gewogs (60% / 40%), i.e. RGoB has moved ahead with annual capital grants to both tiers of LGs;
 - Funds are released quickly on LGs request¹³. However, the cumbersome procedures on prior preparation of building permissions and procurement/contracting details, work-plans, cash-flow overviews, etc, are still applied by the LGs, sometimes delaying the request / release of funds;
 - Flexibility introduced for 20 % of the grant value allowing LGs to adjust / add activities compared to the FYP, although there is limited use of this facility, see below;

¹¹ This annex will be produced by Mr. Phuntsho Namgay, UNDP consultant.

¹² In FY 2009/10 a minimum floor of 1 Million Nu was introduced. In FY 2010/11 this was changed to an equal share in the formula (1 Million Nu), which means that about 28 % of the resources are allocated through the equal share criterion to ensure minimum funding level to all Gewogs (also the smaller and often remote ones).

¹³ A fax is sufficient compared to the previous requirements to submit all the documents by mail. However, as mentioned later, there is a perception that these documents still have to be produced prior to the request for funding. See "Fund Release Guidelines (revised), July 2009, Ministry of Finance.

- Cross-cutting issues included in the draft Local Development Planning Manual (LDPM) and in the Annual Grants Guidelines (AGG), although their integration in capacity building, planning, implementation and monitoring and evaluation needs to be strengthened. Unfortunately there are weaknesses in the dissemination of core guidelines and regulations;
- MCs introduced, and analysis of options for introduction of performance measures undertaken exemplified by the 2009 report on Performance Based Grant System (PBGS) and the LoCAL Climate Change report of June 2010¹⁴;
- LGs are regularly sending monthly financial reports, to Ministry of Finance (MoF);
- Review of options for the use of existing grant facility for local climate change initiatives, and a defined outline of piloting of the links between PBGS and climate change adaptation (June 2010) has been completed. There is a great potential to combine the climate change initiative (with topping up of grants) with the piloting of PBGS. The Capacity Building strategy will also support this. There seems to be an increasing awareness of climate change at local level;¹⁵
- The AGG developed in 2008, was distributed, though there is room for improvement in its thorough dissemination.
- Finally the JART noted that the piloting of PBGS and links to climate change adaptation – issues, comprising the modalities of topping up of grants to address the adaptation challenges, and the nature of this initiative - fits very well together

However, a number of *challenges* were also observed by the JART.

First, within the financial reporting it is not possible to disaggregate the real expenditures on the LGs' use of annual formula-based capital block grant system (it is mixed with Constituency Development Grant (CDG) and centrally controlled funds outside of the formula-based annual capital grants)¹⁶ Therefore it is impossible to review LGs' absorption capacity, local priorities and the effects of the discretionary formula based capital grant system. The FICs were not established as envisaged, nor were specific lines in the Planning and Monitoring System (PLaMs) included to report on the consolidated capital grants. This weakness in the consolidation of expenditure on grants in the PLaMs is a major problem. In addition PLaMs is still not fully operational in terms of entering quarterly progress reports for LGSP related activities, including grant expenditure. Furthermore, PLaMs only reflects the DPs transfer of funds to the RGoB, not the total amount used on the capital grants under output 1, nor the actual use by the LGs from the annual formula-based capital grants.

Second, the available data on utilisation of capital resources at LG level, which as mentioned above is a mix of formula based grants, CDG, earmarked funds and centrally managed funds, reveals problems in the absorption capacity. Unspent funds for all LGs for all capital expenditures amount to: 31 % in FY 07/08 and 34 % in FY 2008/09.¹⁷ Preliminary figures show a higher level of unspent amounts in FY 2009/10, although final data is not yet available. On the other hand field-visits have indicated that some of the Gewogs are able to spend all funds and that there are a number of administrative reasons for the lack of spending, see below. It should also be noted that a part of the unspent funds derives from the centrally managed funds.

Third, there are a number of discrepancies between: i) the actual management of in the grant system at Central Government and LG levels, ii) the draft AGG and iii) the Financial Management

¹⁴ RGOB and UNCDF: "Local Climate Adaptation (LoCal) Facility – Bhutan Scoping Mission"- (Draft) July 2010.

¹⁵ The issue of Climate Change was raised (independently and without prompting) by a number of local government stakeholders interviewed during the field visit

¹⁶ Some of these funds are funds from the centrally controlled allocations for RNR, Gups' offices, connectivity roads and extra funds for MoF (200 million N) to be allocated outside of the formula.

¹⁷ As mentioned, part of this is due to lack of use of all CDFs.

Arrangement (FMA). These relate to inability to transfer unspent funds to the next FY's budget ceiling (as an increase of this ceiling), the system of releases, etc. (see the Annex 2 with a review of the recommendations from last JAR).

Fourth, and related to the above issue, information on contributions from Royal Government of Bhutan (RGoB) versus DPs to the grant system (relative shares) is not easily available. These problems limit LGSP's ability to deliver on output 3.3 (M&E of the LG system).

Fifth, there are delays in finalisation of the AGG due to disagreements on the overall principles of the annual capital grant system. The existing AGG draft (August 2010) deviates from the draft of October 2009 in the following areas:

- There is a lack of clarity in the investment menu in the 2010 version because it refers the reader to documents under ongoing review (for example the work on functional assignments). There is a need for approval of these documents and/or a detailed positive list in annexes as per the first 2008 AGG;
- Clarification of the specific elements in the investment menu (including investment servicing costs, maintenance and capacity building). In the LGSP Project Document (PD) and in the previous versions of the AGG, a limit on 5 % was put on the investment servicing costs and current maintenance. In the new draft, this has been increased and can now take up the entire untied grant part (20%). An increase in this ceiling may be justified, but the role of the capital grant in supporting maintenance costs is not sufficiently clarified;
- The AGG introduces capacity building as an option for use of the 20% without guidelines on how they can be used. There are great risks associated with this as the CB system and menu of available courses and other activities have not yet been prepared and local governments may spend this money inappropriately.
- Lack of options to allocate funds across fiscal years in the new version of the AGG (August 2010) despite a number of documented good reasons for this. The previous October 2009 version allowed roll-over of unspent funds in accordance with the recommendation from the last JATR and the 3rd Steering Committee Meeting (SCM) and the FMA. The JART notes that the lack of a roll-over facility may be motivated by MoF concern about the overall budget deficit and need for borrowing. However some borrowing was expected, and in the LGSP PD/FMA (Art. 13.2) and in the resolutions from the previous SC meeting it has been mentioned that RGoB guarantees a topping up of subsequent year in cases of lack of full spending. There was also an understanding that RGoB if necessary would borrow to ensure the full funding of the FYP in respect of the annual capital grants. The current situation means that development partner contributions are incrementally increasing as a proportion of the block grant finance.
- Lack of clarification of the deadline for compliance with the MCs has to be complied with (timing issue), contrary to the FMA and good practices on MCs and no specific increase in the demands on MCs to LGs over the year as anticipated in the LGSP PD.

In any case it is important that the AGG is endorsed by RGoB, tabled at the SC of LGSP, and distributed to LGs as soon as possible so that it can be applied in the coming budget cycle. It should be circulated widely and proactively introduced to Dzongkhags, Gewogs and to people's representatives as well as officials. The major outstanding issues will have to be settled in the next cycle, based on detailed discussions in the Technical Working Group (TWG) and coming SCM.

Sixth, the government mid-year budget review raises a number of issues. Both LGs and DPs are unclear about the criteria for the adjustments made at this time. These may lead to substantial changes in the allocations compared to the announced formula, which appears not to be transparent. It should instead be considered to pursue a clear PBGS system, where absorption

criteria will be one amongst a number of other clear performance criteria. The existing practice risks a dilution of the formula-based element of the grant system and complicates the reporting. There is need for a provision and sharing of minutes from these reviews.

Seventh, the new AGG still needs to clarify the criteria for the 80 % tied versus 20 % untied division in the block grant. It is not clear to the JART how inclusive local planning and needs based orientation is being promoted, and it appears that not all LGs are aware of the potential use of the 20%. It is urgent to ensure awareness raising and training in these aspects - related to the need for strengthening of the entire dissemination and internalisation of the AGG.

Eighth, the new release procedures, which are different from the ones agreed in the FMA, should be reviewed and clarified. What are the prerequisites for release? Do the LGs need to produce all the current plans, cash flow estimates, contract agreements, etc. or can they simply request 100% of funds up front. It may be that clear rules exist at central level but the understanding of them, and therefore the practice appears to differ widely between LGs, and this is seen as one of the bottlenecks/delaying factors. This should be part of the further study proposed on the reasons for underspending of capital grants in some LGs.

Ninth, there is generally a weak downward accountability for use of funds. There are no signboards, no publication of plans and accounts etc., no information on use of funds. More needs to be done in this area, including follow up from the central government under their overall monitoring function.

Tenth, there has been lack of initiative to update the FMA of the LGSP (work has not been undertaken by the TWG as suggested in the previous review), and to ensure linkage with the AGG and new MoF release procedures. The timing of the changes in the AGG and FMA – needs to be clarified also synchronized with clarification of the functional assignments, mentioned above.

And finally, the amounts allocated outside of the formula-based capital grant system for local capital investments on similar activities, particularly farm-roads is an increasing concern in terms of LG autonomy, coordination of investments across funding modalities and proper overview of the allocations based on needs-based transparent allocation criteria¹⁸.

As reflected above, all initiatives under the output have focused on the grant system, and so far, no initiatives on LG internally generated revenue have taken place. There are future needs to address this area to ensure better sustainability, ownership and accountability. The existing system yields a very low and non-sustainable level, particularly when compared to costs of collection (less than 1 % of the total Gewog revenues are from internally generated revenues in places visited). There is also need for a better consolidation and monitoring of these revenues. The JART has not observed any planned reforms, initiatives to revise rules and guidelines and to promote own source revenues, etc. along the objectives of the LGSP.

¹⁸ It was e.g. informed that MoF has 200 Million Nu., which can be allocated upon LG request, and the funds allocated centrally has increased from FY 2009/10 to FY 2010/11.

The JART has the following *recommendations*:

Box 2: Recommendations on effective and transparent financing mechanism for LG service delivery

- Improve the **M&E system** to ensure that the use of funds on the capital block grant modalities can be tracked – including a systematisation of this monitoring, through establishment of a **FIC** for the annual formula-based capital grants. Ideally, there should be one code for tied (80%) and another for the un-tied (20 %) grants, to track the use of the eligible funding and to promote local considerations on flexibility.
- Urgent issuing of the **AGG** (two steps, 1) immediately with the agreements which can be made, including clarification of the investment menu)¹⁹, 2) as a second step dialogue on future outstanding issues and links to PBGS to be incorporated in a subsequent “3rd generation” of the AGG.
- Clarification of the **mid-year budget review** and links to the PBGS including the design of a framework that integrates the two of them. The review should as a minimum be attended by GNHC and DLG/MoHCA to ensure links between budgeting and planning.
- More **CB support** to grant utilisation, procurement, planning etc. to ensure better use of funds. With special emphasis on clarity of information to the public, GT, GUP, GAO on what funds are available and what the procedures are for the 80% (tied) /20% (un-tied) division, etc.
- Explore ways of **developing the use of the 20%** to encourage more proactive use of annual planning and to promote a strong introduction of cross-cutting issues.
- Explore topping up of **20% to deal with climate change adaptation** and link this initiative to piloting of PBGS.
- Review and clarify the release procedures as LGs follow the previous practices, which are delaying requests, see below.
- GNHC and DLG should undertake an **objective analysis** of reasons for LGs’ **underspending** and follow up with steps to remove the bottlenecks and strengthen the LGs in making better use of these funds. The reasons seem to be known but need to be tabled along with clear action plan/recommendations that need to be taken by different actors.
- There is a strong case for reviewing the prescriptions so far for **generating own revenues** by Gewogs promoting increased sustainability, ownership and accountability. Better tracking of collections and investments of these amounts is warranted and a review of how to strengthen the system of internally generated revenues should be initiated.

4. Inclusive, Efficient Accountable Public Expenditure Management Procedures for LGs

Output 2 of the LGSP strengthens inclusive, efficient and accountable public expenditure management (PEM) procedures for LGs. The activities relate to field-testing and improving procedures, toolkits, manuals and relevant support materials to improve the PEM procedures at Gewog and Dzongkhag level. It aims to strengthen planning and procurement systems and develop related manuals and training materials, including templates for the design and costing of infrastructure projects to be implemented in the Dzongkhags and the Gewogs. In the first phases

¹⁹ The JART has submitted suggestions to GNHC, LDD on how these quick improvements can be made in the AGG (track changes to the August 2010 AGG).

of the LGSP, the focus has mostly been on the planning system (including costing templates) and less on other elements of the PEM.

The JART noted that some of the main *achievements* have been:

- Preparation of a comprehensive draft Planning Manual aimed at strengthening the prioritization, selection and annual programming of activities to be undertaken by Gewogs and Dzongkhags. The draft Planning Manual has been discussed with Planning Officers and selected community representatives and feedbacks incorporated in the present draft.²⁰
- Piloting and finalizing of a Community Contract Protocol to streamline procedures relating to community contracting. The monetary limit up to which community contracting can be taken up has been increased to 1.5 Million Nu.
- Simple and useful cost templates have been prepared for small infrastructure development.
- The 10th five-year plan documents have been translated, printed and distributed to all the Dzongkhags and Gewogs.
- Efforts are underway to integrate MYRB and PEMs with PLaMs
- Timely release of funds to LGs (once conditions are met).

However, a number of *challenges* were also observed by the JART:

Whilst central government stakeholders emphasise that the FYP is an overall framework and does not in any way direct the communities to adhere to the activities listed there, it appears that the communities do not share the same understanding across the board. The FYP was often seen by the Gewogs as providing the final menu of activities, leaving the annual planning to concentrate on the phasing of activities, preparation of budget estimates and availing clearances so that implementation may start as soon as approval is received.²¹ Annual planning in practice focuses on matching the prioritization with the budgets made available. The JART understands that in some Gewogs there are examples of new and adjusted activities in addition to those of the FYP but this needs to be substantiated through data, which allows a comparison of LG activities implemented against those planned in the FYP. In the present situation it appears that most identification of activities in the real sense is at the time of FYP preparation.

A direct implication of the above is that, in the presence of budget constraints, the activities proposed for the Gewog in the FYP gain precedence over any new 'unplanned' activity. This means that though the LGs may understand the real purpose, the 20% also often gets spent on already defined activities rather than new ones. The use of this fund in supporting emerging, unplanned priorities (as opposed to funding planned activities) can be further strengthened.

The bottlenecks in planning mainly relate to: (i) non availability or lack of timely availability of engineering staff for preparation of technical plans and estimates (ii) lack of capacity for availing relevant (mainly environmental and forestry) clearances, and (iii) insufficient timely capacity building support to strengthen the entire planning process.

²⁰ The Planning Manual introduces procedures to be followed in different stages of the annual planning cycle, the rationale for these, indicates who the exercise should be undertaken with and most importantly, sincerely attempts to integrate cross cutting issues relating to addressing poverty, integrating gender equality, being sensitive to environment conservation and promoting preservation of culture.

²¹ Therefore, whilst LGs do prioritize amongst the activities identified in the FYP, they rarely add additional priorities nor do they seek to link the FYP with other sectoral activities. This means that the block grant process is largely focused on the implementation of useful smaller infrastructure schemes and is not yet using the full potential to reflect an overall holistic process of local governance.

Overall it was felt that the GTs had insufficient time for preparing the annual plans, especially since they are competing for engineering professionals at the same time. Some Gups work almost a year in advance and prepare all documentation in advance of the Budget Call from MoF (last Year, this was issued on December 22, 2010). These are prepared with the quality work plans and ready to implement as soon as budgets are available (though at a cost to the planning and annual prioritisation). There are clear indications of the need for support in sequencing of the planning process to enable it to become more meaningful.

Even in cases where planning is timely, the implementation schedule at the Gewog level does not correspond with the planning on account of (i) contractors may not be interested to take up activities in remote villages (ii) inability to access engineering staff in a timely way for quality assurance and guidance in implementation, (iii) insufficient capacity to handle procurement from planning to supervision of contractors and iv) peculiarities in conditions at the local level.

Gups and Gewog staff interviewed during the field visit had not yet seen the Planning Manual but Planning Officers were aware of it. Overall, the Gups and the Tshogpas seem to implement some of the suggested methods such as SWOT analysis for identifying opportunities and challenges and prioritization of activities at the time of the FYP preparation.

Planning of activities to be financed through the Constituency Development Grants (CDG) is seen as quite separate from the annual planning cycle, understandably as there is a separate set of guidelines governing the use of CDG. On the whole it appears that Gups, who are more competitive, well connected with strong lobbying skills get better access to the CDG. The CDG together with the other funds that become available to the LGs to some extent dilutes the effectiveness of the formula based annual grant system (and some Gewogs are getting more than a double up of their available resources for capital investments). A consequence is that LGSP is limited in its objective of developing a planning system for all LG resources. Therefore the planning manual is likely to be applied only to the LGSP funds, again limiting the scope for cross cutting issues to be applied and reducing the effectiveness of the LGs to fully coordinate their development activities.

The possibility to initiate works through community contracting is appreciated. However full advantage is not taken as there still is a need to strengthen the capacity of the communities with regards to quality assurance and overall supervision. Standard cost templates have been developed under LGSP, but are not universally applied yet, and there is an urgent need for roll-out of these support tools.

Gender and social inclusion concerns are presently addressed at the village level mainly in the meetings that the Tshogpas have with the communities to plan annual activities. But the ability of these (and other cross-cutting issues) to impact on the planning process is limited by the fact that the block grants are largely (not always) used to finance a pre-defined portfolio. Scope for integration of gender, poverty and environmental concerns may be higher if the area based planning proposed in the CD strategy is adopted. With regards to integrating environmentally sensitive construction methods and materials it appears that scarcity of engineering professionals and emphasis on absorption of grants before they lapse places constraints on what can be expected from the communities and the Dzongkhag staff.

Based on the findings, the JART has the following *recommendations* on preparedness, implementation and reporting on public expenditure management with focus on planning:

Box 3: Recommendations on inclusive, effective, accountable Public Expenditure management procedures for LGs

- Urgently establish a proper future **link** between the key messages conveyed through the **planning manual, the AGG and the training and capacity development** to ensure consistency and promote synergies.
- Communication to the DTs, GTs and GAOs on the **purpose of the 20% untied funds** needs to be more effective.
- Update of the **Planning Manual** to be consistent with the updated Annual Grant Guidelines, the draft Rules and Regulations and the latest Assignment of Functional and Financial Responsibilities to LGs. Translate this document at the earliest (no later than October 2010) so that it may be available for the annual planning exercise to be undertaken for 2011-2012.
- An **intense awareness** raising and training in the new Planning Manual should be undertaken prior to the next planning cycle.
- In the future invest further efforts in **improving the planning manual** by dividing it into a section on “how” to do it – including the rules and a separate section on “what” to think about whilst doing it. The latter will enable focus on mainstreaming gender, social inclusion, poverty and environmental sensitivity in planning and implementation and climate change adaptation.
- The date to submit approved consolidated Dzongkhag/Gewogs plans and budgets to DNB and GNHC has been advanced to 15th February (by a month as compared to past practice), the planning process will have less time unless the budget call is also advanced. It would be prudent to **advance the Budget Call** by 45 days (i.e. to mid November).
- A more intense **involvement of the GNHC and the DLG in the mid year review** of the annual budget implementation is recommended to provide better insights on constraints and bottlenecks which need to be resolved at their level, strengthen the GTs and DTs in their discussions with the MoF and serve as an input into an ongoing capacity building needs assessment and ensure better linkage between **planning and budgeting**.
- Improve the coverage in the description of own source revenues in the LD Planning Manual.
- Monitor the usefulness of the **costing templates** and community contracting protocol and make improvements as feedback is received.

5. National Support / Training Mechanism for LG Personnel and Elected People

The purposes of LGSP Output 3 are to: 1) Assist the RGoB to update, improve and provide the “minimum package” of training to all LGs as indicated in the Integrated Capacity Building Plan (ICBP); 2) Provide a basic set of equipment to all Gewogs and 3) to Promote public awareness on decentralisation developed and monitoring and evaluation of LGs and including capacity development initiatives.

Achievements: The work since the 2009 JATR and the workplan for the 2010 – 2011 fiscal year demonstrates that progress is being made in these objectives, including:

- The steady improvement of local government capacity. Some LGs (including those interviewed by the JART) demonstrate an impressive capacity to plan and implement. They cope with procurement constraints. There have also been improvements in the establishment of timely releases of funds and relatively substantial levels of delivery. The minimum package of material support (computers etc) envisaged in the PD has also been provided to Gewogs.
- The rollout of the ToT system, as expressed in the LGSP PD. All GAOs have been trained as trainers and replicated their knowledge to the GT members. Additionally the Royal Institute of Management (RIM) has begun work on the training in strategic planning for Sector Heads and Governors.
- The development of a draft Capacity Development (CD) Strategy, as recommended in the last JAR. This adopts a wider approach to Capacity Building (CB) that applies Gross National Happiness and focuses on existing assets rather than concentrating on “needs” thus requiring a more holistic and area based planning method.
- The discussions within GNHC over the incorporation of relevant LG data in the PLaMS and the linkage with the PEMs. Simultaneously DLG has begun to consider the systematization of its support to local government capacity building. Governors chair a CB committee in each Dzongkhag and government is considering earmarked CB budgetary support.

However, the JART also identified a number of *challenges* following its field visit and discussions with stakeholders.

Firstly, whilst there has been a steady improvement in capacity (observed and reported) some serious capacity constraints remain. Many of these relate to poor understanding of LG planning, budgeting, Public Finance Management (PFM) and procurement and these are reflected elsewhere in this JAR document. There is a lack of information at local level about LGSP and related national procedures and policies. Conversely national institutions do not appear to understand the limitations faced by LGs. It could be argued that in the most favourable places there is a *latent* capacity that is restrained by this informational deficiency.

Questions were also raised over funds for maintenance of the equipment provided and whether a one-off input of equipment is sufficient to cover the FYP.

Secondly, although the ToT system and the strategic planning training for Dzongkhags are being rolled out – there are longstanding concerns over the ability of this system and its curricula to produce the capacity enhancements required. The August 2009 JAR recommended a review of the ICBP (looking at its curriculum, widening its scope and addressing its sustainability). Other suggestions included: An examination of incentive based CB, linked to career development, awards or performance grants; the establishment of an overarching CD strategy; and more robust coordination mechanisms for local government capacity building – perhaps involving a multi sector working group. These recommendations have only partially been followed up. There are two issues of concern here:

- *Curriculum*: The ToT material delivered to the GAOs is predominantly focused on the planning, and in particular its participatory aspects, given the strong attachment to the FYP (see section on planning) this has provoked a debate of the relevance of SWOT versus Problem Tree analysis at the GT level (the first may be more applicable once every five years). In any case, this approach pays insufficient attention to the strong demand for

capacity building in the areas of procurement, contract management, project execution, financial management and monitoring & evaluation. The JART notes that this would improve the delivery of the LGs.

The ToT also neglects visioning and overall development of the LGs with little emphasis on sensitizing the Gups and GAOs towards identifying the non-infrastructure needs of the poor, tracking their poverty issues, identifying and addressing concerns of the old, landless etc.

Some of these strategic issues are covered in the ICBP training for sector heads at the Dzongkhag level. A separate concern is raised here. This training appears insufficiently linked to the wider training agenda for LGs carried out by the various sectors. This point will be developed in the comments below on the CD strategy.

- *Methodology*: The ICBP ToT cascade is intensive. Does RIM have capacity to cover all the country and can a small group of (10) trainers satisfactorily occupy the apex of the ToT cascade? A lot of weight is attached to the ability of the GAOs to absorb and replicate the material. Expectations of the results of this training should be realistic. For example a two-hour session on SWOT analysis delivered once a year to GT members can only generate a rudimentary application of this tool. There is also an issue of synchronization. The JART found that in some cases the CB was held too late in the planning cycle. The (JICA supported) Local Governance Development Programme (LGDP) is taking the lead in ICBP development and will address many of these issues in a third phase, whose formulation is scheduled for September 2010.

Thirdly, the initial work on the capacity building strategy is welcomed. Nevertheless more is required to institutionalise this within the mainstream capacity building effort for local government. Four areas of concern can be identified.

- The CB strategy adopts a wide holistic approach. Therefore it will require close links with those (non LGSP) agencies that will be responsible for its execution. This will include touching base with the Royal Civil Service Commission to ensure that, for example, the ongoing work on staff competencies required for procurement (within the ICBP) is covered. It will also require a close working relationship with the JICA supported LGDP (and its forthcoming 3rd phase 2011 – 2014). To date, the LGDP has taken the lead in ICBP curricula development.
- A related concern is the need for the CD strategy to connect with the HR Committees, chaired by the Dzongdag, that are responsible for coordinating the training and capacity strengthening of all Dzongkhag level staff, from whatever ministry. As evidenced by the **Annex 5**, line ministries are already systematically training their local staff through this structure. It is recommended that the Gewog level is incorporated into this system.
- The CD strategy may also wish to explore the relative under-representation of women at the local level. Both in terms of staff and GT members there may be specific capacity building needs. This would also require a degree of gender sensitization in the material.

Fourthly, the JART has serious concerns over the implementation of output 3.3 of the programme – the national system for monitoring and supporting LGs.

The LGSP PD specifies “quarterly reports disaggregated by Gender yet this process has not been systematically followed up. On a broader note the JART is concerned that the national institutions are not currently resourced to perform this role. This is both a material and technical issue. On the material side there appears to be insufficient staff or TA support to follow up on the monitoring responsibility (both at GNHC and DLG – see table elsewhere on the relative strengths of these organizations). On the technical side there is not a systematic monitoring template for LG performance. Furthermore, the GNHC is currently unable to disaggregate the delivery on the formula based block grant system from the wider ‘capital’ budget flows. There is a technical solution to this, but failure to apply it further weakens the M&E role of the central institutions. It is strongly recommended that this role is developed and integrated into project management. Without it the LGSP will be limited in its ability to both implement its own mandate but also impact the wider decentralization agenda.

Finally, there is a need to address the issue of CB grants – this may be a future model to ensure a more demand driven process, but there are a number of requirements, including better needs assessment to support LGs, linkages with the existing HR committees and proposed recurrent expenditure budget allocations, need for CB planning and a clear investment menu for how the grants can be spent, including guidelines for this. The latter issue is strongly related to the CD strategy and the methods chosen for rolling it out. For example will the ToT methodology continue? What will be the role of the RIM? It is recommended that the CD strategy pay attention to these considerations. Currently the draft AGG seems to introduce the concept of CB grants (allowing 20 % of the grants to be used for CB) but without guidelines on the menu. This could result in sub optimal outcomes and the JART expresses its reservations.

The JART has the following *recommendations*:

Box 4; Recommendations on National Support / Training Mechanism for LG personnel and elected people:

- LGSP needs to enhance its **communication** of its mission to the local level, and to national agencies, both in government and amongst development partners. Insufficient understanding of LGSP and the block grant system is currently a major capacity constraint.
- The LGSP should work closely with the LGDP project in the **review of the current ICBP curriculum and methodology** (as part of the design of LGDP phase III)
- LGSP should review the **minimum material support (package)** provided to Gewogs to ensure that they are compatible with the emerging CD strategy / methods and that there are sufficient resources for maintenance.
- The draft **CD strategy** represents an excellent opportunity to address and **integrate** many of the issues raised in this report and elsewhere. Yet strong attention should be paid to its implementation *through* the existing mechanisms outlined above (local CB committee, ICBP, line ministries’ CB etc).
- The programme should strengthen its efforts in the area of **overall monitoring/coordination of LG CB** and develop closer links with institutions such as the RCSC. LGSP should seek to integrate itself into the Dzongkhag level CB/HR committees, which should have representatives from the Gups. At a national level the programme should ensure full incorporation of LG regulations and policies into CB material (including that of other line ministries)
- The JART advises caution on the implementation of any **CB grant system**, particularly when mixed with the capital grant system, until arrangements have been made for the menu of CB options and the list of service providers. It is further recommended that Department of Local Government (DLG) begins discussion with both LDD, GNHC, RSCC and the RIM on the architecture of CB provision.

6. Policy, Regulatory, Support and Supervision Functions

The influence of LGSP on policy can be observed through *achievements* in the following areas:

- Formula for annual block grants – 2008 at the beginning of the LGDP;
- Concept for performance based grants - October 2009;
- Climate change concept and linkage to the performance-based allocation as an accepted idea – 2010²²;
- Ongoing support to regulatory framework;
- Policy of capacity development, vision and strategy under development with support from LGSP;
- Community costing templates and community contracting. This has been included in the draft Planning Manual and the procurement rules have been revised. However, there is still a mixed applicability of these procedures at the ground.

The JART notes that there is a strong relationship between Output 3.3 and Output 4. It will be difficult for LGSP to influence policy unless the programme is able to articulate what is happening on the ground, in terms of input, process, delivery and development outcome.

One important issue is the disaggregation of the policies to be influenced. Using standard definitions these can be grouped into policies on fiscal, administrative and political decentralization.

Fiscal decentralization - LGSP does not appear to have a strong overall lead in the debate. There are proposals for further work in this area including on the overall concept and also specifically on urban fiscal decentralization issues (financed by Danida)²³. It is important to ensure a close cooperation between these initiatives and the LGSP Workplan, closer relations with the MoF should be sought in order to engage with this issue, including a MoF role in the collection of expenditure data (once the disaggregation of the block grants issue has been addressed). A well-functioning database on LG finance should be established. There is currently a low level of appreciation by MoF for LGSP and its objectives – which is constraining the ability of LGSP to influence policy in this area. There appears to be a lack of acknowledgement of LG implementation and delivery constraints – this is made worse by the inability of LGs to roll-over contracts to the following fiscal year without losing the funds allocated within the multi year financial envelope for the programme.²⁴ LGSP should endeavour to influence policy in this area through better communications (see the previous chapter).

There are strong opportunities for using PLaMS and PEMs to provide information that could strongly influence the policy debate. This would require a more proactive use of PLAMs and further linkage with PEMs (already underway).

Administrative decentralization – Policy is evolving in this area with the work on the LG regulations, but this does not appear to be linked with the parallel framework (under GNHC) for functional assignments. This will require better coordination. Whilst LGSP has been involved in this debate there is little evidence that its experience on the ground has influenced thinking in this area and LGSP has played a limited role.

²² RGOB and UNCDF: “Local Climate Adaptation (LoCal) Facility – Bhutan Scoping Mission”- (Draft) July 2010.

²³ See: “Municipal Finance Policy”, Final Draft, November 2009, Ministry of Works and Human Settlement.

²⁴ It may be that MoF is seeking fiscal savings by this practice.

Political decentralization – There are currently no plans to extend the provisions of the LG act or the constitution and emphasis is on improving the current sub national governance arrangements.

The debate over management modalities is related to the issues above. At present it appears that LDD, GNHC is in a stronger position to influence policy on Fiscal Decentralization. However an empowered DLG may be able to better engage on Administrative and Political Decentralisation.

The JART has the following *recommendations*:

Box 5. Recommendations on Policy, Regulations, Support and Supervision Functions

- Stronger support from LGSP to the overall **dialogue** and strategy on decentralization, including fiscal decentralization – concepts, strategies and integration with other ongoing processes in this area should be ensured.
- The programme should ensure that the definition of **functional assignments** for LGs is well coordinated between DLG and LDD, GNHC. In addition the relationship between overall responsibility for a ‘function’ on the one hand and ability to contribute financially to this function on the other hand should be clarified. One simple way of doing this is through an annex to the AGG with the demarcation of the investment menu for the capital grants (as per the first AGG in 2008).

7. Integrated Public Service and Information

The Output 5 of the LGSP focuses on aims to pilot and demonstrate effective models for integrated public service delivery at local levels. SDC in 2010 supported the development of an extensive project document outlining the multiple ongoing initiatives, spelling out an implementation strategy and detailing out further the activities that will be supported. The need to initiate activities relating to output 5 at the earliest was hinted towards more than once. The JART has taken note of the delays in initiating activities planned to achieve Output 5 and *recommends* an initiation of activities at the earliest.

The Project Document (supported by SDC)²⁵ outlines that the overall management and organization of the Project relating to Output 5 will be the same as for LGSP. A focal group comprising of the DLG, Good Governance Agency (GGA) and Department of Information Technology (DIT) will coordinate the planned activities. The DLG is to be the main counterpart for the project and is to be responsible for the overall implementation and progress of the project. The focal group led by the GGA and in close collaboration with GNHC will facilitate consultative meetings and interagency collaborations between various stakeholders and the DIT is to lead the e-service related activities of the project.

While the roles of the three main agencies (DLG, GGA and DIT) are outlined in the document, coordination across the three agencies, timely decision making with respect to harnessing technical assistance will need to be monitored closely. The buy-in of the sectoral ministries in order to get them to identify services that lend themselves well to the One Stop Shop (OSS) will be high priority in the coming months as will be the identification of criteria for selection of Gewogs in Haa Dzongkhag in which the OSS will be piloted. A SWOT Analysis contained in the Project Document spells out the risks adequately.

²⁵ RGoB: “Support to Good Governance in Bhutan – Support to One-Stop Shop Service Delivery 2010-13, Project Document, Final Version, 12 July 2010, SDC.

Box 6: Recommendations on Integrated Public Service Delivery and Information

- The JART *recommends* that the activities outlined and budgets provided for in the Project Document on One-Stop Shop Service Delivery (2010-13) be integrated in the LGSP Work plan for 2010 – 11 and presented before the Steering Committee.

8. M&E, Programme Management and Aid Modalities

Monitoring and evaluation (M&E)

The Joint Annual Review in 2009 assessed the M&E arrangements of the LGSP and how well the Programme was captured by the PLAMS. The 2009 review team in its assessment noted that DPs had stressed the importance of this issue. The 2009 review team also noted the absence of baseline indicators in PLAMS, and that the indicators were formulated as end targets and needed to be developed into progress indicators and specified for annual targets. It was also suggested to develop process targets. There is work in progress in these areas, but still some challenges ahead, see below.

Existing status

- **Use of PLAMS, Multi Year Rolling Budget (MYRB) and PEMS**
 - PLAMS is not fully operational in terms of use. It is not yet used widely in the Dzongkhags as IT-systems are slow and most sectors interviewed were not very aware of how to use of PLAMS.
 - The LGSP progress report does not yet report the progress quarterly (only one annual report has been produced)²⁶. Consolidated financial and physical progress reporting is not possible as the PEMS and PLAMS are not yet linked.
- **Coverage of PLAMS compared to needs**
 - PLAMS does not reflect the total funds transferred/used. It only shows the transfer of DP funds, i.e. it is hard to compare the inputs with the intended outputs in the LGSP M&E framework.
 - Actual use of funds at the LG levels is also not reflected on annual capital grants to LGs as FIC specifications are not yet established for these grants. This reduces the possibilities to review the functioning of the annual capital grant system (monitoring of output 1), analysis of areas of spending, functioning of the allocation formula, and LGs' absorption capacity. Hence it is not possible to get aggregated and disaggregated data on the use of the formula-based annual capital grant system. There is an urgent need for a better break down of this.
- **Improvement in M&E since last review**
 - Baselines have now been included in the revised draft "Governance" and "LGSP" M&E Frameworks.

²⁶ The fact that the first annual work-plan covered 1 ½ year has also been a challenge in the up-loading of data in the system.

- Indicators have been changed and reflected as progress indicators (although not yet fully completed, see below) and attempts have been made to make the targets indicators as annual targets.
 - There has been a revision in the overall governance M&E framework and the LGSP M&E Framework. However there is a need for the LGSP part to reflect the RGoB's overall development objectives and only make references to the objectives/programmes of DPs, including UNDAF. DP programmes and objectives, e.g. the UNDAF objectives, should not be listed as the overall LGSP objectives as the LGSP is a RGoB Program with support from several DPs. There is also a need for a detailed discussion of these new M&E/matrix proposals in the TWG and endorsement by the SC of the LGSP.
- **Use of M&E in information sharing, in planning, current monitoring and lessons learned**
 - There has been an agreement to start use of PLaMs for the quarterly reporting.
 - The included baseline indicators and information on these will be a useful improvement of the M&E system.
 - Progress indicators have been developed, but should be further refined and clarified in terms of timing.
 - Lessons learnt are included in new M&E framework in a column, but this column could be merged with the analytical statement of the progress made (i.e. only one column to save space for the annual progress).
 - There should be a column with the progress report for the reporting period, separately from the cumulative progress report, like the PLaMs with periodic reporting and cumulative spending.
 - **Appropriateness of Progress Indicators**
 - Most of the new indicators are appropriate, but there is need for a fine-tuning of some of these, including the following examples:
 - Separation of the % of LGs in terms of: i) receiving, ii) reporting and iii) use/implementing – currently this joint indicator is insufficiently reflecting various issues.
 - There is a lack of cross – cutting issues, e.g. funds used on various sector areas benefitting the poor/women, planning manual reflecting disadvantaged groups etc.
 - The number of planning budgeting and expenditure tools is not itself something to promote/monitor as an achievement- it should rather be the relevance of these tools, which should be monitored.
 - Some of the indicators under 4.1.3 are overlapping.
 - Output 4.1.4 should monitor whether this is a clear functional assignment established, coherent policy documents on decentralization, legal framework etc.
 - Under capacity building it should be monitored whether there has been a needs assessment conducted and whether there are LG CB plans drawn up.
 - Clarify how the improved planning should be measured in the progress indicators (is it better utilization of funds or meeting local needs, etc.).
 - Increased awareness on grants/budget may also be hard to measure.
 - In addition to this, Output 3 could mention the CD Strategy as an indicator. And the baselines on AGG trainings under Output 1 could consider the AGG trainings reports, 2008.

Based on the review of the M&E and the progress made since last review, the JART has the following *recommendations*:

Box 7: Recommendations on Monitoring & Evaluation

System

- Continue the work on improvement of LGSP indicators (including progress indicators, baselines and performance indicators, along the lines suggested above).
- Segregate the progress and use of funds related with the formula-based capital grants (the formula-based grants under LGs' decision-making) from the other activities in PLAMs to be able to track the use of funds.
- Ensure that PLAMs also covers the financial contributions from the RGoB, particularly on the expenditure and progress on annual capital grants.
- Improve the indicators on cross-cutting issues (gender, environment etc.).
- Ensure that the indicators are divided in clear periodical progress targets distinguished from end targets.

Actual use

- Ensure regular inclusion of activities from LGSP in PLAMs and strengthen the actual use of PLAMs
- Follow up on the quarterly progress reports in the TWG and in meetings in the SC.

Programme management and institutional arrangements

Overall steering arrangements

The overall programme management unit (PMU) has been institutionally housed in the LDD of the GNHC, which has taken strong ownership and promoted coordination and management throughout the first 2 years of the programme. A SC has been established with regular bi-annual meetings. Below this sits the TWG, which met four times in 2009/10. The meetings appear well attended and productive. The recommendation from last JAR (2009) to establish two working groups below the steering committee- one on finance and another on CB - has not been followed, as all stakeholders in LGSP found it more prudent to combine the tasks in one TWG. The JART supports this and finds that the existing framework is sufficient, however, the reporting of agenda, minutes and recommendations from the TWG to the SC could be strengthened.

With regard to the Joint Support Programme (JSP), the last JAR (2009) recommended that there may not be a requirement for a specific JSP SC, and that links with the Sustainable Environment Support Programme SESP/Poverty Environment Initiative (PEI) for environment could be managed through the establishment of a third group TWG. However RGoB and DPs are of the opinion that one joint SC for both programmes will be too comprehensive in terms of agenda and representation. This may be the case, but the need for close links and preparation of joint issues on the existing agenda for the TWG and/or a separate TWG for this coordination should be considered. Coordination issues between the two programmes should be a permanent issue on the agenda in the two SCs and their TWGs, particularly with regard to the joint programming in areas such as Climate Change. Secondly, the respective steering committees should encourage fluid information flow between the two programmes.

Programme management (PM)

A key issue that has arisen since the last JAR (2009) is the institutional location of the PMU. At the time of project design this was based in the GNHC – LDD, which has implemented the project with strong commitment and carries the institutional memory experiences from previous initiatives

including the DSP. Since then the DLG within MoHCA has been created. There is a proposal to move the PMU from LDD, GNHC to DLG. This raises some key issues as outlined in **Annex 3** and summarised below.

On the one hand it is appropriate for the PMU to be located in the DLG, as the institution responsible for the development of and support to local governments. An advantage of this may be a greater appreciation of LGSP (and even decentralization) as a “sector” in its own right, leading to improved coordination and implementation of the capacity building and political and administrative decentralization elements of the programme referred to elsewhere in this report.

On the other hand there are questions about the ability of the DLG to operate the block grant mechanism, there is currently no LG finance department and institutional memory is limited in this area. It is therefore *recommended* that, whatever financial arrangements are decided, GNHC retain responsibility for the fiscal decentralization aspects of the programme until sufficient capacity is installed in LGD. There is also a need strengthen the coordination with the MoF in areas such as the annual budget reviews, guidelines, releases and reporting procedures.

Systematic arrangements for entering LGSP data into the PLaMs and fine-tuning of the PLaMs indicator break down need to be urgently addressed. These are currently inadequate.

The JART finds that the programme management capacity requires strengthening. Reporting requirements (including PLaMs) and monitoring of LGs (output 3.3) are currently a challenge. Whether it is situated in DLG or LDD the PMU may wish to consider developing a roster of Technical Assistance for additional support at key moments. However, the heavy demands on the PMU are also related to the various aid modalities, as outlined below.

Accounting and auditing issues

The existing of system of financial and physical progress reporting from the PMU to the SC has been based on annual progress report from PLAMS (the first (and only) report covered 1.5 years), which in FY 2010/11 will be expanded with quarterly reports as per the requirements LGDP PD. So far a number of DPs have requested additional progress reports and information in various formats.

The first audit report was issued in January 2010, but some DPs have expressed concerns about the lack of details and Austria wants to have specific information on use of funds for each DP for each output. There is a strong need to agree on a common audit strategy, applicable for the auditors and aligned with RGoB procedures. Furthermore, the recommendation on the establishing of an improved recording of the use of the capital grants through a FIC will enhance the possibilities for the auditors to track the use of funds on output 1. It would be prudent if the PMU could establish output specific accounts with sufficient information availed for auditing (not necessarily divided by DPs/source of funding). Second, the first audit reports on the expenditure related to output 1, LG spending on the annual capital grants, is yet to come, and audit of these expenditure will be eased by the establishment of the separate FIC, as recommended in Chapter 3.

Aid modalities

Whilst LGSP is a joint programme, many of its operational modalities do not fully reflect this. For example reporting is still to individual donors based on the activities that they are financing. Secondly, various sub-activities are strongly related to individual DPs, leading to lack of overall coordination and information sharing. This also creates duplication and a parallel reporting system, adding to the workload and reducing the efficiency of the PMU. Some DPs undertake separate reviews and monitoring, which in some instance could have been mainstreamed with the overall LGSP review process. The PMU has noted an increasing problem with overlapping and specific

requirements, limiting the time for them to strengthen the regular LGSP M&E procedures. Some of the DPs have established these parallel reporting requirements due to perceived weaknesses in the PLaMs and the use of this and as part of general agreements with RGoB on reporting requirements, hence there is an urgent need to strengthen the regular reporting and monitoring system to avoid moving into a vicious circle and instead pursue a harmonisation and alignment of DP requirements.

It is noted that to some extent the JARs (and DP staff visits to the field) are functioning as a proxy for the LGSP Output 3.3. If the reporting requirements were harmonized it may enable the PMU to provide many of the comments to DPs that are incorporated in this JAR and therefore create a broader dialogue on LGSP implementation. This is increasing the burden on the government implementing agencies.

Coordination with other programmes

There has been a close collaboration between the LGSP and a number of other programmes such as the JICA supported LGDP and the new SESP (Danida) / JSP (Danida and UNDP). However, it is the impression of the JART that further links to other initiatives such as the World Bank support to urban initiatives on urban finance and previous initiatives on strengthening of the fiscal framework for urban LGs, should be pursued. LGSP needs to ensure that its work is fully coordinated with the policies and activities of other line agencies at local government level. There is future room for strengthening of the role of the LGSP as a platform for local governance and moving from a collection of projects, activities and aid modalities towards a more programmatic approach as a platform for development of local governance. For example, this would strengthen efforts in Capacity Building – where at present LGSP and LGDP are working in a parallel but coordinated fashion with overlapping and interlinked workplans but no institutional mechanism for addressing issues that may arise.

The JART notes that there is need for a more comprehensive coordination across initiatives inside and outside of LGSP, and find that various options should be considered such as expanding the scope of the LGSP (most feasible option), or pursue establishment of a single government / DP Decentralisation Working Group. There is clearly a need for better coordination of initiatives including the newly proposed additional Danida financing for roads, and new programmes to be supported by JICA and the World Bank initiatives on urban governance. It is recommended that the strengthening of the coordination of capacity building initiatives and support for LGs is included in these considerations.

Based on the review, the JART has the following *recommendations*:

Box 8: Recommendations on programme management and aid modalities

- Urgently **clarify the issue of overall PM** and division of tasks under the five components of the LGSP, particularly between LDD in the GHNC and DLG in the MoHCA, see **Annex 3**. Review the need for additional support to programme management in the short and medium term. The division should be tabled at the next meeting in the SC of the LGSP.
- Consider various options and decide on how the **coordination of initiatives** in and outside of the LGSP framework can be enhanced. Various options such as enhancing the scope of work under the LGSP SC, or establishing a government / DP *decentralisation working group* that will address issues such as functional assignments, capacity building of LGs (for example methodology for rollout of CB strategy), fiscal decentralisation strategy should be considered. This should include all related programmes (LGSP, LGDP, JSP, etc)

- Strengthen the **reporting and monitoring**, combined with mainstreaming of the DP reporting, moving away from requirement for separate reporting and reviews towards a system based on the PLaMs progress reports and the joint annual reviews.
- Agree on a common **audit strategy** applying the RGoB audit principles, with an overall overview of spending per output of the LGSP.

Assumptions and risks

The assumptions and risks have been reviewed and the JART has commenting on the relevance of the existing assumptions and risks and adjustments required are enclosed in **Annex 4**. Furthermore, a few new risks have been identified and included with mitigating measures. These should be tabled at the next meeting in the SC, and addressed in the future work-planning.

Cross-cutting issues

The PD of the LGSP makes the intent clear to support the RGoB in mainstreaming and integrating principles of good governance in the activities supported through the LGSP. The document outlines means of promoting accountability, transparency and inclusion of women and poor. The PD as well as the first JAR integrates findings in relation to cross cutting themes within the respective sections of the document/reports. Efforts so far to mainstream crosscutting issues have included:

- Integration of the recommendations of the National Plan of Action on Gender (NPAG) into the 10th FYP.
- Allocation of annual block grants across Gewogs and Dzongkhags on the basis of a poverty sensitive formula and with recommendations for the LGs in the AGG to focus on cross-cutting issues and the poor, women, disadvantages groups.
- Testing of the annual block grant formula for sensitivity to local poverty with satisfactory findings.
- Preparation of the Poverty Environment Guidelines (PEI) for mainstreaming in Planning (which still have to be integrated into the planning manual).

However challenges still exist. In the case of gender mainstreaming, a matter of considerable concern is the low number of women representatives in LGs.²⁷ Constraints relating to poor mobility and lack of literacy are often cited as reasons for this. It is widely acknowledged that women participate actively in the local planning meetings but hesitate to consider formal positions in LGs. Targeted awareness campaigns and capacity building efforts targeted at women should make a positive difference to the present situation.

There is a need to build capacities of Dzongkhag and Gewog staff and people's representatives in gender mainstreaming. They need to be capacitated to mainstream cross-cutting issues in planning and implementation. There is also a need for monitoring of the impacts of the activities taken up through block grants on gender, poverty and environment. The poverty environmental

²⁷ The concern has been highlighted in the NPAG and clear recommendations made for follow up action.

indicators indicated in the PEI guidelines are a good starting point for assessing impacts of activities taken up through the block grants.

Each of the donors supporting LGSP is also supporting complementary programmes in strengthening women's empowerment and mainstreaming gender in state supported programmes²⁸. It is important for LGSP to identify relevant donor and state supported efforts in strengthening women's participation in public life or mainstreaming gender in governance processes and build synergies with them. This will allow LGSP to benefit from ongoing efforts and strengthen complementarities in an optimal way.

Based on the review, the JART has the following *recommendations on cross-cutting issues*:

Box 9: Recommendations on cross-cutting issues

- There is a strong case for DLG in MoHCA to ensure that gender concerns are adequately addressed in the capacity development strategy and plans being drawn up presently. The draft strategy and plan should be discussed with the National Commission for Women and Children as well as other agencies and departments working on women's issues.
- Training of Dzongkhag officers and frontline staff on gender mainstreaming tools, methods and practices should be planned and implemented.
- DLG should make efforts to identify donor programmes and state initiatives in strengthening women's empowerment and/or mainstreaming gender in governance efforts and invest in building synergies between LGSP and these ongoing efforts.
- As the M&E systems are being strengthened, efforts need to be invested in identifying areas where gender disaggregated data can be generated. As long as specific data on activities taken up through the Annual Block Grants is not available it is difficult to assess who benefits from these activities. Generation of gender disaggregated data will be critical at the time of undertaking an impact assessment of the block grants.
- During the 2010-11 work-plan mainstreaming of crosscutting themes can be an important criteria for identifying well performing Gewogs.
- The capacity building plan relating to ToT should seek to have a minimum number of women trainers and the curriculum needs to be vetted for integration of cross-cutting themes.
- The public awareness material being prepared in the coming year should integrate cross cutting themes significantly.
- Once the newly elected LGs are in place special programmes for women Gups, Mangmis and Tshogpas should be considered.

9. Conclusions and Recommendations

In this Joint Annual Review Report we have concluded each section with a detailed list of recommendations (in text boxes). In addition the JART has reviewed and recommended a number of follow-up actions on the previous JAR's recommendations. These can be found in **Annex 2**. This section will present an **executive summary** of our main concerns and recommendations, and finally a brief outline of the major milestones in the coming 6 months.

²⁸ E.g. Danida is supporting mainstreaming of gender indicators in PLaMs.

Overall the LGSP has made good progress within a relatively short period, particularly within the first output – support to establishment of a LG financing mechanism and strengthening of the LG capacity to plan and execute projects. Support to the regulatory framework (laws, guidelines and manuals) has also been important. Progress has been made on a number of recommendations from the last review, including the development of a draft CD strategy and integration of a number of the recommendations on CD in the new work-plan for FY 2010/11. Whilst some activities have been delayed (e.g. the support to one-stop shops and the full use of the M&E system PLaMs), these are now being addressed and under the work-plan for FY 2010/11.

A well-functioning M&E system is paramount for reviews and evaluation of the impact of a reform programme like the LGSP. It can contribute to the harmonisation and alignment of procedures and the deepening of the reforms. One major challenge for the JART, but also for the overall programme, is the current weaknesses in the M&E system. This includes the inability to track the use of formula-based discretionary capital grants reducing the ability to monitor the efficiency of the LG funding modality. It also includes lack of quarterly up-dated progress reports and clear accounts showing the actual spending on outputs and sub-activities against the budget and releases. In addition, major central and LG stakeholders demonstrate insufficient awareness about the objectives and activities within the programme. There is need for a stronger communication and information sharing.

There is also an urgent need to finalise and disseminate a number of ongoing manuals and guidelines such as: i) the clarification of the functional assignments, ii) the Annual Grant Guidelines; iii) the Local Development Planning Manual and iv) the cost templates and community contracting. These need to be ready for all LGs prior to the next planning cycle, i.e. no later than October 2010. The finalisation of the CD strategy and establishment of a stronger CB coordination framework is also amongst the important future activities.

The numerous specific **recommendations** from the JART can be grouped in the following **five** overarching areas:

- 1) Strengthening of the **system of LG finance** – the identified weaknesses in the grant system identified during this JAR should be addressed, including: i) the registration and monitoring of the actual use of formula-based annual capital grants; ii) improved, formalised procedures, and better overview of the results of the annual budget reviews; iii) strengthening of the LG incentives to improve performance through piloting of PBGS; iv) improved timing of the budget notifications to allow more time for budgeting and planning; v) assurance that the share of the formula-based system of the total funding of the local capital investments gradually increases and parallel funding minimizes; and vi) improved flexibility to plan investments in a multi-year framework. Related to these issues is the need (referred to above) for a revised AGG with a clear definition of eligible expenditures, focusing on sustainable investments in public service delivery and better communication and clarification of the fund release system.

- 2) Strengthening of the **planning, financial management and project execution** systems and procedures - the LG planning and decision making system with regards to the block grants and other elements of LG financing need to be strengthened. The existing draft Local Development Planning Manual should be issued immediately. This should be combined with a review of how the information is packaged. In future additions it may be useful to separate the “how” – an operational guide on LG procedures and regulations, from the “what” – an introduction to local development planning and its cross cutting issues such as gender awareness and climate change adaptation. To avoid further delays, this

should be included in a second “generation” of the Manual. Simultaneously, more awareness and communication on the tied and untied grants is required, as well as how these grants fit with the 5-years plans. The LGs need to be provided with adequate time for planning of annual work plans, and commonly known constraints in timely planning and execution need to be addressed in a step-by-step way. Finally the linkage between PEMs and PLaMs should be strengthened.

- 3) The **capacity building effort** to support LGs needs to be strengthened by a number of measures, including: i) finalisation of the CD strategy, with improved systems and procedures for coordination and communication of the CD support, ii) improved curriculum of training, iii) supplementing the existing supply driven ‘classroom’ training with a learning approaches such as peer learning, hands-on backstopping support, improved guidelines, and hotlines from the centre as suggested in the last JAR and as planned for the FY 2010/11 annual workplan of the LGSP. There is also a need to broaden the scope in the ICBP to encompass: strategic planning; public financial management; procurement and contract management; human resource management; and an overview of existing regulations. This should be coupled with a review of the effectiveness of the ToT delivery method. Work on more demand-driven CB grants to LGs should be carefully prepared with a clear guidance on eligible expenditures and menu of courses. In effect this means that the CD strategy will need to illustrate how to integrate the ICBP, other line ministry training, and support to the Dzongkhag level HR committees to create a LG CB plan for each Dzongkhag, that incorporates the Gewogs. The DLG may then become responsible for coordinating the overall capacity development initiatives.
- 4) The support of **central authorities to the objectives** of the LGSP should be strengthened by clarifying the respective roles of GNHC and DLG and through improved communication about the objectives and modalities of the LGSP. This will require enhanced support by national stakeholders (such as the MoF) to core systemic reforms such as PLaMs, annual grant system, functional assignments and legal frameworks, sensitization and training and analysis on impacts of the new system, such as review of LG absorption capacity, priorities in use of funds.
- 5) Finally **improved coordination and harmonisation of DP requirements** is recommended. Government and DPs may want to consider a more holistic approach to their support for local governance. This may reduce transaction costs and increase effectiveness. Project management and M&E should be strengthened, through focusing on how RGoB systems and procedures can be applied rather than focusing on separate / DP specific audit, reporting and review requirements, which drains the PMU capacity. There is need for a clear clarification of the future management tasks and operational assignments in the LGSP, particularly clarification of the roles between the LDD in GNHC versus DLG in MoHCA and to broaden the scope of the LGSP Steering Committee for improved coordination with other related initiatives.

The JART propose the following milestones and deadlines for implementation of the recommendations:

Table 1: Milestones and deadlines for completion of tasks

Timing	Activities
September 3, 2010	Submission of Final Annual Review Report (this Report)
September 10, 2010	Annex on Decentralisation Outcome Evaluation
September, 2010 (prior to SC meeting)	Provide an overview of the use of funds on the formula-based annual capital grant mechanism for FY 2009/10
September 15, 2010	Good Governance Steering Committee Meeting
September 20, 2010	Agreements on a common RGoB-DP audit strategy for the LGSP
September 28, 2010	Steering Committee Meeting in the LGSP
End of October, 2010	Establish FIC(s) for the annual capital grant mechanism
October, 2010	Finalise and disseminate the first quarterly PLaMs report, including both DP and RGoB spending on the outputs
End October, 2010	Finalisation and dissemination of the clarification of functional assignments for LGs
End October, 2010	Finalisation and dissemination of the Annual Grant Guidelines (AGG)
End October, 2010	Finalisation and dissemination of the Local Development Planning Manual
End November, 2010	Finalisation and dissemination of the CD strategy and plan
September – November 2010	Up-date the ICBP and readiness to train the new elected representatives
October-November, 2010	Study on reasons for underspending and funding flow system
October – December, 2010	Finalise the design and preparation for the PBGS piloting and links to climate change adaptation
November 2010 – February, 2011	Review the AGG, and if needed develop the “third generation” of these to be applied in FY 2011/12
March 2011	Up-date/revise the FMA of the LGSP

10. Annexes

Annex 1: Terms of Reference

TERMS OF REFERENCE

JOINT ANNUAL REVIEW OF THE LOCAL GOVERNANCE SUPPORT PROGRAMME (LGSP) & DECENTRALIZATION OUTCOME EVALUATION²⁹ 16th August to 27th August 2010

1. BACKGROUND

The Local Governance Support Programme (LGSP) is a joint programme which combines direct support from Denmark, UNCDF, UNDP, SDC, EU and Austria, while JICA and other development partners provide complementary support through parallel projects as part of their overall contribution to RGoB's good governance and local government reforms. The Programme began on 1st July 2008 and is scheduled to run until 2013, with a budget of USD 7.25 million for the 5 year period. LGSP was explicitly designed to assist the Government in attaining the objectives and goals of the 10th Five Year Plan.

Overall, the programme aims to enhance local democratic governance and to improve the efficiency and effectiveness of pro-poor infrastructure and service delivery. The RGoB is in the process of strengthening local governance in Bhutan, and has established a nation-wide programme of providing annual capital development grants to all gewogs through a block grant mechanism embedded in the 10th FYP. This constitutes the broad context within which LGSP was designed and formulated.

The LGSP contributes towards improved service delivery for poverty reduction and the realisation of the MDGs. Support is provided to deliver the following five strategic outputs:

1. Effective and transparent financing mechanism for local government service delivery in place and well functioning.
2. Inclusive, efficient and accountable public expenditure management procedures for local government established and being used.
3. Effective national support/training mechanism for local government personnel and elected people in place.
4. Central government's policy, regulatory, support and supervision functions strengthened.
5. Effective models for integrated public service and information delivery at local levels piloted.

²⁹ The scope of this Evaluation was clarified during the first meeting in the Joint Annual Review, August 16, 2010.

More specifically, the support provided through LGSP should (as outlined in the original programme agreement):

- Assist in strengthening and broadening the block grant mechanism and provide budget support to Gewogs in the form of capital grants. Development partner resources will not be targeted to certain Gewogs, but will instead be pooled and blended with RGoB resources.
- Further improve overall public expenditure and financial management procedures (e.g. planning, programming, budgeting, procurement, implementation, reporting, asset management, and monitoring and evaluation).
- Further improve overall capacity development and training for local governments.
- Continue to build capacity in accountability and transparency.
- Develop and pilot a block grant facility in at least 2 districts.
- Help to enhance policy support for local government
- Develop effective models for integrated public service and information delivery at local levels.

Two of the development partners (Denmark, UNDP) support all 5 outputs, but apply different modalities while SDC specifically support outputs 1 and 5, UNCDF supports output 1, 2 & 3, ADA output 3 and EU supports output 1. To date, Denmark has committed DKK 20 M, SDC Swiss Francs 1 M, EU Euro 2.8 m and UNCDF USD 400,000 to the Gewog Annual Capital Grant facility, which will provide approximately 17% of the total capital investment funding pool for local development. The RGoB has committed itself to providing the remaining funds. The Annual Capital Grant distributed by RGoB is operational from July 2009. This represents a significant step towards harmonising approaches and to development partner alignment with official government systems.

Those funds that are not being pooled into the Gewog Annual Capital Grant facility are used to finance the delivery of other outputs, an important one being the capacity development of local government units. To ensure that the annual block grant funding process is as sustainable as possible, a minimum level of capacity development support for local functionaries to effectively and efficiently use Annual Capital Grants. For LGSP to be successful, then, substantial, well planned, and properly coordinated capacity strengthening interventions should be undertaken on a priority basis and throughout the life of the programme. An appropriate capacity-building and training programme is therefore a necessary part of any support provided to local governments

The LGSP thus, provides a strategic platform for government to leverage financial support for improving local level infrastructure and service delivery and building up mechanisms through which other funding partners can pool funds, through budget support, to finance local government grants on a nation-wide basis, as well as to coordinate and programme other inputs to support decentralization in Bhutan (e.g. capacity development, logistics, technical cooperation and M&E support).

The responsibility for LGSP implementation lies with the Local Development Division of the Gross National Happiness Commission (GNHC). To oversee overall programme activities, a joint LGSP

Outcome Board/Steering Committee has been established with a membership made up of representatives from RGoB, local governments and the development partners.

Support for LGSP is provided for as part of a joint Memorandum of Understanding on Good Governance Support between the development partners and the RGoB, as well as by a Financial Management Agreement (signed by RGoB and the development partners involved in LGSP). The MoU outlines joint monitoring and evaluation procedures, including the Joint Good Governance Annual Review Meeting, which also covers LGSP. All review results will feed into the Joint Good Governance Annual Review Meeting as per the stipulations specified in the Partnership for Support to Good Governance MoU. Prior to the Joint Good Governance Annual Review Meeting (scheduled for 15th September 2010), a Joint Annual Review (JAR) of the LGSP will be undertaken.

Also, UN system's support to the LGSP is provided under the agreed and signed United Nations Development Assistance Framework (UNDAF) and the common Country Programme Action Plan (cCPAP) by the UN Agencies. The UNDAF has been aligned and harmonised with the 10 FYP (2008-2013). The UNDAF and cCPAP were harmonized with Tenth Plan of the government and began its implementation from 2008 with the launching of plan. As per the M/E Plan of UNDAF, its Mid-term Evaluation is due this year 2010. However, the Country Programme Board (CPB) which is the executive board at the country level for UNDAF/cCPAP during its 2nd meeting in January 2010 decided to carryout only three outcome evaluations focusing on decentralization, gender and poverty this year as part of the MTR of UNDAF/cCPAP through an independent review mechanism. The result from this Decentralization Outcome Evaluation related to UNDAF/cCPAP Mid Term Review (MTR) will also feed into the Joint Good Governance Annual Review Meeting. Therefore the LGSP JAR will also be tasked to review the cumulative results of the programme (2008-2010) and how it has impacted on decentralization as its outcome.

2. OBJECTIVE

In general, the Joint Annual Review (JAR) is intended to provide a service check of programme progress and to make forward-looking recommendations to the programme management and stakeholders. Any recommendation is intended to facilitate adjustments in programme management, and support implementation modalities in the light of any changes in programme context and sector development.

The review will focus on;

- (i) A thorough assessment of the administrative procedures and guidelines determining the management and implementation of the annual capital grants with particular attention on the FMA, revised AGG, revised Fund Flow Mechanism of 2009 (MoF), training on AGG, absorptive capacity, communication, understanding and awareness of the grants at all levels, and their outcome on enhancing decentralization process to transfer mandates, functions and resources to the Local Governments.
- (ii) A comprehensive assessment of the capacity development achievements and challenges with a view to understand local government's capacity to plan, implement and monitor the annual capital grants through a participatory process. In this, the review should carryout assessment of results of the Integrated Capacity Building Programme (ICBP) implemented, assessment of the Local Development Planning Manual (LDPM) and the draft LG Capacity Development Strategy, and suggests recommendations for the way forward.
- (iii) In addition to the above, an overall assessment of decentralization outcome shall be made covering areas such as improvement of processes, enhancement of management

efficiency and increasing capacity of the Local Governments through various initiatives since the democratization process in 2008 and the start of implementation of LGSP and UNDAF/cCPAP.

3. SCOPE OF WORK

The 2nd JAR will review the overall progress of LGSP, particularly review the Annual Plan and budgets vis-a-vis the FYP objectives of LGSP and progress made till date in the delivery and achieving LGSP's five outputs.

The JAR will review the progress in relation to the key indicators defined in LGSP. Also JAR will look at gaps and relevance of the indicators at the activity, output and outcome level which were revised during the course of programme implementation.

As all LGSP outputs are directed toward strengthening and enhancing decentralization and building capacities of the local governments, the JAR will make an assessment of the outcomes achieved to date on this front since 2008, and also identify challenges and issues that require attention both from the government and development partners.

Given the analysis and key recommendations provided by the 1st JAR, the minutes of the Steering Committee meetings, the cumulative progress made so far, the JAR will also focus on assessment of the progress and specific technical issues with respect to the following:

- (i) Assess overall programme progress to date (taking into account the results and resources framework from the programme document and the annual work plans);
- (ii) Assess the procedures for local level planning, programming, budgeting, and implementation extended by the LGSP to local governments;
- (iii) Given the central importance of capacity building to the success of LGSP, a thorough assessment of capacity development and effectiveness of the trainings implemented for LGs thus far will be undertaken. Similarly an analysis of the availability of basic set of office equipment at the local Governments will be undertaken (according to LGSP: 100% automation by 2009).
- (iv) Review of LGSP's existing arrangements for monitoring and evaluation, with a view towards identifying any potential improvements (assess if the monitoring and evaluation indicators are appropriate to link its 5 outputs to other government governance outcome indicators e.g the UNDAF/cCPAP outcome indicators signed by RGoB and determine whether the indicators needs to be improved.
- (v) Assess the effectiveness of the Gewog annual capital grant facility as a fiscal transfer system and as an incentive to enhance performance of the local governments through the use of minimum conditions and triggers; and assess and review of the revised procedures and guidelines of Annual Capital Grants to gewogs jointly proposed by the MOF and GNHC. Also assess the effectiveness of the Gewog Annual Capital Grant Facility as a means of reducing poverty and promoting inclusive development (beneficiary selection, nature of activities supported, services improvement v/s asset creation, equalization across regions etc)
- (vi) Review current achievements of LGSP and/or assessment of the potential of LGSP to influence state policy and strengthen implementation of the FYP

- (vii) Review of the ICBP and the LDPM with regard to building LGs absorptive capacity development for both fiscal and functional responsibilities, aligned under the LG Act 2009. Assess whether the proposed Capacity Development Strategy for LGs for short and long term needs will address the comprehensive need for LGs.

In the area of organizational and institutional development process related to LGSP and decentralization, the JAR will carryout the following tasks:

- (i) Examine project management and institutional arrangements to ensure that they are adequate for and consistent to achieve the expected LGSP results and the implementation of agreed programme activities.
- (ii) Assessment of the role of the Steering Committee.
- (iii) Assess the potential of the LGSP as an appropriate cooperation modality between RGOB and the development partners (considering issues such whether the LGSP is able to satisfy the expectation of it being a strategic platform for the government and its development partners on Local Governance);
- (iv) Assess the implementation status of the recommendations of the 1st JTR
- (v) Review the strategic management and organization of the LGSP programme, including administration, accounting and audits as per the programme document
- (vi) Assess the consideration of cross cutting issues like gender, poverty reduction, environment, good governance, etc and other relevant priority themes at the activities level in line with the programme objectives and policies and provide strategies to enhance the integration of these cross cutting issues and priority themes.
- (vii) Assess the relevance of the preconditions, risks and assumption included in the LGSP document.
- (viii) Assess whether LGSP has been able to foster synergies with other donor supported programmes in the area of good governance
- (ix) Review links with other good governance initiatives from development partners such as LoD, UN Agencies, etc. and make recommendations for the Joint Good Governance Framework for partners to take forward accordingly (UNDAF/c/CPAP)

4. OUTPUTS AND DELIVERABLES

The expected outputs/deliverables are closely linked to the main issues to be covered by the Review and should include recommendations for the future work of the programme.

The JAR mission will provide the following outputs:

- (i) A Mission Preparation Note to be produced before the initiation of the technical review;
- (ii) A debriefing note (maximum 10-15 pages) by the end of the mission outlining:
 - the principal findings of the review along with key recommendations;
 - a description of any follow-up actions (to be annexed to the debriefing note).
- (iii) A final Joint Annual Review Report including the main findings and recommendations for the LGSP programme and assessment of decentralization and its outcomes covering institutional, administrative, fiscal transfers and capacities of local governments.

The final debriefing note of LGSP will be presented at the end of the Mission (27th August), and the Final Joint Annual Review Report by September 3, 2010, in order to be subsequently discussed during the meeting of LGSP's Steering Committee/Outcome Board, scheduled for 21st September 2010.

5. METHOD OF WORK

The Review mission will be carried out jointly with the GNHC, DLG and in close cooperation with the DPs. The review team will consult programme partners in national and local governments and other relevant organizations. The review team will also consult with other key international partners (donors) involved in providing support to Local Governance and Decentralization. The Review will be based on existing documentation and extensive consultations with RGoB officials.

The review mission members will:

- Critically review programme documents, progress reports, minutes of Steering Committee meetings and other relevant documents.
- Critically review the programme document and suggest updating the indicators in line with the PLAMs and NMES for proper monitoring purposes,
- Study any other document as considered relevant.
- Consult with relevant staff of development partners, government agencies, Gewog functionaries, donors and other stakeholders, if required.
- Undertake field visits.

6. COMPOSITION OF TEAM

The Mission Team will consist of:

-Mr. Jesper Steffensen, proposed as (Team Leader), international consultant to LOD; email address: js@dege.biz;

-Mr David Jackson , Advisor, UNCDF, david.jackson@uncdf.org

-Mr/Ms Phuntsho Namgay, Consultant, UNDP, e-mail: phuntshon@gmail.com

- Ms. Preeta Lall, Team Leader for the Local Governance Initiative South Asia, Swiss Agency for Development and Cooperation India, email address preeta.lall@sdc.net

From the DP side, the following will serve as key resource persons:

- Mr. Bakhodir Burkhanov, Deputy Resident Representative, UNDP, bakhodir.burkhanov@undp.org
- Mr. Kunzang Norbu, Head of Governance Unit, UNDP, kunzang.norbu@undp.org
- Ms. Chencho Gyalmo, UNDP/UNCDF, chencho.dorjee@uncdf.org
- Mr. Ramesh Chhetri, Austria, Ramesh.Chhetri@ada.gv.at
- Mr. Henrik A. Nielsen, Head of LOD heniel@um.dk
- Ms. Karma Dema, Programme Officer, LOD, kardem@um.dk
- Ms. Tashi Pem, Dy. Resident Coordinator, Helvetas (representing SDC in LGSP), tashi.pem@helvetas.org

LDD, GNHC will ensure the participation of relevant RGoB officials wherever necessary. When requested by the team or relevant for the review, the component manager should participate as a resource person whenever required. RGoB staff involved in the review will include:

- Mr. Karma Jamtsho, Programme Manager, Local Development Division (LDD), GNHC, kjamtsho@gnhc.gov.bt
- Mr. Pasang Dorji, Head of LDD, GNHC, pasang@gnhc.gov.bt
- Mr. Rinchen Wangdi, Head of Development Cooperation Division (DCD), GNHC, rwangdi@gnhc.gov.bt
- Mr. Sangay Penjor, PCO, DCD, GNHC, spenjor@gnhc.gov.bt
- Ms. Thinley Om, GNHC, thinleyom@gnhc.gov.bt
- Mr. Tashi Dorji, PCO,DCD,GNHC, tashid@gnhc.gov.bt
- Ms.Kunzang L Sangay, PCO,DCD,GNHC, klsangey@gnhc.gov.bt
- Mr. Karma Galay, Chief Programme Officer, DLG,MOHCA, karmagalay@gmail.com
- Mr.TN Sharma,CBO,DNB,MOF, tnsharma@mof.gov.bt
- Mr.Lepo,CAO,DPA,MOF, lepo@mof.gov.bt

7. TIMING AND REPORTING

The review will take place during the period 16th to 27th August 2010. Review team members will be expected to be familiar with the listed background documents prior to their arrival to Bhutan. In addition, the Joint Annual Review Team will draft the debriefing note, which will be a draft Joint Annual Technical Review Report (a maximum of 10-15 pages) and present the findings and recommendations of the mission by 27th August. The final Joint Annual Review Report is to be submitted two weeks(3rd Sept) later after receiving feedback and comments to the de-briefing note.

8. LIST OF BACKGROUND DOCUMENTS

The work of the mission will be based on the documents listed in Annex 1, as well as any other relevant sources of information.

Annex 1: List of Documents

GGSP Documents:

1. MoU between the RGoB and the development partners supporting Good Governance,
2. GGSP Background document
3. Local Governance Support Programme document
4. 1st Joint Annual Technical Review Report

Documents of the Royal Government of Bhutan:

1. Constitution of Bhutan (August 2007)
2. 10th FYP (2008-2013). Volume I: Main Document, February 2008
3. 10th FYP (2008-2013). Volume II: Programme Profiles, February 2008
4. Good Governance Plus, November 2005
5. Bhutan 2020: A Vision for Peace, Prosperity and Happiness
6. Local Governance Act of Bhutan, 2009
7. Draft rules and regulations for the LG's 2009
8. Country Financial Accountability Assessment, Bhutan (Final Draft 02/28/02)
9. Joint Support Programme document
10. Draft review of ICBP report, JICA 2010
11. ADB review report on local governance and decentralisation

Danida Documents and Manuals:

1. Aid Management Guidelines, Danida (www.amg.um.dk)
2. Effective and Accountable Public Sector Management: Strategic Priorities for Danish Support for Good Governance, April 2007
3. Danish Support to good governance, effective and accountable public sector management: Background Analysis. MFA, 2007
4. Bhutan-Denmark partnership (2008-2012) – Country Strategy Paper
5. Capacity Development in Bhutan: Evaluation. 2006
6. Tracer Study of Good Governance/Public Administration Reform Phase II, 2008
7. Guidance Note on Danish Support for Capacity Development (www.amg.um.dk)

UN Documents:

1. United Nations Development Assistance Framework UNDAF and common Country Action Plan c CPAP documents.
2. Democracy, Good Governance and Happiness: Some views from the Kingdom of Bhutan
3. Decentralisation Outcome Evaluation Report, 2005 (UNDP in cooperation with UNCDF, Danida, JICA, Helvetas and SDC)
4. Decentralizing down to the Gewog – Evaluation of the Gewog Development Facilitating Activity, Bhutan. 2001
5. Supporting Decentralization and Local Governance in Bhutan: Draft Concept Note. August 2007, UNDP/UNCDF

6. Decentralisation Support Programme: Royal Government of Bhutan, UNDP, and SNV.
7. Mid Term Evaluation: Bhutan Decentralization Support Programme. Final Report. 2006
8. Challenges of Decentralization in Bhutan, Coordination and Human Capacity, July 2005
9. Challenges of Decentralization in Bhutan, Financing Local Government, July 2005
10. Inventory of Sectoral Initiatives in Support of DYT/GYT Chathrim Implementation: Experiences in Bhutan, SNV, September 2003
11. Decentralization in Bhutan, paper by François Vaillancourt, April 2004
12. The Impact of Decentralization, Bhutan Development Cooperation Report 2002, Spring 2004
13. UNDP Policy Position on Decentralization and Local Governance, May 2003
14. Lessons Learned, DSP, UNDP/JICA/UNCDF
15. DSP Final Evaluation, UNCDF

Other Documents:

1. National Plan of Action for Gender (2007), NCWC

Annex 2: Review of Recommendations from 1st JAR and Follow –Up

Recommendations in the 2009 review	Status and Progress	Comments
<p>Annual grant guidelines (AGG): Reconcile the differences between the FMA and the AGG – formal discussions and approval by the LGSP SC</p>	<p>Not done.</p>	<p>There are still a number of substantial differences between the new draft AGG being discussed between the MoF and GNHC and the FMA in the LGSP PD. Some differences are due to new legal framework and the new MoF release procedures, others due to disagreements on the principles for allocation of funds. It is important to complete and disseminate the new AGG as a matter of utmost urgency, so that it is ready prior to the coming planning process. The FMA of the LGSP should then be updated accordingly. The spirit in the LGSP FMA PD should be adhered with in the up-date of AGG.</p>
<p>Establish technical working group to review AGG and the FMA and finalise the inputs well before December 2009</p>	<p>A consultancy was fielded to review the AGG, and changes were proposed in close dialogue with all stakeholders in October 2009. However, the dialogue between various partners afterwards has been time-consuming, particularly due to disagreements on the prudence of establishing a multi-year budgeting framework, and the issue on flexibility in LG fund allocations between fiscal years. Second the changes in the functional assignments impact on the LG investment menu.</p>	<p>An overall technical working group (TWG) has been established under the LGSP, covering all technical issues on the LGSP. The RT finds that it is prudent with only one joint TWG, as many issues are interlinked and as the participants will be nearly similar.</p> <p>There is need for an urgent meeting in the LGSP technical working group to agree on the final AGG to be issued to the LGs. This AGG should be widely disseminated and future training should cover this important subject.</p> <p>Issues which cannot be agreed on within short term, i.e. in September should be referred to further analysis and the AGG should be completed to be ready to issue and wide dissemination should be ensured prior to the budget call (i.e. before October 2010)</p>

Recommendations in the 2009 review	Status and Progress	Comments
Break down the guidelines to two – one for the Dzongkhags and one for the Gewogs	Not done – all existing drafts have been as one common grant guideline.	Not appropriate to issue two different grant guidelines, and the JART agrees with the RGoB to keep only one integrated AGG, as they are linked and as it is appropriate for both tiers of LGs to see how the system is working for the other tier.
Clarify tied and untied proportions of the grants in the AGG	Is included in the new draft AGG. Has been communicated in a letter from the GNHC to the LGs in January 2010.	Was communicated by GNHC in the follow-up letter to the budget call notification, but should ideally have been integrated in this call.
Clarify the allocation formula with the floor (1 M Nu)	Is mentioned in the new draft AGG, but could be further clarified, as an equal share (1 M Nu) is now applied instead of a 1 M Nu minimum floor.	The allocation formula has changed from FY 2009/10 to 2010/11 as 1 million is now allocated in the formula as an equal share to each Gewog (like a fourth criterion). The argument is that every Gewog has a certain minimum basic costs, and that these should be catered for. This argument is valid, although the exact cost level has not been calculated, and the equal share should be kept at the existing level (or lower) to avoid that LGs with different fiscal needs are getting a relatively equal amount. However, a review of the system shows that the change made in the formula is not significant. The new system should be explained in the AGG.
Clarify links to the FYP	Not done in the AGG or in other public documents.	The AGG explains the principles for allocation of funds. The allocation based on an objective and up-dated formula will naturally give some deviations from the first budgeted figures in the 10 th FYP for some LGs. The linkage between the FYP and the AGG allocations should be clarified and made public for the LGs.
Use of robust data on poverty	The best available poverty data is applied using the results from a World Bank study.	It is recommended to continue the work on improving needs based data. The existing formula is appropriate considering the available data. The current draft PEFA has

Recommendations in the 2009 review	Status and Progress	Comments
		provided the grant system with a high score “A” recognizing this objective system. However, the allocation of funds outside of the formula, to cover specific needs (Gups’ office, RNR, farm roads) and funds available in MoF allocated upon LG requests, could be made more transparent and the links better established. The similar issue goes for the adjustment of the allocations during the budget reviews. The focus on the 5-year plan in the planning process limits the ability for fine-tuning and addressing poverty issues during the annual cycle, but this issue remains important for formula calculations.
Clarify and strengthen the MCs for grant access and clarify the application and the links to the triggers	The MCs are used for all capital grants. This is now clarified in the existing draft AGG.	However, the timing of the application of the MCs is not clear and a final deadline for fulfilment of these should be mentioned in the AGG, e.g. July 2010. The MCs should be strengthened over time, i.e. with the inclusion of the MC requiring that LGs address and clear any major audit queries.
Agreements on what is going to happen if the MCs are not complied with	The present draft AGG mentions that the transfer of funds can be “delayed” - however, it is not fully clear what this means and what the deadline is (see above)	Timing of the application of the MCs should be clarified. And late compliance should lead to reduction in the grants, and ultimately cancelling of the grants for the entire FY (beyond a certain time). A more transparent response system, with additional performance indicators should be introduced as part of introduction of a formal performance-based grant allocation system. This should be piloted together with the introduction of climate change adaptation topping-up.
Clarify fund release in the AGG and link with the MOF procedures	It is clarified in the new draft AGG, but there are still not clarity on how much the LGs can request in the first budget release, and what will happen if a procedure starts whereby all Gewogs request a larger share or the entire 100 % grants up-front.	This issue should be further clarified, but in practice, there is a procedure in place whereby very few are LGs requesting a larger share up front, as they still felt that they have to comply with the previous procedures with production of work-plans, cash need forecasts, approved works, agreement with contractors etc. This

Recommendations in the 2009 review	Status and Progress	Comments
		<p>seems to delay the fund requests.</p> <p>A review should be undertaken that examines the reasons for underspending, including the options of a system with equal fixed and predictable quarterly instalments³⁰. (the option agreed on in the LGSP PD and FMA).</p>
<p>Ensure options for roll-over of unspent funds and adding to the ceilings for next fiscal year, if: i) if it is related to expenditure items where appropriations were originally made, ii) discussions have taken place during MTR, iii) funds have to be spent within 6 months in the subsequent year</p>	<p>The rules in the LGSP PD, in the October 2009 draft AGG, and in the agreements from the 3rd SC of the LGSP are not adhered with in terms of the access to transfer funds across FYs, upon agreements to ensure a certain allocation of the unspent funds in one year to the Gewogs' ceilings (over and above) the subsequent FY.</p> <p>Contrary to the draft AGG from October 2009, the existing draft AGG (August 2010 version) does not allow any roll over of funds over and above the next year's ceiling. However, the draft AGG is at best unclear on this issue.</p>	<p>The demands for roll-over of the funds between FYs is well documented in various reviews and evaluations from the piloting of block grants and from the first years of LGSP. A performance-based allocation system may help strengthening the incentives to utilise funds on time, but there should be options to allocate some funds across FYs if good reasons prevail. This may provide efficiency savings by allowing LGs to tender larger contracts.</p> <p>The issue of topping of future budget ceilings for annual grants due to unspent allocations (pool of funds to be allocated), as mentioned in the PD of LGSP, is also not followed.</p> <p>The specific suggestion in the last review on the use of funds within 6 months (extra time) seems hard to control, and should not be pursued.</p>
<p>Clarify the investment menu:</p> <p>Should not cover Education</p> <p>Menu should not cover Chadri</p>	<p>The investment menu has not clarified the issue on education. The positive list (menu) in the new draft AGG has not mentioned the eligible expenditures, only the principles and the negative list. It refers to a number of documents, law and regulations, which are either not completed or outdated.</p>	<p>The AGG is significantly improved compared to the 2008 version, but there are a few issues, which warrant further clarification.</p> <p>Overall need to finalise the clarification of functional assignments in the regulations of the LG Act or in the document to follow-up on the 2005 GG + (2007 report), which can then be referred to in the</p>

³⁰ This system is applied in most countries.

Recommendations in the 2009 review	Status and Progress	Comments
<p>Clarify maintenance – definition and ceilings in the AGG</p>	<p>Chadri can still be covered (is not mentioned in the negative list).</p> <p>Maintenance has been introduced within a ceiling of 20 % of the total annual grants (i.e. the full untied grants)</p> <p>Capacity building is now included within a ceiling of 20 % of the total annual grants (i.e. the full untied grants)</p>	<p>AGG.</p> <p>It is recommended that the definitive menu appears in the AGG as an annex and is reviewed annually.</p> <p>This will enable LGs to make minor repairs to infrastructures whose services fall under various ministries (even if their function is not 'assigned' to the LG. It will also allow for cost sharing and co-financing. It is the understanding of the JART that some costs on education may be included, but this should be clarified.</p> <p>Maintenance could be further clarified in terms of type and scope.</p> <p>Capacity building is now included as eligible expenditure, but there are no guidelines on how this should be used, nor any CB plans for the LGs, nor well established CB framework in place. This should be clarified and the permission to use the capital grants on CB should be removed from the list until a menu and CB strategy is finalised.</p> <p>It is also suggested that a specific CB grant is introduced, based on proper preparation and support.</p>
<p>Widely circulate the AGG to LGs and others</p>	<p>Not done. The first (2008) AGG is still the only AGG that the LGs have received.</p>	<p>Upon final approval, the new revised AGG needs to be widely distributed as a matter of urgency and no later than in October 2010. Training in the use of this should preferably take place prior to the next budget cycle. This should be a key element of the communications strategy.</p>
<p>Ensure that cross-cutting issues are covered in the AGG (e.g. in formula and investment menu)</p>	<p>Poverty is targeted in the formula. It is mentioned in the AGG that cross-cutting investments (poverty, environment and gender</p>	<p>New criteria for environmental and climate change vulnerability should be worked on in the coming years.</p>

Recommendations in the 2009 review	Status and Progress	Comments
	focus) should have a high priority.	
Planning manual: Ensure that it addresses the issues of maintenance and cross-cutting issues	This is underway; a draft-planning manual is prepared but has yet to be circulated.	The LDPM can be strengthened further. But for now the planning manual should be finalised and shared. In the coming year it should be complemented with additional modules/resource material focussing on cross cutting issues. In the future, it may be considered to divide the manual divided into two sections, one for the procedures, which should be linked to the relevant regulations and laws and a second section that covers cross cutting and other issues. The LDPM and the changes should be integrated with the CB programme
FMA update: release procedures, allocation system and non-compliance with MCs	The FMA has not been updated.	Upon issuing of the new agreed AGG, there is a need to up-date the FMA.
CB/CD: Review the plan of the ICPB and address issues of sustainability	A review of ICPB was completed in March 2010. However further questions remain	A further review of the wider CB system, including the curriculum, should take place in line with the rollout of the CD strategy.
Define how the CB can be linked with the planning manual and the AGG	The introduction of the open access to spend 20 % of the capital grants on CB will be confusing for the LGs and should only be introduced after prior preparations and support.	CB should be removed from the grant menu until a menu is developed in accordance with the emerging CD strategy and support has been put in place to develop needs assessment and CB plans.
Establish an overarching national and comprehensive LG CB strategy (with inventory, target groups, modalities for support etc.)	Ongoing	Delays, but work in progress. However this will now depend on the emerging CB strategy, which will help define the type of service providers etc.
Establish a more robust coordination mechanism for LG CB	Not yet achieved. Should be part of the CD strategy	It is important to ensure an overall LG CB coordination mechanism with a clear division of responsibilities between central stakeholders.
Take more strategic approach to CB, including *Peer learning	CD building strategy is under preparation.	These issues are being addressed in the emerging CD strategy and also in the LGSP 2010/11 plan. It is

Recommendations in the 2009 review	Status and Progress	Comments
<p>*Regular backstopping, on the job assistance etc. *Help-lines with designated staff to help Gewogs *Basic information on LG acts and regulations etc. + grant system, size allocations etc.</p>	<p>The 2010 /11 plan has addressed these, but it is important to reflect this in an revision of the ICBP as well.</p>	<p>recommended that this comprises a communications strategy.</p>
<p>Incentives and grants: Introduce various kinds of institutional and individual incentives in grant system and reward mechanism</p>	<p>Not done, but during the scooping mission on the climate change work, it was agreed to link the LG climate change initiative with the piloting of PBGS in two Dzongkhags and a number of Gewogs.</p>	<p>Has been discussed in relationship with introduction of the climate change facility, and there are good reasons to link the two initiatives to ensure strong synergies, focus on environment/climate change and ensure a more formal system of performance rewards. The initiative is very promising.</p>
<p>M&E: Need to specific baseline of the LGSP Need to define and monitor progress indicators and annual targets, incl. process targets</p>	<p>Base-line improved, and some final targets included in the updated M&E framework for LGSP, but there is lack of progress targets.</p> <p>The monitoring and progress reporting is still weak. It not done quarterly and with lack of data on fiscal use of funds on respective outputs and insufficient details on progress made.</p>	<p>The newly proposed M&E draft of the LGSP, should not focus on a particularly DP's (e.g. UNs) country programme, but on the national strategies and targets and indicators reflecting these.</p> <p>This recommendation does not only apply to M&E and reporting for DPs. Instead emphasis should also be given to Output 3.3 of LGSP and the M&E required for programme management and policy impact.</p> <p>The section on M&E contains a number of recommendations for improvements.</p>
<p>Get assistance to improve on the M&E system, including how links can be established between Gewogs' reporting, and the LGSP M&E framework</p>	<p>Not implemented.</p>	<p>There is a strong need to improve the PLaMS in relationship with reporting on the various outputs, especially the capital grant utilisation, and to improve the links with the PEMS.</p> <p>As above: This recommendation does not only apply to M&E and reporting for DPs. Instead emphasis should also be given to Output 3.3 of LGSP and the M&E required for programme management and policy</p>

Recommendations in the 2009 review	Status and Progress	Comments
<p>Institutional arrangements: Establish two working groups one on the block grants, including PFM/PEM and one of overall coordination of the CB initiatives</p> <p>Review the SESP/PEI set up and consider one overall LGSP SC with a 3rd technical working group is considered</p>	<p>One technical joint working group for the LGSP, covering all issues have been established. The working group has conducted 4 meetings on relevant subjects.</p>	<p>impact.</p> <p>The JART agrees that there are advantages of having one group in terms of meeting practicality, transaction costs, synergies between subjects etc.</p> <p>Second the CB issues cannot holistically be discussed in LGSP, but needs an overarching coordination mechanism under the DLG, MoHCA, encompassing all initiatives targeting LG CB.</p>

Annex 3: Programme Management Issues and Changes

At the moment there are ongoing discussions to transfer the tasks on the entire management of the LGSP to DLG in MoHCA, but further clarity on this is warranted. The table below outlines the major tasks and a brief on the pros and cons of various solutions. The JART recommend that these considerations are taken into account in the final decision on the allocation of responsibilities.

Table: Considerations on Division of Tasks:

Tasks	Institutions with clear links and previous experiences	Comments
Output 1 – grant system etc.	GNHC has significant experiences with the entire design and operation of the grant system, including the formulas, guidelines, negotiations etc. and the links to the planning system.	This may be hard to substitute, also as other agencies do not have a strong LG finance department. The output should remain with the GNHC (particularly until a strong LG finance unit in MoHCA is established, if this is pursued).
Output 2 – Efficient PEM procedures	GNHC has expertise and mandates within planning, costing, and PEM. It is an area, which is closely linked to the LG capacity building, which is coordinated by DLG, MoHCA.	There is need for a strong coordination between all parties, including MoF, and a decision needs to be taken on the responsibility for the output. It could be divided on elements, which are related to the planning manual (LDD; GNHC) and other elements (DLG).
Output 3: Effective National Support Training mechanism for LGs	GNHC and DLG have shared the tasks amongst them in the first 2 years, but DLG has now spearheaded the development of the vision, strategy and future plan.	This area can naturally be handled by DLG, MoHCA with links to the planning tasks and PEM above. LDD, GNHC should support and be the main driver of change within the planning areas.
Output 4: CG policy, regulatory, and supervision	The functional assignment has been worked on by GNHC and the follow up on the GG+ whereas the work on the LG Act and the new regulations are handled by DLG.	There is a need to gather this in one place, and DLG will be a natural choice.
Output 5: Models for integrated public service and information delivery	This has been handled by DLG.	The tasks falls naturally within the mandates of the DLG
Programme management	This has hitherto been handled by GNHC, which has a significant experience and expertise within this, having been involved in the design from the onset.	Depends on a final RGoB decision, but it will require a strong PMU support, including assistance PMU PO; accountant and M&E support. It is the understanding of the

Tasks	Institutions with clear links and previous experiences	Comments
		JART that this is likely to be transferred to DLG, which will include the overall coordination and M&E, see below.
M&E/PLAMS etc.	M&E has been handled by GNHC, and the use of PLaMS, PEMS, etc. is a challenge at all tiers of government, as the system is new and complex. The M&E is closely related to the overall coordination of the LGSP.	PLaMs is linked to the PMU, but in various programmes it is the responsibility of the host agency (ministry) to up-date this. This will require significant support, hand-over, backstopping etc. This is closely linked to the programme management tasks above.

Annex 4: Up-dating of the Risks Assessment of LGSP

The table below includes a review of the LGSP PD's stated assumptions and risks. These appear in the first 4 columns. The findings and assessment by the JART are included in the fifth column. The JART has made its current assessment of the likelihood and potential impact of the risks in bold under each risk.

Risks	Likelihood	Potential Impact	Risk mitigation measures as per the current LGP PD	Comments from the JART and status
Political instability in the aftermath of the elections in 2008	Unlikely Still unlikely	Medium High	Monitor the environment.	Did not happen, but the elections to the LGs have been delayed due to issues with the LG Act and demarcation of LG boundaries, and is now expected to take place in 2011. This has slowed down CB initiatives and the LG incentives. <i>Measure: Support finalisation of the legal framework including regulations and CB</i>
Lack of funds to carry out nationwide block grant programme	Possible Possible to likely	Medium High	With the finalization of the 10 th FYP the RGoB has committed to allocate funds for the realization of the block grants. The RGoB is committed to borrow should funds not be sufficient yet the macro fiscal position is changing and this may have an impact.	Funds have been budgeted, but the execution rate has been low. There has been resistance to the agreed roll-over of funds, and one of the issues has been the RGoB fiscal funding gap. <i>Measure: Continue the dialogue on these issues. The RGoB fiscal situation and the use of funds will be monitored accordingly.</i>
Lack of technical support for implementation at local level	Possible Possible	High High	Monitor the situation and provide additional technical support as required.	The posting of Gewog accountants and Gewog administrative officers has been a success, but there are still gaps and major bottlenecks in number of engineers and planning support staff. Some of the Dzongkhags do not have a sufficient number of

Risks	Likelihood	Potential Impact	Risk mitigation measures as per the current LGP PD	Comments from the JART and status
				<p>accounting staff and have felt a necessity to use the Gewog accounts to fill this gap.</p> <p><i>Measure: Enter a dialogue on how to ensure more LG engineers and how to provide better options for out-sourcing.</i></p>
Lack of human resources at central level for oversight and coordination	<p>Unlikely</p> <p>Possible to likely</p>	<p>High</p> <p>High</p>	<p>The former Department of Local Governance (now LDD) has been moved to GNHC Commission and strengthened with additional staff. Is also in a better position to coordinate with GNHC Commission.</p>	<p>The new DLG has been established and strengthened, and the issue of coordination has been reinforced. Yet the programme is falling short on implementation of Output 3.3, which limits its capacity for central oversight and coordination.</p> <p><i>Measure: There is a need to agree and establish a very clear and transparent division of tasks and responsibilities between all parties, particularly DLG and LDD, GNHC.</i></p>
National M&E not adequate for monitoring local level implementation and impact of such	<p>Possible</p> <p>Possible</p>	<p>Medium</p> <p>Medium</p>	<p>The RGoB is currently working on a national M&E system during which also local level expenditure monitoring will be included.</p> <p>Lessons learned regarding M&E from previous decentralization projects will be taken into account.</p>	<p>This has been a major challenge. PLaMs is not yet fully up-dated, and the M&E system has not been able to track progress in sufficient details against the base-lines. Data on grant utilisation has been limited. The programme is falling short on implementation of Output 3.3.</p> <p><i>Measure: Need to improve use of PLaMs and ensure strong links with PEMS. This will include assigning staff responsibility for</i></p>

Risks	Likelihood	Potential Impact	Risk mitigation measures as per the current LGP PD	Comments from the JART and status
				<p><i>entering PLAMs data.</i></p> <p><i>There is a need to ensure that the sector staff are once again updated on use of PLaMs. Supporting IT systems will need to be upgraded to enable wider usage.</i></p>
National financial and reporting system not geared to handle nationwide block grant system	Possible Possible	High High	Lessons learned from the DSP and the JICA project will be used to improve the system	<p>LGs are reporting, but the consolidation has great gaps.</p> <p>Lessons learned have not been sufficiently applied. The overview reports on the use of annual capital grants have not been detailed enough. Budget specific numbers not established in PEMS (as FIC) nor in the PLaMs. DPs have been worried and in some case requested additional information.</p> <p><i>Measure: PEMS and PLaMs could serve as a national reporting system for LGSP, if recommendations on grant classification is followed. Additional TA may be required.</i></p>
Low representation of women in local level decision making	Possible Likely	Medium Medium	Special initiatives recommended by the NPAG 2008-2013 will be carried out as part of the programme, In addition, UNDP/SNV through the National Women's associations of Bhutan is supporting leadership training for women in rural areas.	<p><i>Measure: Training and awareness raising, but most of this is going to be late related to the coming election.</i></p> <p><i>Training on gender mainstreaming for Dzongkhag and Gewogs as well as elected representatives.</i></p>

Risks	Likelihood	Potential Impact	Risk mitigation measures as per the current LGP PD	Comments from the JART and status
Corruption and misuse of funds at local level	Possible Possible	Medium Medium	ADB/WB is supporting nationwide capacity building on the use of the new procurement manual 2007, as well as support to update the existing Financial Rules and Regulations. Quite strong audit procedures are in place and the Royal Audit Authority performs audit of Gewog accounts at least every second year.	Still relevant and should be mitigated through CB support, sanctions, strong audits and introduction of performance-based grant system. Corruption is an issue in the implementation of development projects at LGs. <i>Measure: Strengthen the MC indicators to address this issue.</i> <i>Examine the role of GT in procurement process.</i> <i>Develop communication policy (notice board, publication of budget, plans, etc).</i> <i>Strengthen support to CB at all tiers.</i>
Rural-Urban migration leaving some Gewogs empty	Possible Possible	High High	Monitor the environment.	Still an issue, which should be currently monitored. This could serve as an indicator of the effectiveness of LGSP.

In addition to these risks, which are still relevant and sometimes increasing in likelihood, the JART has identified the following risks:

Table: New Risk Areas

Risk Areas	Likelihood	Potential Impact	Risk mitigation measures
11	Possible	High	Clear agreement on division of tasks and reorganisation of the staffing Staff structures and capacity follow functions

Risk Areas	Likelihood	Potential Impact	Risk mitigation measures
Elections continue to be delayed with the risks of undermining local incentives and legitimacy	Possible	High	Support to the preparations of election and ongoing capacity development support Monitor situation and report to SC on implications for LGSP
Core guidelines such as the AGG, the LDPM and the functional assignments continue to be delayed	Possible	High	Should be mitigated through support to finalisation of these, issuing these, and by addressing the outstanding issues in the second phase. CB support should be aligned with the guidelines and regulations. Strengthening of the communication to all parties.
Identified weaknesses in the grant system not addressed	Possible	High	To be addressed through the working modalities, M&E improvements, CB and an implementation of a communication policy.
DPs failing to align their reporting and auditing procedures with the LGSP	Possible	Medium	Strengthening of the use of PLAMs, financial and physical progress reports and ongoing document of issues of challenges. Strengthen the dialogue between

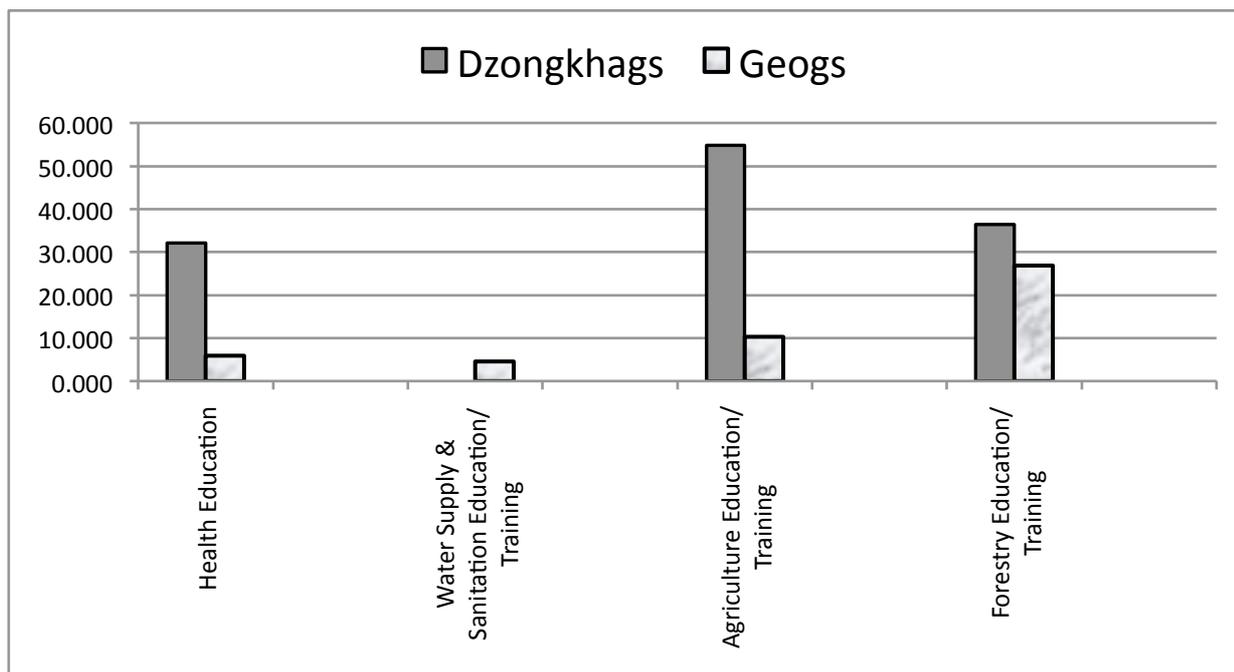
Annex 5: Overview of LMs' Training and Capacity Building

Resources allocated at Local Governments' level for HRD segregated by Sub-codes programs

Sl. No.	D/khags	Resources allocation by Sub-codes (Nu. in million)										
		Health Education		Water Supply & Sanitation Education / Training		Agriculture Education / Training		Forestry Education / Training		Total		
		D/khag	Geog	D/khag	Geog	D/khag	Geog	D/khag	Geog	D/khag	Geog	Grand T.
1	Bumthang	0.600	0.000	0.000	0.000	2.000	0.600	1.500	0.000	4.100	0.600	4.700
2	Chhukha	0.000	2.581	0.000	0.000	2.868	0.000	1.860	0.150	4.728	2.731	7.459
3	Dagana	1.000	0.000	0.000	0.000	0.000	0.120	1.000	0.144	2.000	0.264	2.264
4	Gasa	0.800	0.000	0.000	0.000	0.450	0.000	1.000	0.550	2.250	0.550	2.800
5	Haa	5.135	0.000	0.000	0.000	2.690	0.000	1.200	0.000	9.025	0.000	9.025
6	Lhuentse	1.550	0.000	0.000	0.000	5.440	0.000	0.000	0.000	6.990	0.000	6.990
7	Mongar	0.000	0.000	0.000	4.560	14.796	0.000	10.000	4.335	24.796	8.895	33.691
8	Paro	0.100	0.100	0.000	0.000	1.600	2.160	1.100	0.855	2.800	3.115	5.915
9	P/gatshel	0.400	0.000	0.000	0.000	0.300	0.300	0.300	0.300	1.000	0.600	1.600
10	Punakha	0.500	0.000	0.000	0.000	1.830	1.715	1.250	0.710	3.580	2.425	6.005
11	S/jongkhar	1.800	0.000	0.000	0.000	1.100	0.000	0.800	0.000	3.700	0.000	3.700
12	Samtse	5.000	3.128	0.000	0.000	3.850	0.000	6.145	7.133	14.995	10.261	25.256
13	Sarpang	1.000	0.000	0.000	0.000	2.000	1.455	1.500	1.965	4.500	3.420	7.920
14	Thimphu	5.974	0.101	0.000	0.000	2.800	0.575	1.300	1.043	10.074	1.719	11.793
15	Trashigang	0.000	0.000	0.000	0.000	1.500	0.000	0.800	4.485	2.300	4.485	6.785
16	T/yangtse	3.500	0.000	0.000	0.000	5.370	0.000	2.650	5.100	11.520	5.100	16.620
17	Trongsa	1.000	0.000	0.000	0.000	0.000	0.000	0.500	0.000	1.500	0.000	1.500
18	Tsirang	2.500	0.000	0.000	0.000	3.275	0.275	2.500	0.000	8.275	0.275	8.550
19	Wangdue	1.000	0.000	0.000	0.000	1.550	3.107	1.000	0.000	3.550	3.107	6.657
20	Zhemgang	0.200	0.000	0.000	0.000	1.500	0.000	0.000	0.100	1.700	0.100	1.800
	Total	32.059	5.910	0.000	4.560	54.919	10.307	36.405	26.870	123.383	47.647	171.030

Source: Draft Report on the Analysis of the 10th FYP for Local Governments Plans by Dr. Udyog Subedi and Mr. N.B. Chhetri, May 2010.

Resources Allocated for HRD (Nu. in million) compared between Dzongkhags and Geogs



Source: Draft Report on the Analysis of the 10th FYP for Local Governments Plans by Dr. Udyog Subedi and Mr. N.B. Chhetri, May 2010.

Annex 6: Institutions Met

Contacts and People Met

Sl. No	Name	Agency	Contact no
--------	------	--------	------------

Team and Resource Persons

1	Jesper Steffesen	Team leader	17575113 /js@dege.biz
2	David Jackson	TA, UNCDF	david.jackson@uncdf.org
3	Preetalall	SDC, team member	preetalall@gmail.com
4	Phunsthon Namgy	Consultant, team member	17113753
Permanent Support to the Team:			
5	Thinley OM	APM, GNHC, LGSP	17512774

Resource Persons - Development Partners

1	Bakhodir Burkhanov	Dep. Res Rep UNDP	bakhodir.burkhanov@undp.org
2	Kunzang Norbu	Head of Gov. Unit UNDP	kunzang.norbu@undp.org
3	Chencho Gyalmo	PO, UNCDF	chencho.dorjee@uncdf.org
4	Henrik A. Nielsen	Head of LOD	heniel@um.dk
5	Karma Dem	PO, LOD	kardem@um.dk
6	Tashi Pem	Dy. Resident Coordinator, Helvetas	tashi.pem@helvetas.org
7	Ramesh Chhetri	Austria	Ramesh.Shhetri@ada.gt.at

Resource Persons RGOB

1	Karma Jamtsho	PO, LDD, GHNC	kjamtsho@gnhc.gov.bt
2	Pasang Dorji	Head of LDD, GHNC	pasang@gnhc.gov.bt
3	Rinchen Wangdi	Head of DCD, GNHC	rwangdi@gnhc.gov.bt
4	Sangay Penjor,	PCO, DCD, GHNC	spenjor@gnhc.gov.bt
5	Tashi Dorji	PCO, DCD, GHNC	tashid@gnhc.gov.bt
6	Kunzang L Sangay	PCO, DCD, GNHC	klsangey@gnhc.gov.bt
7	Karma Galay	CPO, DLG, MoHA	Karmagalay@gmail.com
8	TN Sharma	CBO, DNB, MOF	tnsharma@mof.gov.bt
9	Lepo	CAO, DPA, MOF	lepo@mof.gov.bt
10	Thinley Om	Asst. Project Manager	thinleyom@gmhc.gov.bt

Stakeholders met in addition to the resource persons

Sl. No	Name	Agency	Contact no
Central level			
1	D. Pasang	Head of LDD, GNHC	77225370
2	Lekzang Dorji	Head, PPD, MoF	322223/322514(PABX)
3	Chencho	PPD, GNHC	

4	Lepo	DPA, MoF	322604/17703630
5	TN sharma	DNB, MOF	326770
6	Dorji Norbu	DLG, MoHCA	
7	Karma Galay	DLG, MoHCA	17619936
8	Tshewang Dem	Budget officer, MoF	
9	Dhak Tshang	Chief A.O. DPA	
10	Jigme Dorji	Sr. HR officer, RCSC	17692304
11	Karma Tshering	Director, RIM	
12	Chhimi om	PA to director, RIM	17799505/351012
13	Christian Mazal	Head of Office, Austria Embassy	(+975 (0) 2 324495
14	Rinchen Tshering	Conslutant, JICA	17648406
15	Tek Bahadur Chhetri	LOD	tekchh@um.dk
16	L. Jeeivre Dema	RAA	17803859/jigmeed@gmail.com
17	Sherab Gyltshen	RAA	17649426
18	Igme Tenzing	DIT, Head of Application Division	

Field Trip

Chukha

Dzongkag

Chukha	Tshewang Rinzin	Dzongda	
1	Harga Bhr. Rai	Planning Officer	08-478810/17628216
2	Kinlay Bidha	Budget Asst. Account off.	
3	Tharpa lhamo	Gewog accountant/ Geling	
4	Ugyen Thinley	Gewog accountant	
5	Tshewang Namgay	Accounts officer	
6	Karma Dhendup	Education Officer	
7	Pem Dorj	Livestock officer	
8	Ngawang	Agriculture Officer	
9	Nima Tshering	Forest Officer	
10	Kinzang	Engineer	
11	Tshewang Rinzin	Health officer	

Chukha - Chapcha Gewog

1	Dorji Penjor	Gup	
2	Ngawang Tshering	GAO	
3	Chuki	Geydrung (clerk)	
4	Penjor	Tshogpa	
5	Jigme	Livestock extension officer	
6	Kesang	Agriculture extension officer	
Haa Dzongkhag			
1	Jamba Tsheten	Dzongrab	
2	Pemba Tshering,	Offtg. PO	17653312

3	Sangay Phuntsho	Planning Officer	
4	Loden Jimba	Livestock officer	
5	ML Bhattraï	Agriculture Officer	
6	Kado	Forest Officer	
7	Tshering Chuki	Budget Officer	
8	Tanka Nath Mishra	Gewog Accountant	
9	Wangchuk	Offtg. Accountant Officer	
10	Sonam Jamtsho	Engineer	
Haa- Isu Gewog			
1	Gup	Sonam Tshering	
2	Tshogpa	Pem	
3	Tshogpa	Pala Dorji	
4	Tshogpa	Chundi Dorji	
5	Tshogpa	Phub Tshering	
6	Tshogpa	Lap Tenzin	
7	Tshogpa	Sangay	

Annex 7: Minutes from the Debriefing Session on August 27, 2010

Karma Jamtsho, PM, LDD, GHNC

The De-Briefing session was opened by Karma Jamtsho, Programme Manager LDD, GHNC who welcomed all participants and the Joint Annual Review Team (JART). He congratulated the team for the very comprehensive, high quality and relevant de-briefing note.

This view was shared by other stakeholders and will not be repeated below in the comments to the de-briefing note and the presentation slides.

Joint Annual Review Team (JART)

The JART made a detailed presentation of the findings and recommendations in the debriefing note (enclosed slides) and welcomed any comments in order to quality and improve on the final report.

Henrik A. Nielsen (H.A.N) Head of the LOD

H.A.N. recommended that the JART clarified what was meant by “the LG election in 2005”, which only comprised election of some of the Gups. The team responded that this would be clarified in the final report.

H.A.N mentioned that the new evidence provided in the de-briefing note on the lack of information about actual use of funds in respect of the annual capital grants was very serious and needed immediate reactions from RGoB, MoF. It is pertinent for the DP disbursements of funds that information on budget, releases and **actual use of funds** on the formula-based annual grant system is available in a timely and specific manner as per the LGSP PD/FMA. LOD cannot disburse any further funds from the LGSP and SESP without specific information about the Gewogs’ use of funds on the annual capital grants in FY 2009/10. It is therefore important that MoF, as a matter of utmost urgency, establishes specific FIC codes as envisaged in the design of the LGSP to track actual use of funds, and that data in the meantime is produced on a manual basis (until computerised data is available). The data should be available for the coming SC of the LGSP, and this is a clear **condition** for the future transfer of funds from LOD to the annual capital grant system. He also requested an overview of the size of the unspent funds from the annual capital grant system.

H.A.N agreed with the view that there is need for a broader **coordination** of the local governance issues, and the most appropriate means for this should be discussed, - e.g. review of various options such as through the expansion of the TOR of the LGSP SC, or the work of the Good Governance Group.

H.A.N. requested the MoF to produce a transparent overview of all changes made during the annual **budget reviews** in terms of the budget ceilings of the various local governments and adjustments made between them. Minutes from the meetings on the budget review process should be shared with all parties.

He agreed that the best way to strengthen the **coordination of LG capacity** building should be further explored, e.g. the options for establishing of a CB basket funding modality.

H.A.N. finally mentioned that the **gender** activities could be more detailed covered in the de-briefing. Complementary initiatives supported by Danida and others could be referred to by the JART.

Ministry of Finance (MoF)

The representative from MoF responded that it was possible to **generate data on LG use** of capital grants, but that this would require significant manual work, until a FIC was established specifically for the annual capital grants.

On the **release** procedures, the representative informed that these have been simplified by the June 2009 Release Guidelines, and that the LGs only need to fax a fund request letter, i.e. not all the supporting documents.

Jesper Steffensen and David Jackson, members of the JART

On the **release** procedures, J.S. and D.J informed that in the field, LGs still were of the opinion that they have to produce all the supporting documents, work-plans, cash flow overview, detailed costing, clearances, agreements with contractors, and that this was the most time-consuming part, acknowledging that the new rules on submission of the request without all these documents eased the work somehow. There is a need to review all this as part of the proposed study on underspending.

Bakhodir Burkhanov (B.B), Deputy Resident Representative, UNDP

B.B. focused on the division of labour and stressed the importance of a clarification of the future **programme management roles** and responsibilities. He offered support to the new DLG if this is required. He underlined the importance of having good PLaMs reports and the need to strengthen the M&E parts of the programme. He did not agree with the views from the PMU, LGSP that there were heavy burdens on the **special reporting** requirements from the DPs. The reporting and audit requirements from UN were simplified and the reviews under the HACT were of benefit for the RGoB, and had been agreed with GNHC. The same procedures apply for all UN supported programmes in Bhutan. B.B. requested the PMU to provide further documentation on the challenges of the existing requirements, as these were standards for these types of programmes.

Chencho Gyalmo, UNDP/UNCDF

C.C. stressed the importance of the **community contracting** and the work on the cost templates initiatives to smoothen the constraints imposed on project implementation on account of limited engineering staff capacities.

Karma Galay, Chief Programme Officer DLG, MoHCA

K.G. agreed in the issues raised in the de-briefing note, which was of tremendous benefit for the new team in DLG. He assured that the **transfer of tasks from the LDD**, GHNC to the DLG, MoHCA would not slow down the implementation progress of the LGSP. There will be a close cooperation between LDD and DLG, particularly on the issues of LG finance (output 1). K.G. was pleased that UN and other were ready to support DLG in strengthening of the capacity. He was particularly pleased with the suggestion by the JART to launch a **study of underspending of capital grants**, as this had been on the mind of DLG for some time. Such as study should be launched as soon as possible.

Output 5 activities have been delayed, but K.G. hoped that these could take off soon.

Karma Jamtsho, LDD, GNHC

K.J. appreciated the overview table in the de-briefing note on the future **division of tasks** in the LGSP and mentioned that the transfer of tasks to DLG would work smoothly. GNHC would still be the implementing agent on output 1 and parts of outputs 2 and 3. The overall programme management will be transferred to DLG. The chairmanship of the SC will remain with the Secretary of GNHC.

On the issue of reporting, K.J. confirmed the issue raised in the de-briefing note on **reporting**, and was concerned about the extra work-load that the PMU had in responding to special reports. A number of DPs had special auditing and reporting requirements whereby the work-plans and reports need to be re-engineered. Similarly for the M&E formats, which have to be produced in various formats and headlines. Some of the DPs have special missions for monitoring and preparations, which require significant attention from the PMU, LGSP

On the **Annual Grant Guidelines** (AGG), he mentioned that the JART had provided useful comments on the AGG, which will be reviewed. There is a need to issue the AGG as soon as possible, and the GNHC is awaiting MOF's endorsement of the present draft.

It was clarified by K.J. that while the MoF did not require supporting documents to be couriered to them by the GTs and DTs alongside the request for remittance, these documents were still required at the Dzongkhag level. This formality remains. The Dzongkhag was responsible for ensuring that all supporting documents were provided by the local governments.

Jesper Steffensen, TL of the JART

J.S. stressed the importance of clarifying the investment menu, the timing of the requirements in the MC in the present draft AGG, and underlined the urgency of a final approval and issuing of the revised AGG. On the investment menu there are two options according to the JART: 1) to have the annex included in the AGG (preferred option), and 2) to refer to one specific clearly defined document on the functional assignments, which clarifies these issues.

Henrik A. Nielsen, LOD

H.A.N. raised the issues on use of **poverty data** in the existing formula covered Gewog specific data.

Karma Jamtsho, LDD, GNHC

K.J. informed that the existing formula (FY 2010/11) included Gewog **specific poverty data**. The data was based on a poverty survey supported by the World Bank. The data is included with a 25 % weight in the formula for allocation to Gewogs and the Dzongkhags.

Bakhodir Burkhanov (B.B), Deputy Resident Representative, UNDP

B.B. raised the issue of the level of ambitions in the outlined **time-plan** and milestones to be achieved.

Karma Jamtsho, LDD, GNHC and Karma Galay, DLG

K.J. responded that most of the activities outlined were work in progress and that the **time-plan** was realistic. K.G. agreed, although the finalisation of the **CD strategy** would require an extra month to ensure sufficient dialogue with the LGs. The functional assignment should be clarified and finalised within a few weeks.

Karma Dema, Programme Officer, LOD

K.D. raised the issue of coordination within output 5, where SDC has designed a new project document on support to the **One-Stop Shops**. Danida is contributing to this output under LGSP, but the work on a separate project document and activities need to be shared and included in the LGSP work-plan. K.D. therefore supported the recommendations from the JART to ensure that these activities are reflected in the LGSP workplan and in the SC of the LGSP.

Chencho Gyalmo, UNDP/UNCDF

C.G. agreed in the comment from K.D. on the One-Stop Shop activities and stressed the importance of a close coordination on this.

Henrik A. Nilsen, LOD

H.A.N. agreed in the proposal to ensure that RGoB procedures for **auditing** are applied and that numerous DP specific requirements could undermine the efficiency of the RAA's work. He stressed the importance of receiving audit reports on the LG use of funds as well, and informed that these have not yet been availed to the DPs.

Conclusion

The meeting concluded that the de-briefing note was a solid piece of work, with relevant findings and timely recommendations. The JART would produce the **final report** on the LGSP review on September 3, 2010. In addition to this, Mr. Puntsho Namgay would produce an annex on the overall decentralisation framework (the Decentralisation Outcome Evaluation) with support from the UN agencies, as a supplement to the review report by September 10, 2010. Comments to the de-briefing note from the debriefing session would be addressed in the final reports. These reports will fit into the coming SC meeting in the LGSP and the Good Governance Meeting.

August 27, 2010

Minutes by the JART

Annex 8: Mission Programme of the Joint Annual Review

Separate file enclosed.