

Royal Government of Bhutan



**Joint Program Document
Local Governance Sustainable Development Program
(LGSDP)**

2013/2014 -2017/2018

November 29, 2013

(Addendum to financial commitments based on the confirmation and decision during the 1st Program Steering Committee meeting held on 29 November 2013 in the conference hall of the National Assembly Secretariat)

Program Cover Page

Country:	Bhutan
Program Title:	Local Governance Sustainable Development Program
Start Date and Duration:	November 2013 to June 2018 (corresponding with RGoB's 11 th Five-Year Plan)
National Agencies:	<u>Executing Agencies:</u> <ul style="list-style-type: none">▪ Department of Local Governance (MoHCA)▪ Local Governments (Dzongkhags and Gewogs) <u>In cooperation with:</u> <ul style="list-style-type: none">▪ Gross National Happiness Commission Secretariat▪ Ministry of Agriculture and Forests▪ Ministry of Economic Affairs▪ Ministry of Finance▪ National Environment Commission Secretariat
Grants & Budget: (Tentative)	Government of Denmark: DKK 32 million <i>LM</i> Government of Switzerland: CHF 1.0 million <i>M</i> European Union: Euro 5.0 million UNDP/UNEP PEI: USD 0.430 million <i>CB</i> UNCDF-LoCAL: USD 230,000
<p>Program Description: The LGSDP has been designed to optimally channel multi-donor support to strengthen good governance and promote inclusive green socio-economic development at the local level. It aligns with the timeframe and strategic context of the 11th Five-Year Plan 2013/14-2017/18 which has an overall goal of "self-reliance and inclusive green socio-economic development." It merges, and builds on, the ongoing Local Governance Support Program and Joint Support Program on Capacity Development for Mainstreaming Environment, Climate Change and Poverty Concerns in Policies, Plans and Programs. It is, however, not a linear extension of the ongoing programs but an integrated program to advance the core areas of good governance and green socio-economic development at the local level in mutually-reinforcing ways.</p> <p>The program has three major outcomes or 'components': (a) inclusive and equitable socio-economic development at local level; (b) conservation and sustainable use of environment at local level; and (c) strengthening good governance at the local level.</p> <p>The <u>first outcome</u> will focus on strengthening the system of fiscal decentralization, including Annual Capital Grants and Performance-based Grants, for equitable local socio-economic development. The <u>second outcome</u> will focus on: institutionalizing responsibility and knowledge for mainstreaming gender, environment, climate, disaster, and poverty issues in local governments; monitoring, advocacy and training to enhance the effectiveness and sustainability of GECDP mainstreaming; promoting best sustainable practices and integrated local area-based planning; and fostering enabling conditions for green development at the local level. The <u>third outcome</u> will focus on: improving the utilization of integrated National Monitoring and Evaluation system by local governments; strengthening access to demand-driven capacity development for local governments; implementation of the RGoB-approved 'Capacity Development Strategy for Local Governance'; and enhancing public participation, transparency, and accountability of local governments.</p>	

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Maps of Bhutan

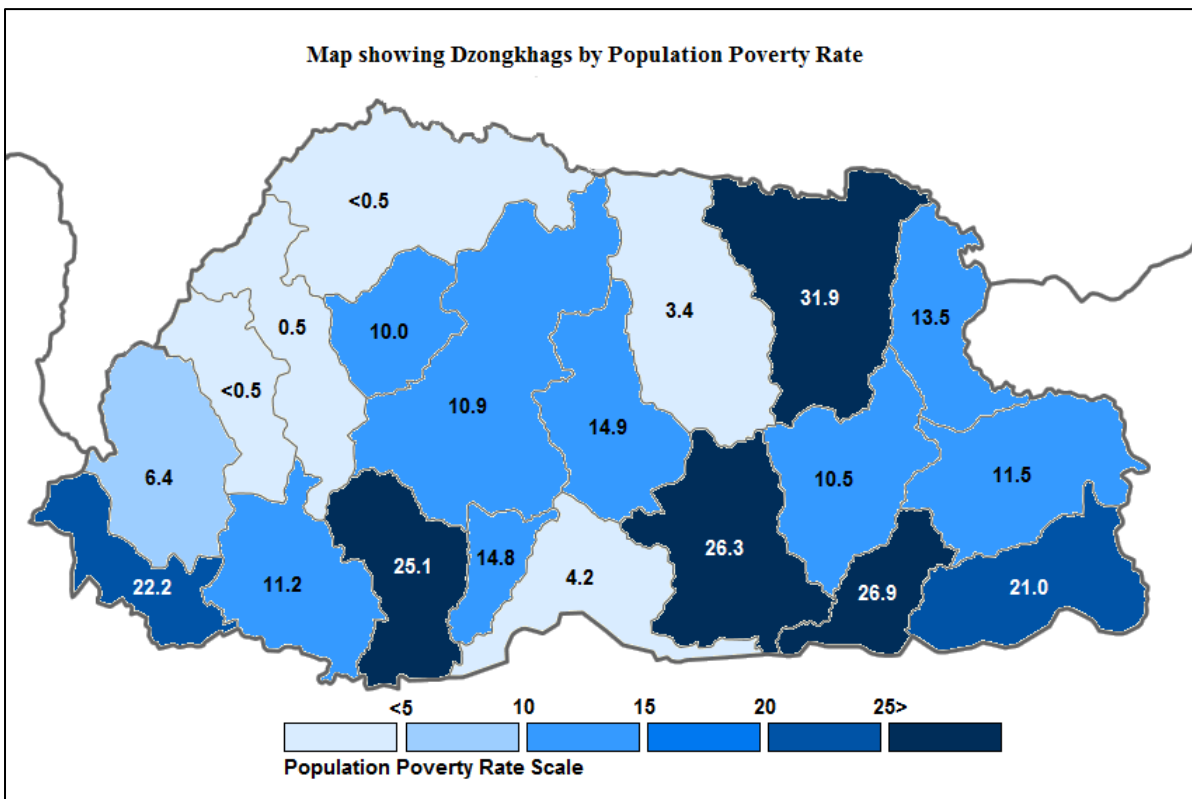
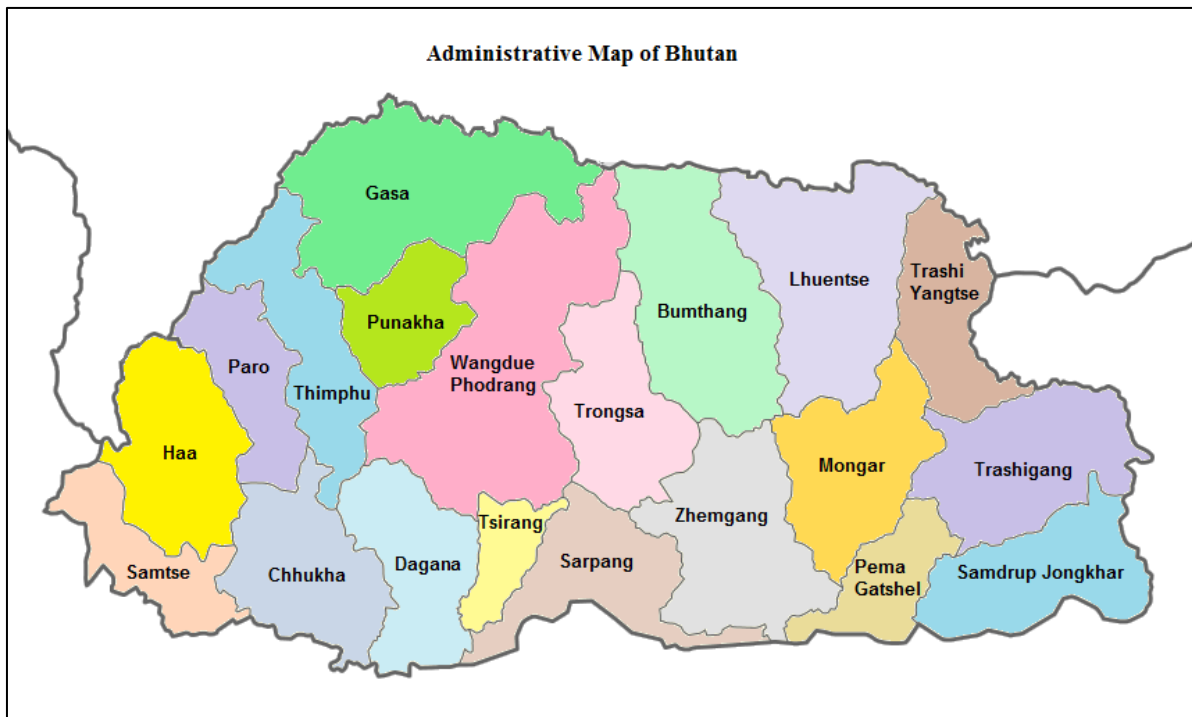


Table of Contents

Program Cover Page	i
Maps of Bhutan.....	iii
List of Acronyms and Glossary of Bhutanese Terms	vi
Executive Summary	x
1. Introduction.....	1
2. Situation Analysis.....	2
2.1 National Policy.....	2
2.2 National Development Context.....	4
3. Results and Lessons Learned.....	10
3.1 Fiscal Decentralization and Transfers.....	10
3.2 Devolution of Authority and Local Governance.....	12
3.3 Environment, Climate Change and Poverty Mainstreaming.....	13
3.4 Participation of Women in Local Governance.....	15
4. The Proposed Program - LGSDP.....	18
4.1 Opportunities and Challenges	18
4.2 Objectives and Outcomes.....	20
4.3 An Integrated Approach to LGSDP Implementation.....	20
4.4 Outputs and Indicative Activities.....	23
5. Program Management and Organization.....	36
5.1 Program Management and Technical Assistance	36
5.2 Program Steering Committee.....	37
5.3 Administrative Arrangement.....	37
6. Budget and Financial Management.....	39
6.1 Program Budget	39
6.2 Financial Management.....	41
6.3 Funding Arrangement	42
7. Feasibility, Sustainability and Risk Management.....	43
7.1 Feasibility and Sustainability	43
7.2 Risk Analysis and Mitigation.....	44
8. Monitoring and Evaluation	46
8.1 Fundamental M&E Components	46

8.2	Program Monitoring.....	46
8.3	Reviews and Evaluation.....	47

Annexes

Annex 1: Preliminary Results Matrix	48
Annex 2: Examples for Integrated Approach to LGSDP Implementation.....	54
Annex 3: List of Possible Performance Areas	58
Annex 4: Preliminary Draft Terms of Reference for Dzongkhag-level GECDP Mainstreaming.....	60
Annex 5: Terms of References for PSC, PMG, Program Manager and Outcome Managers	62
Annex 6: Indicative Schedule for Inception and Initial Program Implementation	67

List of Acronyms and Glossary of Bhutanese Terms

Acronyms

ACG	Annual Capital Grant
AWP	Annual Work Plan
BEGIN	Business, Entrepreneurship, Growth and Innovation Program (DHI)
BTN	Bhutanese Ngultrum (currency of Bhutan)
CHF	Swiss Franc
CSMIP	Cottage, Small, and Medium Industry Policy 2012
CSO	Civil Society Organization
DCD	Development Cooperation Division (GNHCS)
DEC	Dzongkhag Environment Committee
DEO	Dzongkhag Environment Officer (in the context of this Program Document; DEO is also used for Dzongkhag Education Officer).
DHI	Druk Holding and Investments
DKK	Danish Kroner
DLG	Department of Local Governance (MoWHS)
DMC	Dzongkhag Mainstreaming Committee
DNB	Department of National Budget
DoA	Department of Agriculture
DP	Development Partner
DPA	Department of Public Accounts (MoF)
DPO	Dzongkhag Planning Officer
DT	Dzongkhag Tshogdu
EDP	Economic Development Policy of Bhutan 2010
ECP	Environment, Climate Change and Poverty
EFRC	Environment-friendly Road Construction
EU	European Union
FIC	Finance Identification Code
FMA	Financial Management Agreement
FY	Fiscal Year
FYP	Five-Year Plan (of Bhutan)
GAO	Gewog Administrative Officer
GDP	Gross Domestic Product

GECDP	Gender, Environment, Climate, Disaster and Poverty (also referred to as cross-cutting issues)
GHG	Greenhouse Gas
GNH	Gross National Happiness
GNHC	Gross National Happiness Commission (RGoB)
GNHCS	Gross National Happiness Commission Secretariat (RGoB)
GT	Gewog Tshogde (County Committee)
JSP	Joint Support Program on Capacity Development for Mainstreaming Environment, Climate Change and Poverty Concerns in Policies, Plans and Programs
KPI	Key Performance Indicator
KRA	Key Result Area
LDD	Local Development Division (GNHCS)
LDPM	Local Development Planning Manual
LG	Local Government
LGSDP	Local Governance Sustainable Development Program
LGSDP-PMG	LGSDP-Program Management Group
LGSDP-SC	LGSDP-Steering Committee
LGSP	Local Governance Support Program
LoCAL	Local Climate Adaptive Living Facility
MoAF	Ministry of Agriculture and Forests (RGoB)
M&E	Monitoring and Evaluation
MEA	Multilateral Environmental Agreement
MoEA	Ministry of Economic Affairs (RGoB)
MoF	Ministry of Finance (RGoB)
MoHCA	Ministry of Home and Cultural Affairs (RGoB)
MoWHS	Ministry of Works and Human Settlement
MRG	Mainstreaming Reference Group (for cross-cutting issues)
MYRB	Multi-Year Rolling Budget
NCWC	National Commission for Women and Children
NEC	National Environment Commission (RGoB)
NECS	National Environment Commission Secretariat (RGoB)
NKRA	National Key Result Area
NMES	National Monitoring and Evaluation System
NPAG	National Plan of Action for Gender

NSB	National Statistics Bureau
ODA	Overseas Development Assistance
OSR	Own source revenue
PAM	Performance Assessment Manual
PBG	Performance-based Grant
PEMS	Public Expenditure Management System
PFM	Public Finance Management
PlaMS	Planning and Monitoring System
PMG	Program Management Group
PSC	Program Steering Committee
PSIR	Pressure-State-Impact-Response
RAA	Royal Audit Authority
RAF	Resource Allocation Formula
RED	Research and Evaluation Division (GNHCS)
RGoB	Royal Government of Bhutan
RNR	Renewable Natural Resources
ROD	Representation Office of Denmark (Thimphu, Bhutan)
SDC	Swiss Agency for Development and Cooperation
SESP	Sustainable Environment Support Program
SKRA	Sectoral Key Result Area
TA	Technical Assistance
TT	Thromde Tshogde
ToR	Terms of Reference
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Program
UNEP	United Nations Environment Program
USD	United States Dollar

Glossary of Bhutanese Terms

Chathrim	Law, statute
Chiwog	Village or a group of few hamlets (territorial constituency for the election of Tshogpas)
Dzongdag	Chief Executive Officer of a District; District Administrator
Dzongkhag	District
Dzongkhag Tshogdu	District Council
Gewog	A county, smallest geographical unit for public administration, made up of a group of villages (territorial constituency for the election of Gup and Mangmi)
Gewog Tshogde	County Committee
Gup	Elected head of a Gewog
Mangmi	Elected representative of a Gewog, who assumes the role of a deputy to the Gup
Thromde	Municipality
Tshogpa	Elected representative of a Chiwog
Zomdu	Community meeting at the Chiwog level

Executive Summary

Introduction

In keeping with the overarching development philosophy of Gross National Happiness, the Royal Government of Bhutan has drafted its 11th Five-Year Plan with the overall goal of “self-reliance and inclusive green socio-economic development”, endorsed by the Parliament on 19th September 2013. The Local Governance Sustainable Development Program has been designed to contribute to the 11th FYP and, consequently, aligns with the timeframe and strategic context of the FYP. The LGSDP, supported by multiple development partners driven by a common agenda and intent, is an amalgamation of the recently concluded Local Governance Support Program and Joint Support Program on Capacity Development for Mainstreaming Environment, Climate Change and Poverty Concerns in Policies, Plans and Programs, which is scheduled to conclude in December 2013. It is, however, not a linear extension of the ongoing programs but an integrated program to advance the core areas of good governance and green socio-economic development at the local level, building upon the achievements and lessons of the earlier programs.

National Context

Promotion of enabling conditions for the pursuit of GNH, which is Bhutan’s sustainable development concept and vision, is one of the main principles of state policy in the Constitution. Article 5 of the Constitution mandates the government to protect, conserve and improve the pristine environment and safeguard the biodiversity of the country; prevent pollution and ecological degradation; secure ecologically balanced sustainable development; and ensure a safe and healthy environment. Article 22 of the Constitution is dedicated to local governments. It states that power and authority shall be decentralized and devolved to elected local governments to facilitate the direct participation of the people in the development and management of their own social, economic and environmental well-being.

There have been several improvements in the areas of poverty reduction, good governance, and environmentally sustainable development over the recent years. Population poverty rate has been reduced markedly over the years, from 31.7 percent in 2004 to 23.2 percent in 2007 and further down to 12 percent in 2012. The country has successfully transited to a constitutional democracy since 2008. The Constitution, the Local Government Act of Bhutan 2009, and Local Government Rules and Regulations 2012, provide the constitutional basis, and the legal and regulatory framework for formation and development of Local Governments in line with the new democratic system. Local Governments have been successfully formed all over the country based on local democratic elections in 2011 and 2012. Environment has always occupied a pivotal place in the country’s development policies and plans. Policies, strategies, approaches, and tools, including environment and climate change mainstreaming along with other cross-cutting issues, are being constantly strengthened to support environmentally sustainable development. Furthermore, recent policies have been geared towards promoting green and low-carbon economic development.

Nevertheless, several challenges and areas of improvements lie ahead. Poverty still presents a major challenge for sustainable development, especially in the rural areas where 16.7 percent of the population lives in poverty. Several Dzongkhags still have significant population poverty rate, with six Dzongkhags having a population poverty rate between 21 to 31.9 percent. Governance and democratic systems at the local level are nascent. Initiatives of administrative and fiscal

decentralization at the LG level have not yet been anchored properly, and LGs lack the capacity to perform many of the roles and responsibilities mandated in the LG Act 2009 and LG Rules and Regulations 2012. Downward accountability of LGs to citizens, LG-citizen interaction, and women's participation in local governance are key areas that have remained weak. Tools, institutional mechanisms, and knowledge and skills to translate environmentally sustainable concepts and policies into practices at the local level are not well-developed. In addition, there are emerging issues of climate change, solid waste, pollution, natural disasters, and conflicting land-uses. Strategies, approaches and information base to foster the implementation of the policies and vision of a green and low-carbon economy at the local level are lacking.

LGSDP Strategic Framework

Building on the strategic focus of the 11th FYP, the *development objective* of the Program is: to contribute to the 11th FYP goals of self-reliant, inclusive green socio-economic development and good governance at the local level.

The *immediate objectives* are:

- (a) To promote sustainable, inclusive and equitable socio-economic development at the local level;
- (b) To promote conservation and sustainable management of the environment at the local level; and
- (c) To strengthen good governance at the local level.

The above immediate objectives translate to the following *outcomes*:

- (a) Inclusive and equitable socio-economic development sustained at the local level;
- (b) Environment conserved and sustainably utilized at the local level; and
- (c) Good governance strengthened at the local level.

While the LGSDP's outcomes and strategic emphases are either taken directly from, or reinforce, the 11th FYP, they adopt a local governance perspective in relation to the attainment of those outcomes and the Plan's overall national development goal, and are designed in a manner to ensure mutually strengthening activities across the three main outcomes supported by the Program.

However, the LGSDP is not designed to, nor it can, achieve the aforesaid outcomes on its own. The LGSDP resources will constitute only a fraction of the 11th FYP's total budget outlay. It is important to recognize that many programs and projects will be taking place in order to attain the outcomes, and LGSDP will be just one of them but an important one. It will give impetus to those critical aspects, emanating from the experiences and lessons of LGSP and JSP, which will add value and meaningfully contribute to the overall work of RGoB, based on the 11th FYP, to strengthen good governance and promote inclusive green socio-economic development at the local level.

Under each LGSDP outcome, the following outputs are expected:

Outcome	Output
1. Inclusive and equitable socio-economic development sustained at the local level	1.1 ACG mechanism strengthened and supported; 1.2 Performance-Based Grant Mechanism focusing on GECPD mainstreaming, Good Governance and Accountability further enhanced; 1.3 Intra- and inter-governmental coordination for fiscal decentralization and LG finance improved; 1.4 Alternative sources of LG revenue explored and systems and procedures reviewed.
2. Environment conserved and sustainably utilized at the local level	2.1 Responsibility and knowledge of mainstreaming GECDP issues institutionalized in local governments; 2.2 Momentum and innovation of GECDP mainstreaming initiatives in Bhutan maintained; 2.3 Local Government elected representatives and civil servants trained in the implementation of best sustainable practices and integrated local area-based planning 2.4 Green and inclusive economic development fostered at the local level
3. Good governance strengthened at the local level	3.1 Improved utilization of the integrated National M&E System [NMES (PlaMS + MYRB + PEMS)] by local governments 3.2 Strengthened access to demand-driven capacity development available for the LGs 3.3 The Capacity Development Strategy for Local Governance implemented 3.4 Public participation, transparency and accountability of the local governments implemented

Program Management and Organization

The overall management of the LGSDP will be the responsibility of the Department of Local Governance, MoHCA. A senior officer from the DLG will be appointed as Program Manager, and he/she will be supported by Outcome Managers from Systems and Capacity Development Division/DLG for Outcomes 1 & 3, and Research, Information and Policy Support Division/DLG for Outcome 2. Further down the line, the Outcome Managers will be supported by focal persons from various government agencies for the implementation of the activities related to the outputs under their respective outcomes. A Program Steering Committee, chaired by MoHCA Secretary, will be established as the apex forum for dialogue and decision-making. The Program Manager will serve as the secretary to the PSC. Implementation will be the responsibility of different agencies, under the overall supervision of a Program Management Group led by the Program Manager.

Administrative and Financial Arrangements

Planning, implementation, and reporting will follow RGoB procedures and systems, financial year schedule, etc. Likewise accounting, financial management, audit, etc. will be as per RGoB rules. However, the DPs can, if necessary, undertake external audits and reviews, at their own decision. Tendering and contracting of technical assistance will be undertaken by the RGoB and LG bodies; if requested, the DPs can assist by contracting following their own rules.

The total budget required for the Program is BTN 1,040.00 million. As of 26th September 2013, expected funding availability totaled BTN 924.60 million based on indicative funding support from the various development partners.

Monitoring and Evaluation

The monitoring and evaluation system for the LGSDP will be fully integrated into the National Monitoring and Evaluation System, which includes PlaMS, Multi-Year Rolling Budget and Public Expenditure Management System. These are currently ready to be implemented in all Government agencies, including LGs, managed by Perspective Planning Division, GNHCS, in accordance with the 11th FYP.

The M&E system will include three elements: (a) program, outcome progress and output monitoring with reporting by the PlaMS, with regular presentation to the PMG and PSC; (b) annual PBGs assessments of targeted LGs; and (c) Joint Annual Reviews of LGSDP, including risk monitoring. In the 4th year of LGSDP implementation a Joint Evaluation is planned to be undertaken, commissioned to external consultants.

1. Introduction

This Joint Program Document has been designed to optimally channel multi-donor support to strengthen good governance and promote inclusive green socio-economic development at the local level. It merges, and builds on, the recently concluded Local Governance Support Program (LGSP) and Joint Support Program on Capacity Development for Mainstreaming Environment, Climate Change and Poverty Concerns in Policies, Plans and Programs (JSP), which is scheduled to conclude in December 2013. It is, however, not a linear extension of ongoing programs but an integrated program to advance the core areas of good governance and green socio-economic development at the local level in mutually-reinforcing ways.

The ‘Local Governance Sustainable Development Program’ (LGSDP) aligns with the timeframe and strategic context of the 11th Five-Year Plan (FYP) 2013/14-2017/18, which has an overall goal of “self-reliance and inclusive green socio-economic development.” The emphasis of the new program is on “implementation at the local government level” but with cognizance of the important linkages with central agencies in terms of coordination, policy support, capacity development and technical backstopping. The Program has three major outcomes or ‘components’: (a) inclusive and equitable socio-economic development at local level; (b) conservation and sustainable use of environment at local level; and (c) strengthening good governance at local level. Key to the Program will be implementation of an integrated approach that mutually reinforces good governance and sustainable development at the local level. Accordingly, the Program Document sets out the inter-linkages and synergy between the outcomes and constituent outputs.

The program formulation team was led by a national consultant and consisted of international consultants fielded by various development partners, namely the Representation Office of Denmark (ROD), Swiss Agency for Development and Cooperation (SDC), United Nations Development Program (UNDP), United Nations Environment Program (UNEP), and United Nations Capital Development Fund (UNCDF). Over a period of two weeks, the team met and interviewed key officials in Gross National Happiness Commission Secretariat (GNHCS), Department of Local Governance (DLG), Ministry of Home and Cultural Affairs (MoHCA), Ministry of Works and Human Settlement (MoWHS), National Environment Commission Secretariat (NECS), Royal Audit Authority (RAA), Ministry of Finance (MoF), and Local Government (LG) representatives. During this period, the team also conducted focused group discussions on the themes of: green development; fiscal decentralization and Annual Capital Grants (ACGs); mainstreaming gender, environment, climate, disaster, and poverty issues; monitoring and evaluation, and local governance and capacity development. The DLG provided valuable secretarial support to the team. Meetings were also held with development partners, namely the ROD, and country offices of UNDP and SDC.

A debriefing session was held on 30th May 2013, the last day of the mission, to present the design outline of the Program to the stakeholders and elicit their initial feedback. Comments received at this session were taken into account as relevant whilst putting together the draft Program Document. The DLG circulated the draft Program Document to all the stakeholders on 14th June 2013 for comments, and convened a stakeholders’ meeting on 28th June 2013 to discuss the draft Program Document in relation to the comments provided by various agencies. At this meeting, the national team leader presented an overview of the comments and initial response to the comments. From September 24 –

26, 2013 a stakeholders meeting with the representation from relevant RGoB agencies and Development Partners was convened to discuss and finalize the draft Program Document.

2. Situation Analysis

2.1 National Policy

Constitutional Context

The Constitution of the Kingdom of Bhutan, formally adopted on 18th July, 2008, is the supreme law under which the country's democratic system functions. Promotion of enabling conditions for the pursuit of Gross National Happiness (GNH), which is Bhutan's sustainable development concept and vision, is one of the main principles of state policy in the Constitution.

Article 5 of the Constitution mandates the government to protect, conserve and improve the pristine environment and safeguard the biodiversity of the country; prevent pollution and ecological degradation; secure ecologically balanced sustainable development; and ensure a safe and healthy environment. It further stipulates that the government shall maintain at least 60 percent of the country under forest cover at all times.

Article 22 of the Constitution is dedicated to local governments. It states that power and authority shall be decentralized and devolved to elected local governments to facilitate the direct participation of the people in the development and management of their own social, economic and environmental well-being. The objectives of local governments are stipulated as following:

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

Bhutan 2020

The overarching Bhutanese development philosophy of GNH advocates a multi-dimensional development approach that seeks to maintain harmony and balance between social, economic and environmental well-being of the people and the nation. *Bhutan 2020* – the country's vision document – articulates balanced and equitable socio-economic development, environmental conservation and sustainability, good governance, and preservation and promotion of culture as the four main GNH pillars and development objectives. These GNH pillars, envisioned in *Bhutan 2020*, have provided the guiding framework for the development of national policies, plans and programs since 2000.

Economic Development Policy 2010

The Economic Development Policy (EDP) of Bhutan, launched in 2010, has been formulated with the vision “to promote a green and self-reliant economy sustained by an IT-enabled knowledge society guided by the GNH philosophy.” Its key strategies include: diversifying the economic base with minimal ecological footprint; harnessing and adding value to natural resources in a sustainable

manner; promoting Bhutan as an organic brand; and reducing dependency on fossil fuel especially in respect of transportation. The EDP 2010, in many respects, is a green economy policy and, therefore, sets the context and opportunity for green economic development in the country.

Eleventh Five-Year Plan

The Eleventh Five-Year Plan (11th FYP) is in place as approved by Parliament on 19th September 2013¹. The 11th FYP will provide the development framework for the fiscal years 2013/14 to 2017/18.

The overall goal of 11thFYP is “self-reliance and inclusive green socio-economic development.”

“Self-Reliance” – Meeting Bhutan’s national development needs as articulated through FYPs, without ODA, by the end of the 11th FYP;

“Inclusive” – Reducing inequality by enhancing the standard of living and the quality of life of the most vulnerable sections of Bhutan’s society; and

“Green” – Supporting carbon neutral development, sustainable management and utilization of natural resources.

To achieve the overall goal, the 11th FYP seeks to focus on the following 16 National Key Result Areas (NKRAs) across the four GNH pillars as shown in the table below:

Equitable and sustainable socio-economic development	Conservation and sustainable management of environment	Preservation and promotion of culture	Good governance
<ul style="list-style-type: none"> ▪ Sustained economic growth ▪ Poverty reduced and MDG+ achieved ▪ Food secure and sustained ▪ Full employment 	<ul style="list-style-type: none"> ▪ Carbon neutral/ green and climate-resilient development ▪ Sustainable management and utilization of natural resources ▪ Water security ▪ Improved disaster resilience and management 	<ul style="list-style-type: none"> ▪ Strengthened Bhutanese identity, social cohesion and harmony ▪ Indigenous wisdom, arts and crafts promoted for sustainable livelihood 	<ul style="list-style-type: none"> ▪ Improved public service delivery ▪ Democracy and governance strengthened ▪ Gender-friendly environment for women’s participation ▪ Corruption reduced ▪ Safe society ▪ Needs of vulnerable groups addressed

Source: Guidelines for Preparation of the Eleventh Five-Year Plan (2013-2018), GNH Commission, RGoB, 15th March 2012

To achieve the NKRAs, five key strategies have been identified: (a) poverty reduction based on multi-dimensional poverty index; (b) private sector development/ public-private partnership; (c) human resource development; (d) balanced regional development; and (e) information and communication technology.

Conservation and sustainable management of environment and strengthening good governance are to be pursued as cross-cutting issues across all development sectors, programs and projects in the 11th FYP. The mainstreaming of environment, climate change and poverty (ECP) issues can foster environmentally-sustainable development opportunities.

Local Government Act of Bhutan 2009

¹ The General Election was held on 13th July 2013. The newly elected Government was instated on 27 July 2013.

The Local Government Act of Bhutan 2009 was ratified at the First Extraordinary Sitting of the First Parliament on 11th September 2009 and came into force on 15th March 2010. In keeping with the Constitution, the Act provides for direct participation of the people in the development and management of their own social, economic and environmental well-being through decentralization and devolution of power and authority.

The Act stipulates that local governments be established in each of the 20 Dzongkhags, comprising of: (a) Dzongkhag Tshogdu; (b) Gewog Tshogde; and (c) Thromde Tshogde. These are legislated to serve as the highest decision-making body respectively at Dzongkhag, Gewog and Thromde level, and are to be supported by Dzongkhag, Gewog and Thromde Administrations staffed by civil servants. It provides local governments with a set of administrative, regulatory, service delivery, and financial powers and functions for governance at the local level.

In accordance with clause 294 of the Local Governments Act of Bhutan 2009, the Ministry of Home and Cultural Affairs has promulgated Local Government Rules and Regulations 2012, specifying rules and procedures for the functioning of Local Governments, and their various constituent bodies and functionaries.

2.2 National Development Context

National Economy and Poverty Situation

Bhutan's economy is one of the smallest in the world but one that has seen impressive growth over the years. The country's Gross Domestic Product (GDP) at current prices has grown from Nu. 40,673.52 million (US\$ 897.67 million) in 2006 to Nu. 85,580.58 million (US\$ 1,584.9 million) in 2011, up by about 110 percent². The key contributors to GDP growth are construction (16.3 percent) followed by renewable natural resources (comprising agriculture, livestock and forestry) (15.7 percent), and electricity and water (13.9 percent)³. Overall growth has been stimulated significantly by investments in the hydropower sector. Fueled primarily by hydropower, urban development and road projects, the construction sector has fast developed into a major economic sector. In terms of employment, the renewable natural resources (RNR) sector remains the most important economic sector although its GDP share has been falling over the years. Tourism is another sector contributing significantly to the country's economy, particularly in terms of foreign exchange and creation of jobs.

Although the population poverty rate has been reduced markedly over the years – from 31.7 percent in 2004 to 23.2 percent in 2007 and further down to 12 percent in 2012 – it still remains a key development challenge. The poverty rate is higher in rural areas (at 16.7 percent compared to 1.8 percent) than in urban areas. More than 90 percent of the country's poor reside in the rural areas. Poverty rates are also highly variable between Dzongkhags, some of the highest being Lhuentse (31.9 percent), Pemagatshel (26.9 percent), Zhemgang (26.3 percent), Dagana (25.1 percent), Samtse (22.2 percent) and Samdrup Jongkhar (21.0 percent)⁴.

² National Accounts Report 2012.

³ The figures are for 2011 as cited in the National Accounts Report 2012.

⁴ Bhutan Poverty Analysis 2012 by the National Statistics Bureau, Royal Government of Bhutan, and the World Bank.

Environment

The country has done very well to enter into the 21st century with a relatively healthy state of the environment. This stems largely from strong political commitment and far-sighted leadership, traditional values and an indigenous way of life that reveres nature, belated modern development, and a relatively small population size. Located in the Eastern Himalayas, a region recognized as a global biodiversity ‘hotspot’, the country has set aside 42.7 percent of its territory as protected areas. These protected areas are connected by biological corridors to ensure contiguousness of the natural habitats, and to allow for wildlife movements between the protected habitats.

Forests account for 72.5 percent of the country’s land cover – one of the highest in the world. The Constitution mandates that at least 60 percent of the country is maintained under forest cover at all times. As a result of vast forest cover and a limited number of polluting industries, Bhutan is among the few countries in the world with negative net greenhouse gas (GHG) emissions. The net GHG emission is estimated to be -4,750.04 Gigagram (Gg) of CO₂ equivalent based on 2000 data⁵. Ambient air and water quality in general is still very good to excellent but there are urban and industrial areas where air and water quality is deteriorating due to vehicular and industrial pollution, construction activities, and unsanitary waste disposal and living conditions. Other key environmental challenges include unsustainable agriculture, deforestation, overgrazing, infrastructure development and mining, increasing solid waste, and reduced water resources.

Environmental conservation, climate change adaptation and poverty reduction features prominently in the preparations for the 11thFYP. The 11thFYP is noted as the first ‘green’ plan.

According to the Guidelines for the preparation of the 11th FYP on “Environment, Climate Change and Poverty”, the Royal Government of Bhutan (RGoB) shall secure ecologically balanced sustainable development while promoting justifiable economic and social development through integrating ECP into all policies and plans at both sectoral and local government levels. Integration, or mainstreaming, focuses on replacing the “development versus environment” debate with one of “development that utilizes resources sustainably”, placing particular emphasis on the opportunities the environment provides for development that is sustainable (SESP Review Aide Memoire, September 2012). A Mainstreaming Reference Group (MRG) has been established by Prime Ministerial Executive Order, and a detailed reference framework is in place to promote mainstreaming of cross-cutting issues⁶ in sectoral and local development plans.

In the 10th FYP (2008/09-2012/13) and the 11th FYP (2013/14-2017/18), environment has been articulated as a cross-cutting issue that is to be mainstreamed across development sectors. Elements of the environmental management agenda are present across various sectors as shown in the examples below:

⁵Second National Communication to the UNFCCC, November 2011.

⁶ Mainstreaming work has been expanded to include gender and disaster risk reduction in addition to environment, climate change and poverty. It is now referred to as GECDP mainstreaming (gender, environment, climate change, disaster risk reduction, and poverty).

- *Ministry of Agriculture*: forest management, nature conservation, social forestry, watershed management, reforestation, pasture development and grazing management, sustainable agricultural practices, sustainable construction and maintenance of farm roads.
- *Ministry of Works and Human Settlement*: environment-friendly road construction; and creation and management of infrastructure and services (e.g. sewerage, solid waste management system) for environmental management in urban centers.
- *Ministry of Economic Affairs*: geologic hazard and risk assessments, geotechnical advisory service, enforcement of mining law and regulations, monitoring of glacial retreats and mitigation of risks associated with glacial lake outburst floods (Department of Geology and Mines); sustainable hydropower development (Department of Hydropower and Power-system), hydro-meteorology and early warning system (Department of Hydro-met Services), and renewable energy development (Department of Renewable Energy); and environmental monitoring of industries and industrial pollution control.
- *Ministry of Home and Cultural Affairs*: natural disaster risk management.
- *Ministry of Health*: public health and hygiene, provision of safe drinking water.

The NECS is mandated to support mainstreaming of environment in development policies, plans and programs. It also has the mandate to set standards for environmental monitoring and state of the environment reporting and the coordination and implementation of Multilateral Environmental Agreements⁷ (MEAs). The institutional mechanism for environmental mainstreaming and coordination at Dzongkhag level is the Dzongkhag Environmental Committee (DEC). The DEOs are also required to monitor the environment at Dzongkhag and Gewog levels and ensure that environmental concerns are incorporated into the FYPs of the Gewogs and Dzongkhags. The DEO acts as the member secretary to the DEC and provides it with technical backstopping.

Mainstreaming of environmental issues in development planning is one of the key responses of RGoB institutions to the high priority placed on environment in the GNH philosophy, the Constitution, and the 11thFYP. The 11thFYP guidelines require that all programs and projects ensure: (a) carbon-neutral/green and climate-resilient development; (b) sustainable utilization and management of natural resources; (c) integrated water utilization and management; and (d) disaster-resilience and management.

Bhutan is committed to addressing the challenges of climate change. It has declared internationally to remain a “carbon-neutral” economy. To pursue this commitment and its own objective of sustainable economic development, it has adopted a “green” Economic Development Policy and developed a national strategy for low carbon development.

Although a net sequester of GHG, Bhutan is extremely vulnerable to the impacts of climate change largely due to the geologically fragile mountain terrain and highly variable climatic conditions. The

⁷Bhutan is party to a number of international conventions, e.g. International Plant Protection Convention, 1995; Convention on Biological Diversity, 1995; UN Framework Convention on Climate Change, 1995; Kyoto Protocol, 2002; Basel Convention, 2002; United Nations Convention to Combat Desertification, 2003, etc.

vulnerabilities are multi-faceted, ranging from instability in crop yields to spread of vector-borne diseases, water scarcity, landslides, and glacial lake outburst floods. These vulnerabilities pose significant risks to the country's pro-poor growth development agenda as it is generally the poor who are most exposed, and with least resources to adapt.

Decentralization and Local Governance

The decentralization process was launched in 1981 with the inception of the 5th FYP when Dzongkhag Yargay Tshogchung (DYT – District Development Committee) was institutionalized in all the Dzongkhags. This was followed by the establishment of Gewog Yargay Tshogchung (GYT – Block Development Committees) in 1991. The most recent major developments in relation to decentralization and local governance include:

- The adoption of the Constitution of the Kingdom of Bhutan in July 2008, providing the constitutional basis and mandate for the formation and development of Local Governments in line with the new democratic system;
- Enactment of the Local Government Act 2009, repealing Local Government Act 2007 and Thromde Act 2007, and DYT and GYT Chathrims 2002;
- Appointment of Gewog Administrative Officers and Gewog Accountants to support Local Governments at the Gewog level since 2008/09;
- Creation of the Department of Local Governance, under the Ministry of Home and Cultural Affairs, in 2009 to provide coordination, direction and support to the Local Governments in the implementation of their plans and programs in line with the decentralization policy and existing legal framework for local governments;
- Local Government Elections in 2011 and 2012 and instatement of elected Local Governments in all the 205 Gewogs in 20 Dzongkhags and 4 Dzongkhag Class A Thromdes⁸;
- Promulgation of Local Government Rules and Regulations 2012 to support implementation of the Local Government Act 2009;
- The introduction of formula-based Annual Capital Grant system to Dzongkhags and Gewogs from FY 2008/09 with a significant amount of funds for local capital investments according to the local need, and its incorporation in the LG planning and budgeting process.

Fiscal mechanisms to foster further decentralization at the LG level are in the pipeline. In the 11th FYP, it is envisaged that 35 percent of the resources will be allocated for capital investments, and 65 percent for recurrent expenditures focusing on consolidation of achievements and on areas of core relevance for the national/sector key result areas and cross-cutting issues. The division of tasks and functions between central and local levels of government is guided by the “principle of subsidiarity” (refer to the Division of Responsibilities between Local Governments and National Government, GNHCS, 2012). In the 11th FYP, it is tentatively envisaged that 20 percent of the capital investment

⁸Phuentsholing, Gelephu, Samdrup Jongkhar and Thimphu.

resources will be allocated for LG implementation using the resource allocation formula with clear and objective criteria for needs-based allocations.

Green Development Context

‘Green Development’ is the pursuit of social and economic development in an environmentally sustainable and socially equitable manner. Green Development is commonly defined as having four central pillars:

- (a) Economic Progress, that considers development beyond the simple advancement of GDP;
- (b) Environmental Sustainability, to ensure that natural resources and national resource endowments are preserved over the long-term;
- (c) Low-Carbon Development, with a focus on managing GHG emissions and Climate Change impacts;
- (d) Socially Inclusive Progress, to provide an equitable distribution of benefits derived from positive economic development.

Meeting Bhutan’s 11th FYP goal of “Self-Reliance and Inclusive Socio-economic Development” will require significant action to address several broader developmental challenges. In particular, the EDP 2010 points to the fact that Bhutan’s fiscal deficit is high, the balance of payment situation is weak, public debt is mounting, and foreign exchange reserves are difficult to sustain as they are not built through exports. In addition, the *Guidelines for the Preparation of the 11th FYP* identifies unemployment as an important challenge, in particular youth unemployment which stood at 9.3 percent in 2011. Addressing these challenges will require job creation in areas that either meet Bhutan’s domestic consumption requirements to reduce a heavy reliance on imports, or lead to enhanced export of high value added goods or services. To align with the objective of ‘green’ economic development, activities that ensure the sustainable utilization and management of resources should be of central priority. In this regard, the EDP outlines of six Strategic actions that help can propel Bhutan’s economy forward:

- (a) Diversify the economic base with minimal ecological footprint
- (b) Harness and add value to natural resources in a sustainable manner
- (c) Increase and diversify exports
- (d) Promote Bhutan as an organic brand
- (e) Promote industries that build the ‘Brand Bhutan’ image
- (f) Reduce dependency on fossil fuel especially in respect to transportation.

These important economic opportunities, notable in the tourism and agriculture sectors have great potential. Translating this strategy into action on the ground will require overcoming a number of economic and non-economic barriers. These include lack of infrastructure, lack of human skills and capacity, a lack of risk taking and entrepreneurial mindset, and challenges accessing finance, to name a few. While these issues must be addressed at the national level, with 69 percent of Bhutan’s population still living in rural areas, achieving the goals of reduced unemployment and self-reliance will require a particular emphasis on supporting rural economic development opportunities.

Inclusive Development

The following statements in Bhutan 2020 vision document relating to the GNH pillars of equitable socio-economic development and good governance manifests and sets the tone for inclusive development:

- Equitable socio-economic development, ensuring equity between individuals and communities as well as regions to promote social harmony, stability and unity, as well as to contribute to development of a just and compassionate society;
- Promotion of good governance, developing the country's institutions, human resources and systems of governance, and enlarging opportunities for people at all levels to fully participate and effectively make development choices that are true to the circumstances and needs of their families, communities and the nation as a whole.

Furthermore, several statements in the Principles of State Policy enshrined in the Constitution relate to inclusive development. Some of the key supporting statements include: development and execution of policies that minimize inequalities of income and concentration of wealth, and promote equitable distribution of public facilities among people living in different parts of the country; and treatment of all Dzongkhags with equity on the basis of different needs so that the allocation of national resources results in comparable socio-economic development. Empowerment of women and targeted poverty reduction, which are among the key strategic elements of the 11th FYP, will also serve as platforms for inclusive development.

In the new milieu of democracy, CSOs have an increasingly crucial role. They can provide complementary mechanisms for social mobilization at the grassroots level to pursue inclusive development and in niche areas such as empowerment of vulnerable communities and formation of self-help groups. From just two CSOs in the 1990s, the CSO community has now grown to 33, of which 27 are public benefit organizations. To facilitate the emergence and growth of CSOs in the country, the CSO Act was enacted in 2007 and the CSO Authority was established in 2009.

3. Results and Lessons Learned

3.1 Fiscal Decentralization and Transfers

Establishment of Formula-based Annual Capital Grant system

There has been significant development within the area of fiscal decentralization during the past five years as a result of the many initiatives that RGoB has persistently pursued in complement with support from development partners, including LGSP. A formula-based ACG system has been established and rolled out to all Dzongkhags and Gewogs from 2008/2009 with criteria, based on good international practices, and with associated annual grant guidelines (2010), grant release guidelines (2009) and the Local Development Planning Manual (LDPM, 2010). The capital grants are substantial by international comparison (USD 64 per capita in average figures for Dzongkhags, and USD 44 for Gewogs (RAF, 2013/14), comparatively higher than all neighboring countries and constituting about 20 percent of the total capital expenditures under the 10th FYP. Second, the flow of funds has been efficient, based on the rules and regulations in the fund release guidelines. This has enabled planning, budgeting and implementation of a high number of projects in the areas of basic infrastructure and services, particularly with focus on construction of farm roads throughout the 10th FYP. The allocations are needs-based with inclusion of criteria such as size of population, size of the territory and level of poverty. In the coming 11th FYP, the current poverty criteria will be replaced by multi-dimensional poverty index, and a transportation cost index will be included as well.

As noted in the four joint annual reviews of LGSP, a large number of projects and fiscal allocations are still outside of the Resource Allocation Formula (RAF), due to various reasons such as need to ensure that all LGs have basic facilities (roads and buildings), a wish to adjust allocations against absorption during the mid-year budget review, and the fact that significant funding is generated from various projects with different modalities. Reviews have suggested that there is a need to ensure a higher predictability, better links between the RAF and actual budgets and allocations, and greater transparency in relation to the re-allocations. In this regard, the RGoB has announced that the application of RAF will be strengthened in the 11th FYP, where the level of grants will be similar to the 10th FYP, but with more focus on consolidation of the achievements.

The ACG system has been supported by the RGoB, development partners under the LGSP/JSP. The size of the support from the DPs under LGSP/JSP has been around five percent of the total capital grants to Gewogs with the major contribution from other sources including support from SDP (India) and the RGoB as well as multilateral budget support.

Introduction of Performance-Based Grants and Capacity Development Grants

In addition to the main LG grant system (recurrent, capital and earmarked grants), two important pilots were launched in the last years of the LGSP/JSP (10th FYP), namely: (a) the performance-based climate resilience grant, supported by Local Climate Adaptive Living Facility (LoCAL)⁹ under JSP;

⁹LoCAL is UNCDF's facility for investment in local level climate resilience. It channels global adaptation finance to local governments and enables them to invest in building local resilience to climate change. It was integrated into the JSP as a "third" objective to support climate change adaptation financing and capacity of local governments to reduce

and (b) the demand-driven capacity development grants. While initial observations are, in general, positive, discussions with GNHCS suggested that the current pilot of PBGs was too small in scale and short in duration to provide any conclusive basis on whether PBGs were effective and something that can be rolled out extensively. Piloting the PBG and demand-driven capacity development in more LGs and for longer duration was proposed to generate adequate information and experience for decision on extensive roll-out in the future. This will also be in line with the Government's emphasis on enhancing LG's performance and local level results in the 11th FYP.

Enhanced Capacity in Public Finance Management

Furthermore, there has been a strengthening of the capacity of the LGs to plan, budget and implement during the plan period with a focus on deployment of Gewog Accountants¹⁰, and establishment of systems and procedures for planning and monitoring (PlaMS), for budgeting (Multi-Year Rolling Budget - MYRB), and for accounting (Public Expenditure Management System - PEMS). Work is still ongoing to link these systems, which is expected to take place from FY 2013/14. These systems are collectively referred to as the integrated National Monitoring and Evaluation System (NMES).

Other Components of Fiscal Decentralization

Less attention was paid to other components of fiscal decentralization, such as own source revenue (OSR) mobilization and inter (and intra-) governmental fiscal coordination, in the 10th FYP and in the LGSP/JSP. The strengthening of the capacity of stakeholders at all tiers, and elected representatives as well as officials, has not been completed, and various reviews have pointed out the need to continue strengthening capacity in areas related to fiscal decentralization and Public Finance Management (PFM). Second, there is a need to ensure the long-term sustainability of the investments by putting greater emphasis on maintenance, quality and the cross-cutting issues of gender, environment, climate change, poverty and disaster risk management (GECDP). Increasingly, attention should be given to these matters in planning, budgeting and implementation of the capital investments, and this will be done during the 11th FYP.

The overall LG funding system, including ACGs, has enabled LGs to conduct meaningful planning addressing local development needs, with a certain involvement and use of participatory approaches enabling planning inputs from the Chiwogs and citizens. Basic guidelines (planning, grant guidelines and monitoring systems) are also in place, and will be revised in the near future. Although this is a major accomplishment, there are a few areas of fiscal decentralization that will need further attention in the 11th FYP.

First, the ACG - and especially the procedures around the linkages between the RAF, budget figures and annual releases - need to be reviewed to ensure a higher level of LG predictability and transparency in resource allocations. There is a lack of an overall strategy of fiscal decentralization

climate change vulnerability of local communities and develop their resilience and capacity to react and adapt to climate change.

¹⁰Gewog Accountants are in place in 176 of the 205 Gewogs. However, many of them operate from Dzongkhag Administration offices, due to lack of internet connectivity in their Gewogs. This situation will improve with the expansion of internet connectivity which is ongoing and a government priority.

and of more specific tools such as annual publications on LG finance, allocations and use of funds. Current information-sharing on the operations of the systems is also limited.

Second, with the previous focus on the ACGs, the links between capital and maintenance will be of increasing concern, including the modalities for funding of maintenance, e.g. within the areas of farm roads, division of tasks and funding obligations between central government, local government, and the user committees. The attention has been largely on fulfilling quantitative targets in the FYP, rather than ensuring sufficient quality of investments, e.g. in terms of climate change resilience, environmental safeguards and sustainable provision of infrastructure and services. Guidelines, e.g. on farm road development, environment-friendly road construction (EFRC), environmental assessment and clearance, etc., are sometimes not adhered to at the LG level due to time constraints and lack of incentives to improve performance in these areas, as focus has been on quantitative production and outputs (See [Annex 2](#) for example of integrated approach to improve farm roads).

Third, where the reforms have focused on the grant system, there has been less attention on the issues within OSR and other sources of revenues. The legal framework on OSR, including tax and fee rates is outdated, collection procedures cumbersome, and the collected yield at the LG level very small (between BTN 20,000-40,000 per LG), compared to the grants which are typically BTN 3-5 million per Gewog. LGs also feel that there is limited autonomy on the utilization of the mobilized funds, which makes the links between services and fund mobilization blurred.

The institutional framework on fiscal decentralization has not yet been addressed, and there is a need to ensure a stronger coordination between central government institutions internally and between central and local governments. Although there is an overall Medium Term Budget Committee with representatives from central agencies in place, there is no committee specifically for local government fiscal coordination and no committees with representatives of LGs as well. A committee like this would ensure strong coordination of various rules and regulations, better customizations of these to the local needs and representation of local needs in the dialogue on future reforms.

Finally, the lessons learned has been that although there has been training and other elements of capacity development, there is a continued need for strengthening of the LG-level PFM capacity and performance, and capacity to handle the increasing level of flow of funds and to ensure better accountability upwards, horizontal and downwards.

An encouraging approach with a more demand-driven approach to this, combined with stronger incentives for LGs to improve performance, has been piloted in a few LGs under LoCAL, but lessons learned are still too limited (only 4 LGs have been covered for about a year), and needs to be up-scaled for further testing, learning and application, prior to full application in the 12th FYP.

3.2 Devolution of Authority and Local Governance

Decentralization and local democracy in Bhutan has been strengthened continuously during the 9th and 10th FYPs. The Constitution provides the premise, vision and mandate for Local Governments (see ‘Constitutional Context’ under Section 2.1). The Local Government Act of Bhutan 2009 reinforced the concept of democratic and decentralized governance, enshrined in the Constitution. It further brought the two separate legal framework for the rural and urban areas, respectively, together into one legislation, defining Local Governments to include the four major municipalities (Thimphu,

Phuentsholing, Gelephu and Samdrup Jongkhar), the 16 other Dzongkhag Thromde, the 20 Dzongkhag Tshogdu (DTs) and the 205 Gewog Tshogde (GTs) under one common legal framework.

It is evident that LGs have been significantly strengthened in terms of increased budgets and number of staff. It can also be noted that enabling legislation has been passed that stipulates, for instance, the planning authorities of LGs. The GNHC also issued in 2012 the ‘Division of Responsibilities between Local Governments and National Government’ as an effort for further clarification of roles and responsibilities. However, LGs have only been granted rather limited autonomy so far. LGs have for instance no power to hire and fire staff and LGs have in general limited fiscal autonomy. While it must be recognised that Bhutan is small country and that too significant (and rapid) devolution of powers may fragment resources unnecessarily, it is also important that future phases of support to decentralization reforms in Bhutan explore areas where this is relevance. This may to a larger extent be found at Dzongkhag levels and in Thromde rather than in Gewogs.

The democratic elections of LG functionaries at all levels in 2011 and 2012 were a success. The elections were well conducted and with reasonable levels of participation. The second round of elections has minimised the number of vacant seats in Gewogs, and the RGoB has raised the remuneration of the Tshogpas from BTN 2,000 to 5,000. However, women’s representation in LGs is still very limited (see Section 3.4). In addition, the current system leads to limited representation of residents in urban areas in their LG council. These are issues future support for local governance reforms in Bhutan could address.

The DLG has finalised the Local Government Rules and Regulations 2012. They outline the roles and responsibilities of the elected members of the LGs, and specify procedures for the day-to-day conduct of the LGs. The Rules and Regulations will play a vital role in enforcing the LG Act 2009 and clarifying what is expected from the members of the LGs. The previous support program, LGSP, has mainly supported the role of elected LG functionaries at Gewog level. However, the Dzongkhag constitutes in certain aspects an even more important level of local government administration (where more significant human and financial resources are managed). The elected representatives in the Dzongkhag Tshogdu (DT) have to date received limited support to fulfil their roles and responsibilities.

3.3 Environment, Climate Change and Poverty Mainstreaming

The JSP commenced in January 2010 and will conclude in December 2013. The program aimed to develop the capacity to mainstream ECP concerns into policies, plans and programs, and to do so both at national and local level – each handled as separate outcomes of the program. The mid-term Technical Review of the JSP (Oct, 2011) reported that the JSP showed good evidence of being able to achieve its intended outcomes, and was one of the more promising mainstreaming initiatives known to the reviewers. The GNH policy foundation was highly conducive to the JSP, and in turn the JSP’s mainstreaming efforts in ECP were adding value to GNH. Policy makers across government agencies had begun to show interest in the ECP mainstreaming process, although understanding of ‘ECP’ varied, particularly between central and local governments.

This increased capacity, engendered through continuous focus and efforts, including JSP, on integrating environment and development, has led to mainstreaming in both policy and plan making at the national level. The GNHC Policy Protocol has been modified to ensure ECP issues are examined

in policy formulation and this has been applied as standard practice to a range of policies including the draft Mineral Development Policy and the draft Tourism Policy. An ECP mainstreaming guide (a result of an ECP mainstreaming exercise conducted with the central sectors) was issued by GNHC as part of Planning Guidelines for the 11th FYP.

The capacity building at central level (through the JSP and a related AusAID program) was embodied in the Prime Ministerial Executive Order of 15 January 2013, covering the formation and composition of a MRG to strengthen and facilitate the integration of GECDP issues into the government's decision-making processes, including into the development of policies, plans, and programs. The Terms of Reference (ToR) for the multi-sectoral MRG includes working across all levels of government in:

- Advocacy and mainstreaming of cross-cutting issues
- Capacity Development with respect to mainstreaming
- Advisory role in mainstreaming processes and approaches

The MRG is a multi-sectoral group at central government level, and one of the keys to its success to date has been through encouraging 'ownership' of the mainstreaming concept and program by many partners. The MRG is being currently led and coordinated by the Research and Evaluation Division (RED) of the GNHCS.

Capacity development in mainstreaming through the JSP included mainstreaming awareness-raising by the MRG of 33 Dzongkhag Planning Officers, 40 LG officials and JSP focal points in line ministries, 50 policy and planning and technical staff in line ministries, Thromde A officials, 108 Dzongkhag planners, engineers, environment officers and Gewog officers across all 20 Dzongkhags, and 21 GNHC and DLG planners/focal points. A recent *Report on the Feedback on ECP Mainstreaming Workshop* by the Royal Thimphu College indicated that, at least in terms of awareness-raising, the training was effective.

Outcome 2 of the JSP focused on ECP mainstreaming at the local level. As part of this, the MRG consulted with officers in the Dzongkhags, reviewing their draft FYPs. This resulted in identification of the key crosscutting issues of concern within each Dzongkhag, and of sustainable alternatives and opportunities in development activities. Also identified were potential impacts and benefits, and M&E indicators linked to NKRA and SKRA (see "*Framework for Mainstreaming Gender, Environment, Climate Change, Disaster Risk Reduction and Poverty (GECDP) in the 11th FYP of the Local Governments*" GNHC - draft). The LGSDP Concept Note (March 2013) reported, following an examination of some draft FYPs, that priorities of some local governments did include addressing environmental impacts and climate change proofing - in particular for agricultural development and infrastructure. However, they also reported that there is little capacity at local government level to move beyond awareness and to identify, or propose, strategies to do.

The initial focus of mainstreaming, through the JSP, was on ECP issues. Later, the Technical Review of the JSP (Oct, 2011) recommended it should also engage with organizations like the National Commission for Women and Children (NCWC) so that JSP could be 'gender-responsive' in all ECP work – as well as share generic mainstreaming experience and tactics. Disaster Risk Management is also a mainstreaming priority, as articulated in the National Disaster Risk Management Framework. For both efficiency and potential effectiveness, both gender and disaster risk management have

subsequently been incorporated in the MRG's activities. Its focus, as described in Section 2.3, is now on GECDP mainstreaming.

The JSP Technical Review (2011) noted that the JSP suffered from '*Atomization*' into too many projects ... a long list of activities rather than a critical path guided by a clear ECP Mainstreaming Strategy. The MRG has recently conducted an internal workshop to deliberate on future strategy requirements, leading to the formulation of a Strategic Action Plan laying out all the elements required for successful GECDP mainstreaming in Bhutan. This Action Plan addresses institutional arrangements, advocacy, awareness-raising, planning and budgeting, plan implementation, policy review, building GECDP capacity within the sectors (both at central and local levels), building GECDP mainstreaming capacity in tertiary institutes and private training service providers, and advisory support. This Action Plan lays out a comprehensive strategy towards successful mainstreaming of GECDP issues in all development in Bhutan – and while many of the elements of the Strategic Action Plan can be addressed using existing resources, others are identified that are, as yet, unfunded.

In general, awareness of the overall value of ECP mainstreaming in Bhutan is good. At the LG level, the challenge is now to move beyond awareness towards how to implement mainstreaming, and to increase the capacity to undertake it both within sectors and through integrated mechanisms. The particular focus must now be on implementation (JSP Technical Review, 2012). Capacity in implementation can best be built by a combination of formal training and by learning about what works through experience – achieved by interaction among the emerging GECDP 'community of practice' to support innovation and then to scale-up what is found to work well within the Bhutanese context.

The requirement for LGs to mainstream GECDP in their activities is not new. The *third principle* for the determination of eligible expenditure in the Annual Grant Guidelines for Local Government (2010) requires LGs to pursue strong prioritization of all GECDP cross-cutting issues/themes in all activities included under the capital grant schemes (see details under Outcome 2, Output 2.1). There is, as noted, currently little capacity at the local level to successfully respond to this requirement.

In this Program, the focus on mainstreaming crosscutting issues within LG activities fully aligns with 11th FYP objectives.

3.4 Participation of Women in Local Governance

Women in Bhutan, in general, enjoy a favorable socio-cultural environment. However, in the emerging democratic political environment, women representation has been dismal. While women make up 50.8 percent of the total eligible voters and generally turn up in more numbers than men for the elections, elected women LG functionaries constitute only 7.3 percent of the filled posts at the Gewog level and 11.9 percent at the Thromde level (see Table 1).

TABLE1: Male-Female Representation in Local Governments

Local Government Functionaries	Post Filled (Total Post)	Male	Female	Male%	Female%
Gewog level					
Gup	205 (205)	204	1	99.5	0.5
Mangmi	205 (205)	193	12	94.1	5.9
Tshogpa	1022 (1044)	930	92	91.0	9.0
Total (Gewog level)	1432 (1454)	1327	105	92.7	7.3
Thromde level					
Thrompon	4 (4)	4	0	100.0	0.0
Thromde Thuemi	13 (16)	13	0	100.0	0.0
Thromde Tshogpa	25 (25)	20	5	80.0	20.0
Total (Thromde level)	42 (45)	37	5	88.1	11.9

Source: Department of Local Governance

There, nonetheless, is an important improvement compared to earlier figures of women representation in LGs¹¹. Women participation in Zomdus (community meetings at Chiwog level) is said to be high, but women often prefer to leave decision-making role to men¹². A study was commissioned by NCWC in 2011 to appraise the status of women in politics. The study report, entitled *Women in Politics: Status of Women's Political Participation in Bhutan*, revealed a number of factors that inhibited women's participation in politics and provides recommendations to address these impediments (see box).

Women in Politics: Status of Women's Political Participation in Bhutan Findings and Recommendations of the Study	
<p>The study involved survey of 822 women and 714 men in rural and urban areas. The study report outlined the following key findings and recommendations:</p>	
<p><u>Key Findings:</u></p> <ul style="list-style-type: none"> ▪ Overall 61.7 percent felt that the burden of being a mother, domestic work and income generation prevents Bhutanese women from participating in public life; ▪ 42.7 percent felt that women have lower expectations of their leadership capability in politics ▪ 38 per cent saw leadership and politics as a masculine activity; ▪ About 79 percent agreed that women can participate as voters as well as Tshogpas, Mangmis and Gups; ▪ About 48 percent believed that attitudes and stereotypes against women constrain their participation in public life, particularly in leadership positions; ▪ About 51 percent perceived women as 'passive participants' in decision-making whether at home, in the village or at the Gewog (block) level; ▪ 67 percent believed that illiteracy or lower educational level is a major barrier to women's participation; ▪ 45 percent agreed not having many role models for women to look up to, adversely affecting women's participation in the public life. 	
<p><u>Key Recommendations:</u></p> <ul style="list-style-type: none"> ▪ Long-term programs to improve attitudes about women's role in public life; ▪ Financial support for women candidates, especially in local elections; ▪ Special leadership training for women interested in politics; ▪ Support for elected women representatives to achieve their targets; ▪ Non-formal education and gender sensitive plans to empower women. 	

¹¹ According to figures (as of March-June 2006) compiled in the National Plan of Action for Gender (2008-2013) by the National Commission for Women and Children, women made up 1 percent of Gup's post, 2.5 percent of Mangmi's post, and 4.2 percent of Tshogpa's post at the Gewog level.

¹² Compared with elections of 2005, women representation nearly doubled from 4% (65 elected) in 2005 to 7.3% (104 elected) in 2011-12 (Leki Dorji & Associates: 'Democracy Up-Close, A documentary study of Bhutan's first LG Elections, Thimphu, 2012

The National Plan of Action for Gender (2008-2013) has highlighted education (tertiary and vocational levels), employment, political representation, and violence against women as critical areas that need attention. The 11th FYP envisages certain measures such as the development and implementation of a Gender Responsive Budget Strategy, review of relevant legislations and policies from a gender perspective, effective use of the network of gender focal points to achieve the gender-relevant results outlined in the 11th FYP, and enhancement of the institutional capacity of the NCWC. It also makes mainstreaming of gender issues in relevant plans and programs mandatory across various sectors. To this effect, gender mainstreaming has been integrated in the GECDP mainstreaming framework, which is a major outcome of the JSP.

4. The Proposed Program - LGSDP

4.1 Opportunities and Challenges

Opportunities

The following opportunities can be built upon in the implementation of LGSDP:

- There is a strong constitutional basis and favourable institutional set-up (Local Governments with democratically elected functionaries, supported by civil servants) to deepen decentralized reforms and local level democratization.
- There is commitment by national authorities to an increasing level and equitable distribution of LG resources, as evident from the initiation of ACGs to all Gewogs and Dzongkhags based on RAF in the 10th FYP, and the will to enhance this further through PBGs in more Gewogs and Dzongkhags than the initial pilot scale of four LGs (two Dzongkhags and two Gewogs) under JSP and LGSP.
- Gradual improvement in the absorption capacity of ACGs by the LGs over the period of the 10th FYP.
- Enactment of the Local Government Act of Bhutan 2009, subsequently reinforced with the promulgation of the Local Government Rules and Regulations 2012, provides further boost to the decentralization agenda.
- The adoption of a new Economic Development Policy in 2010 with the vision “to promote a green and self-reliant economy sustained by an IT-enabled knowledge society guided by the GNH philosophy.”
- Strategic focus on self-reliance and inclusive green socio-economic development in the 11th FYP, and the emphasis on environment and good governance as cross-cutting themes to achieve sustainable development.
- The progress of GECDP mainstreaming, in particular the functional existence of a national-level MRG and the application of GECDP Mainstreaming in the 11th FYP, provides the basis and opportunity for transferring the experience to the local level.
- Visible efforts of the RGoB in reducing poverty significantly, as evident from reduction of population poverty rate from 23.1 percent in 2007 to 12 percent in 2012, and further opportunity for poverty reduction through targeted interventions in Dzongkhags and Gewogs, where population poverty rate is still high (e.g. the six poorest Dzongkhags with over 20 percent population poverty rate).
- Interest from multiple development partners to support a joint program, which integrates local governance and sustainable development, and concurrent move of RGoB towards harmonized development partner support for strengthening good governance and green socio-economic development corresponding and aligning to the 11th FYP.

Challenges

Whilst there are numerous opportunities to build on, there are also a number of challenges that require attention:

- Fiscal decentralization and resource allocation system is still in need of further improvement. Grants have been allocated over and above the RAF due to reasons such as disasters, project-tied modalities, and the need to develop basic infrastructure (such as road connectivity) to bring the lesser developed Gewogs to an equal footing of development. There is a need for better predictability of such grants and grant adjustments for more effective and transparent fiscal decentralization and fund transfer.
- Clearer linkages of functional and fiscal assignments between central agencies and LGs and between Dzongkhags and Gewogs are required.
- The utilization of existing planning and M&E instruments (LDPM, PlaMS, MYRB, and PEMS) by LGs has remained weak, and needs to be improved through capacity development support.
- Capacity development has been largely supply-driven. There is a need for a meaningful balance in demand-driven and supply-driven capacity development. However, there is reportedly a dearth of training service providers for demand-driven training.
- There is tendency to limit capacity development to standard, pre-determined training programs. More innovative (and sustainable) forms of capacity development, such as e-learning, peer-to-peer learning, and audio-visual resources, have not been sufficiently explored and applied.
- Capacity constraints, particularly in terms of knowledge and tools, in transfer of the successful experience provided by the MRG model, in mainstreaming the crosscutting GECDP issues at central level, to the LG level.
- Strategies, approaches and information base to foster the implementation of policies and vision of a green and low-carbon economy at the local level are lacking.
- Women's participation in local governance has remained very weak. Reasons attributed to this include lack of exposure, low literacy level among rural women, household duties, and low confidence in decision-making and leadership roles (refer back to Section 3.4). Enhancing women's participation in local governance will be vital to bring about inclusive development.
- While there has been a steady improvement in the interactions between national government and LGs and initiatives are ongoing to further strengthen them, the areas of downward accountability of LGs to the citizens, LG-citizen interaction and grassroots level community participation have not yet received much attention.

4.2 Objectives and Outcomes

Building on the strategic focus of the 11th FYP, the *development objective* of the Program is: to contribute to the 11th FYP goals of self-reliant, inclusive green socio-economic development and good governance at the local level.

The *immediate objectives* are:

- (a) To promote sustainable and equitable socio-economic development at the local level;
- (b) To promote conservation and sustainable management of the environment at the local level; and
- (c) To strengthen good governance at the local level.

The above immediate objectives translate to the following *outcomes*:

- (a) Inclusive and equitable socio-economic development sustained at the local level;
- (b) Environment conserved and sustainably utilized at the local level; and
- (c) Good governance strengthened at the local level.

4.3 An Integrated Approach to LGSDP Implementation

Preamble

The design of this Program rests on foundations laid by the RGoB's 11th FYP. The Program will contribute to three of the four broad components of the 11th FYP, namely: (a) sustainable and equitable socio-economic development; (b) conservation and sustainable management of the environment; and (c) strengthening of good governance.

While the Program's outcomes and strategic emphases are either taken directly from, or reinforce, the 11th FYP, they adopt a local governance perspective in relation to the attainment of those outcomes and the Plan's overall national development goal, and are designed in a manner to ensure mutually strengthening activities across the three main outcomes supported by the Program.

However, the LGSDP is not designed to, nor it can, achieve the aforesaid outcomes on its own. The LGSDP resources will constitute only a fraction of the 11th FYP's total budget outlay. It is important to recognize that many programs and projects will be taking place in order to attain the outcomes, and LGSDP will be just one of them but an important one. It will give impetus to those critical aspects, emanating from the experiences and lessons of LGSP and JSP, which will add value and meaningfully contribute to the overall work of RGoB, based on the 11th FYP, to strengthen good governance and promote inclusive green socio-economic development at the local level.

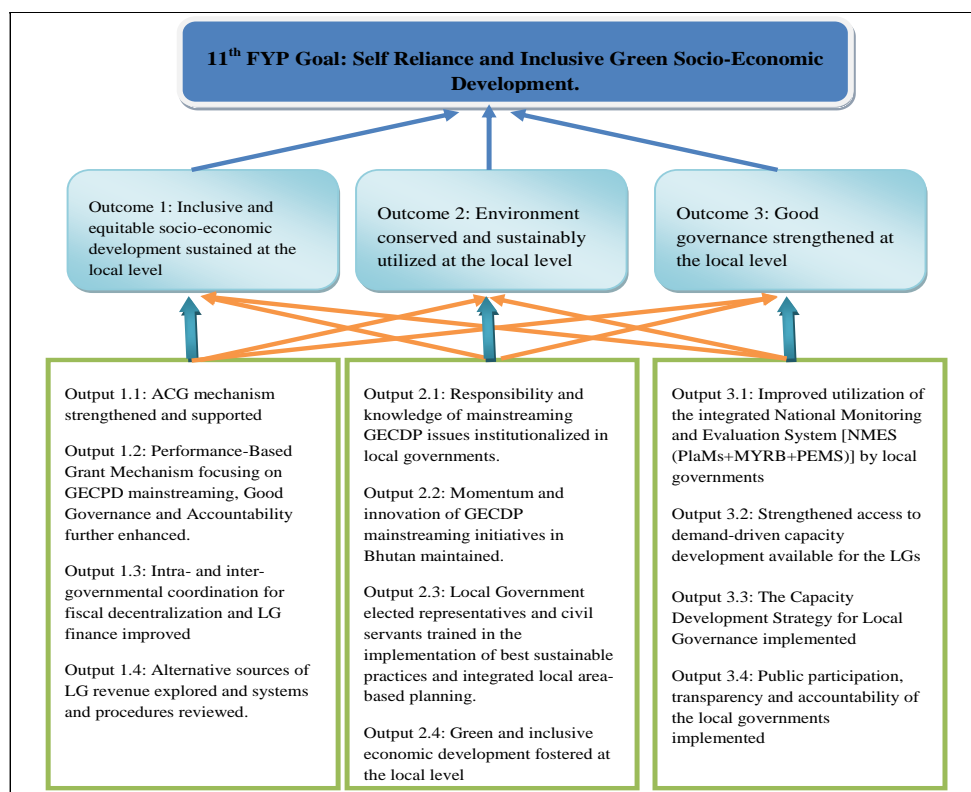
Implementation Strategy and Inter-Linkages

The Program implementation strategy is designed to optimize the contribution of local governance, particularly in the realization of the national development goal and the attainment of the three outcomes set out above and illustrated in Figure 1 (LGSDP Linkage to the 11th FYP and Outcome Inter-linkages). The Program does this by focusing its attention on helping LGs to make the best

possible use of the ACGs they receive from the central government. These funds constitute the bulk of discretionary financial resources available to LGs for local development projects, most of which to date have been used for farm roads. The development significance of the ACGs is clear, but it is enhanced by the fact that the quantum of such funding, when calculated *per capita*, is among the highest in developing countries.

At the same time, the Program is designed to mainstream environmental and green development considerations into the main business of LGs, i.e. into the design, implementation, and monitoring by LGs of local investments. In order to enable these things to happen as quickly and as well as possible, the second and third main components of the Program involves building the capabilities of LG – particularly in relation to Outputs 2.3, 3.1 and 3.2 (see Figure 1) and also in relation to the question of citizen engagement and social inclusion, all of which are fundamental to equitable and green development. Figure 1 depicts these aspects of the Program and their contributions to the 11th FYP.

FIGURE 1: LGSDP Linkage to Eleventh FYP and Outcome Inter-Linkages



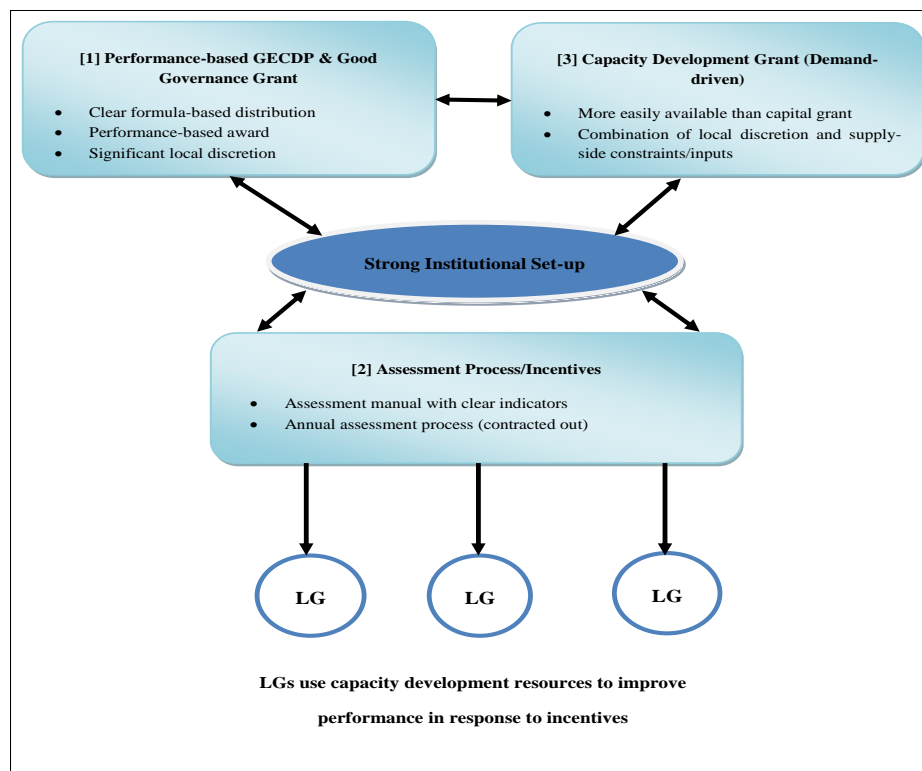
The Program draws on lessons learned from, and the achievements of, the LGSP and JSP (2008-2013). Within fiscal decentralization, the major system of formula-based annual grants is well-established. The DPs constitute a small, but very important, part of total funding (less than 5 percent). The funding available for the next phase, therefore, comprise activities aimed at ensuring the sustainability and refinement of the system (addressing the challenges identified in the joint annual reviews) and, importantly, the expansion of the system of multi-sectoral PBGs, which will be used to promote improved performance in core crosscutting areas of LG responsibility.

Accordingly, the Program funding is directed at the expansion of PBGs, which will tie together the main elements depicted in Figure 1. The size of such grants for each LG will depend on performance against criteria that address GECDP issues and their mainstreaming in LG operations (such as planning, budgeting, procurement, implementation, and monitoring) – see [Annex 3](#). To help ensure that LGs are able to do what is required, the expansion of PBGs will be supported by demand-driven capacity development (CD) financed by separate grants. LGs will also be supported in this through institutionalisation of GECDP mainstreaming at the their level, awareness-raising, and specific capacity building of elected and civil service LG officials in best practices of sustainable and integrated local-area based planning and development. The award and the size of PBGs will be based on impartial and transparent annual performance assessments. The performance indicators will draw on the experience piloting of Performance-Based Climate Resilient Capital Grants, under JSP-LoCAL component, and international experience of similar initiatives. To reiterate, the indicators will address cross-cutting areas of LG performance, particularly the focal areas of the 11th FYP, the cross-sectoral roles of LGs, and sustainability.

These PBGs will add value to the incentives already inherent in the ACGs.

Figure 2 (Mutually Strengthening Components of the PBGs Promoting, and Benefitting from, GECDP Mainstreaming and Good Governance) depicts how these grants are mutually reinforcing with the capacity development support and the annual performance assessments.

FIGURE 2: Mutually Strengthening Components of the PBGs Promoting, and Benefitting from, GECDP Mainstreaming and Good Governance



Comparative experience shows that PBG systems achieve their goals, and – provided the design complies with established principles – that they improve upward, downward and horizontal accountability. As a result of their use, central government will know where the problems are and where further work is needed. LGs will use results to shape their capacity development plans, and citizens will have strong means for making LGs more accountable. And perhaps most importantly, elected representatives and the LG officials can use the results as a basis for improving future development initiatives.

Under the Program, PBGs will be applied to the LGs already supported in LGSP/JSP, and will be expanded (from FY 2013/14 – FY 2017/18) according to absorptive and program capacity and funding availability.. The aim will be for the system to be applied country-wide in the 12th FYP. In addition to the link with the capacity development grants under Outcome 3, the performance of LGs in mainstreaming will be strongly supported by activities under Outcome 2.

As suggested above, the Program will continue to support, although to a limited extent, the improvement of the more supply-driven (and generic) capacity development support, such as planning. Existing modalities for this support will be reviewed and adjusted. This support will be closely linked with a number of initiatives within good governance and accountability such as activities promoting participation, improved dialogue between central and LG levels, and interactions between LGs and citizens. Again, such support to capacity development and good governance will be promoted by the annual assessments conducted of LG performance. However, the bulk of the capacity development support will be delivered as demand-driven capacity development grants, which will gradually be extended from the first 13 Gewogs receiving this support through JSP to all LGs by the end of the program.

To date a significant part of the ACG funding has been spent on farm road construction - the economic development, environmental and social (positive and negative) consequences of which have been, and remain, profound and far-reaching. As a result of this, and the variable quality of farm road construction, the maintenance of farm roads has become an issue of national concern. Its importance in the 11th FYP is heightened by the emphasis accorded to ‘green socio-economic development’. In Annex 2, two examples, including one on farm road maintenance, have been provided to illustrate the integrated way in which the Program strategy would contribute to the overall national development objective and key outcomes of the 11th FYP.

4.4 Outputs and Indicative Activities

The outcomes and outputs below present an overall implementation framework, which will be operationalized through a sequence of Annual Work Plans and Budgets.

Outcome 1: Inclusive and equitable socio-economic development sustained at the local level

Output 1.1: ACG mechanism strengthened and supported

The Local Governments have approved their 11th Five Year Plan and the plans contain activities on renovation and maintenance of farm roads, participatory forest management, afforestation, climate change adaptation and mitigation, environmental conservation and other activities relevant for support by Annual Capital Grant Mechanism through this program.

This will entail technical assistance to further develop and refine RGoB's inter-governmental fiscal system, especially the Capital Development Grant-mechanism. Studies of the existing ACG support mechanism to LGs in order to strengthen decentralization and enhance downward accountability (relationship between Dzongkhags/ Gewogs and citizens) will be conducted. These will explore various issues raised in the annual joint reviews of the LGSP¹³ including: (a) links between capital and recurrent funding; (b) review of options for more predictable, formula-based and transparent allocations; and (c) review of how the modality can be improved to strengthen performance and contribute to promoting a green, sustainable and inclusive local development. The reviews will comprise a study on the allocation of recurrent (operating and maintenance) budgets of the LGs and the links with the capital investments, and consider how to improve their functioning. The work will also comprise work on support to a fiscal decentralization strategy and annual LG fiscal outlook (publication on LG finance) to ensure that lessons are learned and achievements capitalized and training of core staff at the central level on fiscal decentralization.

In brief, this output will encompass the following activities:

- (a) Study and assessment of the existing system of inter-governmental fiscal transfers, including issues related to accountability, with recommendations for improvements;
- (b) Support to development and distribution of annual booklet/LG fiscal "outlook" with core data on LG finance, revenues, expenditures, use of funds etc.;
- (c) Provide budgetary support to strengthen ACG mechanism.

Output 1.2: Performance-Based Grant Mechanism focusing on GECPD mainstreaming, Good Governance and Accountability further enhanced.

The support will ensure a further enhancement and refinement of the small pilot of PBG initiated under LGSP/JSP/LoCAL output¹⁴. The output will support enhancement of PBGs with an aim to promote mainstreaming and attention to cross-cutting issues and focus on sustainable and climate-resilient development including environment and social inclusion. The PBGs will focus on cross-cutting areas, included in the 11th FYP: gender, environment, climate change, disaster risk management and poverty, as well as good governance, and will promote climate-resilient and environment-friendly procedures and practices at the local level. The areas to be promoted from the system will focus on the cross-cutting procedures and practices supporting all sectors (and not on short-term sector specific outputs) and institutional improvements to ensure long-term sustainable provision of services. It will also encompass indicators on PFM, good governance and anti-corruption (see [Annex 3](#) for an indicative list of performance areas to be promoted by the grant). In the design and implementation of the grants, strong links will be ensured with the demand-driven capacity development, supported under Outcome 3 to ensure that LGs have opportunities to address the capacity development gaps and needs and that the components of the PBG are working together in a mutually strengthening manner (as described earlier in Section 4.3: An Integrated Approach to

¹³ See the Mission reports from the Joint Annual Review of the LGSP, 2009, 2010, 2011 and 2012.

¹⁴ Local Climate Adaptive Living Facility, which is a global climate change initiative, in which Bhutan is represented.

LGSDP Implementation), and Outcome 2 which will among other things support LGs in acquiring awareness and knowledge of mainstreaming GECDP issues and, over the life of the Program, provide them with the skills to incorporate them in all working procedures.

The PBGs will, as a minimum, cover all LGs included in the ongoing pilot, and be further enhanced along with mobilization of further resources under the Program.¹⁵ It is expected that the PBG will be fully up-scaled and mainstreamed from the 12th FYP. The implementation will be supported by the global LoCAL initiative on performance-based climate resilient grants, which will avail technical assistance and guidance on use of PBGs. This initiative will also explore options for future additional external funding from global funds and new initiatives.

The specific activities under this output will be:

- (a) Development of the performance assessment manual with point of departure in the manual developed under JSP-LoCAL component. Links with other performance initiatives e.g. under the GPMS and the RAA (including performance audits of e.g. roads) will be explored and incorporated;
- (b) Establishment of systems of neutral, objective and high quality annual assessments, eventually contracted out with government/program quality assurance and backstopping, applying best practices for PBG and support to M&E of the utilization of funds;
- (c) Support to environment and climate change vulnerability assessments (with particular attention to gender and pro-poor outcomes) in LGs not yet covered by previous interventions;
- (d) Updating of annexes to the annual grant guidelines on performance-based allocations, investment menu, and flow of funds, and to the LDPM etc.;
- (e) Provision of funding support to the PBGs to be registered under a special FIC for tracking of achievements¹⁶.
- (f) Up-scaling of the experiences and training of core staff especially in MoF, GNHCS and DLG in fiscal decentralization.

Output 1.3: Intra- and inter-governmental coordination for fiscal decentralization and LG finance improved

Experiences from the LGSP/JSP have proved the need for strong intra-and inter-governmental coordination within the area of fiscal decentralization, including rules, procedures and capacity development support. A World Bank IDP grant has just been approved to support a review of coordination options, but only within the area of urban government finance. It is expected that a committee could be established with representatives from GNHCS, MoF, MoHCA, NECS, core line-agencies, Dzongkhags and Gewogs (and urban authorities depending on whether one committee with

¹⁵ The speed of the roll-out will depend on the availability of funds as well as the capacity of the central government to provide backstopping support. The roll-out will be decided in the annual work-plans of the new program.

¹⁶ It is expected that the existing FIC for LoCAL funding can be applied.

two sub-committees or one common arrangement will be established). All activities should be closely coordinated with the initiative, supporting the urban government finance. This output, which will be closely linked to Output 1.1, will encompass the following activities:

- (a) Study of international experiences and best practices of inter-governmental coordination of LG finance, including Fiscal Commissions, Committees and other coordination arrangements and exposure to various institutional options;
- (b) Subsequent to above, review of the various institutional options for strengthening inter-governmental coordination of LG finance, selection of the most suitable option(s) and development of support instruments (ToR, rules of operation, etc) for operationalizing the selected option(s). The review will also need to essentially include examination of existing institutional coordination arrangements and take into account findings and recommendations of past reviews;

Output 1.4: Alternative sources of LG revenue explored and systems and procedures reviewed.

The systems and procedures for alternative resources at LG level have not been reviewed under the LGSP/JSP, nor have these systems been updated for the past few decades. The revenues are insignificant (less than one percent of the LG funding), but there are issues related to collection and utilization, which have been raised in the various annual reviews. Detailed assessment of these issues, and of system and procedures, has not yet been undertaken.

This output will concern a review/assessment of the system and procedures for alternative resources, including review of the legal framework (LG Act, regulations and tax/revenue legislation and regulations), options for adjustments of rates, procedures and systems for LG collection of taxes and fees, opportunities for utilization of funds, and ways to ensure environmental sustainability etc. As part of this work, a handbook/guideline for sustainable revenue mobilization will be developed as well. The assessments will fit into the policy and legal framework as well as capacity development support and follow-up at the LG level. The work will be conducted in close collaboration between MoF, LDD (GNHCS) and DLG (MoHCA). Hence in brief the support will encompass the following activities:

- (a) Support to development of a fiscal decentralization strategy, including training and work-plan for the reforms;
- (b) Review and assessment of the existing LG revenue sources, including legal framework, regulations and practices, links with local economic development and implications for environmental sustainability, and policy recommendations on the LG finance system;
- (c) Handbook for LGs for efficient and sustainable revenue mobilization and related training.

Outcome 2: Environment conserved and sustainably utilized at the local level

To achieve the requirements of aligning this Program with the 11th FYP, GECDP mainstreaming needs to be fully institutionalized at the LG level. While all government agencies are already charged with ensuring equitable and sustainable socio-economic development and conservation of the environment, capacities and resources to achieve this within LGs are not strong. LG representatives have reported difficulty in visioning sustainable futures or in assessing cumulative impacts of

development activities on environment and social conditions. There is, for instance, little evidence of application of the third principle for the determination of eligible expenditure in the Annual Grant Guidelines for Local Government (2010), which is stated as:

...the Dzongkhags and the Gewogs should pursue a strong prioritization of cross-cutting issues/themes such as good governance, gender equality, poverty alleviation, food security and nutrition, socially disadvantaged and vulnerable groups, community happiness/vitality, natural resource management, disaster management and risk reduction, climate change adaptation and mitigation, and environmental management and sustainability in all activities included under the capital grant schemes.

Output 2.1: *Responsibility and knowledge of mainstreaming GECDP issues institutionalized in local governments.*

Safeguarding activities such as forestry or environmental clearances are in place as part of the LG implementation of development activities (though these could be strengthened particularly in terms of monitoring and enforcement of conditions). These, however, do not address cumulative problems such as degradation of watersheds, nor do they encourage the consideration of alternative development activities and opportunities for sustainable development. LGs need to mainstream these issues into their development activities. The MRG provides, at central level, a successful model of a multi-sectoral structure within government that strengthens and facilitates the integration of crosscutting issues in all development activities. Such a structure, developed uniquely in Bhutan, can be adapted to LG level if appropriately scaled to fit the needs and resources within each Dzongkhag, utilizes existing administrative structures, and is cognizant of the culture of LGs. Support will be provided to reinforce and strengthen LG responsibilities for the mainstreaming of GECDP issues in all planning and development activities in the Dzongkhags. The most effective and efficient way to do this still needs to be identified, but one suggestion is that the current role and the composition of the Dzongkhag Environmental Committees (DECs) could make them suitable for this task (other possibilities include, for example, the Dzongkhag GNH Committee). DECs chaired by the Dzongdag and made up of key Dzongkhag sector heads, have been instituted since 2004. The DECs have the mandate to ensure integration of environmental concerns in Dzongkhag plans and programs.

The following activities will be supported to deliver this output, primarily through TA working with the central MRG:

In brief, this activity will encompass:

- (a) Finalizing the ToR for mainstreaming GECDP at Dzongkhag level (see [Annex 4](#) for a preliminary draft);
- (b) Consultations with Dzongkhag Administrations to confirm the most appropriate structure for GECDP mainstreaming at Dzongkhag level. The Dzongkhag Administrations will determine how best to expand the mandate of an existing Committee (e.g. Dzongkhag Environment Committee, Dzongkhag GNH Committee) to ensure the Dzongkhag is able to respond to the roles of responsibilities of mainstreaming as stipulated in the final ToR;
- (c) Formalizing the GECDP mainstreaming mandate and modus operandi at the Dzongkhag level.
- (d) Develop and deliver sensitization and training workshops for all members of Dzongkhag-level committee decided and formalized for GECDP mainstreaming

- (e) Specialized in-depth training of Dzongkhag Environmental Officers and Dzongkhag Planning Officers in mainstreaming

Output 2.2: Momentum and innovation of GECDP mainstreaming initiatives in Bhutan maintained.

Support will be provided for further strengthening of effective, sustainable, GECDP-focused mainstreaming mechanism in Bhutan. The achievement of Output 2.1 is critically dependent on the continuation of the achievements of current and proposed activities in mainstreaming at central (and to some extent, local) government level, and within the tertiary educational sector primarily through activities of the MRG.

The following activities will be supported under this output:

Activity 1: Annual review, update and implementation of the Strategic Action Plan of the MRG

This will entail implementation of the strategic action plan and also technical assistance to the MRG to respond to rapidly changing knowledge, experience and circumstances through an annual update of the Strategic Action Plan that has been developed by the MRG, and the incorporation of experience and best-practice from elsewhere into it. There is rapidly growing international practice that is relevant. The activity will enhance the mainstreaming of GECDP issues into development activities in Bhutan through support for new and timely elements of the Strategic Action Plan. The Strategic Action Plan should increasingly focus both on opportunities for and constraints to mainstreaming at the LG level, supporting the activities under Output 2.1, and on critical linkages between central and local mainstreaming of GECDP issues.

Activity 2: Support for implementing specialized activities in monitoring, advocacy or training in the MRG mainstreaming strategy plan

There is a range of activities identified by the MRG in its Strategic Action Plan that are required to sustain and increase the effectiveness of mainstreaming in Bhutan. Many of these can be undertaken without additional resources, but others (For example capacity building of the training institutes) require specific funding to strengthen the impact of GECDP mainstreaming, particularly in the implementation stages of the 11th FYP (and preparations for the 12th FYP). The focus will be two-fold: (a) on activities that are required to maintain the momentum in mainstreaming in government; and (b) on activities that enhance central to local government linkages in mainstreaming.

This will entail for each year of this Program:

- (a) Prioritization of the key elements of the Strategic Action Plan of the MRG according to the above two foci;
- (b) Technical assistance for implementation (advocacy, evaluation, monitoring, training) of the prioritized activity.

Output 2.3: Local Government elected representatives and civil servants trained in the implementation of best sustainable practices and integrated local area-based planning.

The experience of the MRG is that, once awareness and sensitization in GECDP mainstreaming in any target group has been achieved (there has been extensive awareness-raising by the MRG at central, and to a lesser extent, at local level), the key issue becomes “how-to”. This is particularly

acute at the LG level where the opportunity to experience and apply best-practice from elsewhere, both from within Bhutan and internationally, is severely constrained.

This output is critical early in the Program in order to set up the framework of capacities at the local level. It is also a pre-condition for effectiveness of the PBGs – where GECDP issues are integrated in the performance criteria (see Output 1.2).

Activity 1: *Review, document and disseminate best examples from Bhutan, and best international examples, of local area practice in sustainable development, planning, coordination/integration in local area-based planning, and monitoring and enforcement.*

This will entail technical assistance to, amongst others:

- (a) Identify and catalogue where there is activity/trials/implementation at LG level of national and/or sectoral activities in any of GECDP mainstreaming, or sustainable management or utilization of resources. Examples of activities to be included are:
 - Implementation of low carbon strategies
 - Integrated water resources management
 - Disaster risk identification and management
 - State of Environment/ environmental monitoring at LG level (e.g. Dzongkhag Environment Outlook and Gewog Environment Outlook based on “PSIR” model)
 - All activities focused on RNR management for local economic development and sustainable resource use
 - Payment for ecosystem services
 - Benefit-sharing from mining and other extractive natural resource uses affecting local environments and livelihoods
 - Any other GECDP related problems/initiatives
- (b) Comprehensively document the material in (a) above that originates from *within* any one Dzongkhag, compile this as the elements of local area-based plan or sustainability strategy for that particular Dzongkhag, and disseminate for use and further action by the Dzongkhag-level committee selected for GECDP mainstreaming of that Dzongkhag;
- (c) Compile best national and international practice and experience, all of which must be fully relevant to the Bhutanese context and based on best practices for Bhutan (e.g. practice on enforcement of contracted requirements on road construction; or practice in integration across sectors within local area-based planning; or best practice in watershed management) for peer sharing between LGs in Bhutan;

Activity 2: *Utilization of the results of Activity 1 to design and deliver appropriate training to LG elected representatives, civil servants and others, and experience-sharing between different LGs.*

This will entail an efficient combination of print materials available to all, and specialized training, where appropriate, to different staff of LG (e.g. Dzongkhag Planning Officers, Dzongkhag Engineers

and GAOs will likely require different training to that designed for elected officials, and from each other). The training is to extend well beyond awareness-raising. It should only be considered for delivery when it is clear that it focuses on solutions to specific GECDP issues that have to be managed by LG officials in Bhutan. Emphasis must be on practical and effective environmental mainstreaming and climate change proofing.

Roll-out of the capacity building and experience-sharing components of this Activity in this Program should be to all Dzongkhags, but could be prioritized to a subset of them depending on funds available.

Output 2.4: Green and inclusive economic development fostered at the local level

Supporting local economic development can play a major role in achieving a number of Bhutan's development goals. Rural-urban migration presents an important threat to the maintenance of Bhutan's rural culture, while at the same time contributing to youth unemployment in urban areas. Arguably, much of this migration stems from a perceived lack of employment opportunities, coupled by underdeveloped infrastructure, in rural areas. In particular, high levels of unemployment and inequity with respect to wage levels affect women, youth and vulnerable groups. LGs can play a role in creating a more favorable environment for business development, but this must also be combined with the emergence of entrepreneurial activities and mindsets at local levels.

This output aims to foster green and inclusive economic development by focusing on four critical areas that address barriers identified within government and the private sector at the local level. Initial implementation of these activities should take place in the poorest Dzongkhags, as defined by the multi-dimensional poverty index:

- (a) The creation of an enabling environment for business development as outlined in the Cottage, Small and Medium Industry Policy (CSMIP) 2012, and with a focus on strategic sectors as identified in the EDP2010;
- (b) Building knowledge and know-how of local communities related to business development and entrepreneurship;
- (c) Enhancing market access, coordination of rural enterprises and entrepreneurial pilot projects;
- (d) Enhancing employment data at local levels to support more strategic planning and decision-making during LG planning.

These four activities will be implemented as follows:

Activity 1: Fostering an enabling environment for green local economic development

The 2012 *Ease of Doing Business Report* (IFC, 2012), aims to shed light on how easy or difficult it is for a local entrepreneur to open and run a small to medium-size business when complying with relevant regulations. The report identified a number of challenges in Bhutan in this regard, including lengthy and burdensome administrative procedures to start a business; difficulty in accessing credit; challenge gaining access to electricity, to name a few. Many of these challenges are exacerbated in rural areas, given distances and more challenging connectivity to decision makers in the capital. The

EDP 2010 and CSMIP 2012 recognize some of these challenges, and propose strategies to overcome them. The implementation of these strategies and related actions plans, however, still require significant progress at local levels.

Providing an ‘enabling environment’ for green local economic development can be achieved by addressing a number of these challenges. This activity will:

- (a) Undertake a comprehensive assessment of specific barriers to local business development, building on reviews that have already been undertaken. In particular the assessment will aim to focus on challenges for youth, women and vulnerable groups;
- (b) Coupled with this, a detailed strategy and action plan will be developed, with a focus on alleviating these barriers over the 11thFYP period. This action plan will include the implementation of measures to ease rural business development already announced in the EDP 2010, CSMIP 2012, and other relevant policies. Key Ministries (e.g. the Ministry of Economic Affairs, the Ministry of Agriculture and Forests), Government departments (e.g. Tourism Council of Bhutan), and relevant private sector and civil society organizations (CSOs) will be engaged in undertaking this review and Action Plan development, to ensure coordination, buy-in and implementation;
- (c) Implementation of the Strategy and Action Plan outlined above.

Activity 2: Provide technical support to initiate sustainable, and socially inclusive, private sector opportunities at the local level.

Enhanced capacity and access to resources is required to support the development of local economic opportunities. The EDP 2010 notes that a number of strategic sectors can be further developed, with tourism, agriculture, sustainable farm road maintenance and sustainable natural resource management related activities particularly relevant to the local level.

Leveraging such opportunities requires enhanced knowledge and capacity within the LGs and the private sector. Starting with the identification of strategic economic development opportunities, this activity area will build, and provide access to information and capacity that can help foster them. It will be implemented through technical assistance that will include:

For LG officials:

- (a) In coordination with relevant national Ministries, local private sector representatives, and CSOs, provide support to LGs in mapping strategic economic development opportunities at the local level, with a focus on identifying those that will support local job creation in areas that prioritize sustainable business opportunities. This activity will initially be implemented in selected poorest Dzongkhags and Gewogs according to the multi-dimensional poverty index;
- (b) Based on the mapping of opportunities, identify specific actions to pursue local economic development opportunities;
- (c) Develop capacity of LGs to assess and incorporate local development opportunities in the planning processes.

For local private sector and entrepreneurs:

- (a) Raise awareness amongst local communities about entrepreneurship and its potential for positive development outcomes;
- (b) *Provide access to information about existing entrepreneurial support programs.* Given the limited resources available to LGs and the challenges in accessing finance for the rural population, this activity will focus on enhancing the ability of local communities to benefit from existing programs that support entrepreneurs. Such programs are offered, for example, through the Ministry of Labor and Human Resources, and other organizations such as the Loden Foundation, Bhutan Association of Women Entrepreneurs, Bhutan Chamber of Commerce and Industry, Youth Development Fund, Bhutan Innovation Technical Centre, Tarayana Foundation, and DHI's Business, Entrepreneurship, Growth and Innovation program (BEGIN);
- (c) *Showcase entrepreneurial successes.* Bhutan is host to a number of social enterprises that have demonstrated positive environmental, economic and local development opportunities (e.g. Greener Way, Mountain Hazelnut Ventures, etc). These ventures can be show-cased throughout the country to provide inspiration, confidence and 'proof of concept' to others considering the pursuit of such activities.
- (d) Provide technical and financial support to innovative entrepreneurial pilot projects at local level. The program steering committee will approve the proposal based on the endorsement of the Gewog Tshogde or Dzongkhag Tshogdu.

Activity 3: Support enhanced market access and coordination of community based economic activities

An important challenge of small and medium-size enterprises in rural areas given their limited size, resources and relative remoteness, relates to efficiently accessing markets. Support for the development of cooperatives, informal groups, and facilities to enhance coordinated market access and delivery can help enhance economic viability of rural businesses. A number of programs have been initiated in the agricultural sector, notable by the Department of Agricultural Marketing and Cooperatives (MoAF). To date, some 40 agricultural cooperatives have been registered in Bhutan. DPs are also supporting these programs through capacity building activities and technical support. Beyond agriculture, cooperatives can offer important opportunities in other community-based economic development areas. One area of potential in this context relates to the promotion of coordinated community-based eco-tourism.

This activity will aim to build on and support existing initiatives and identifying relevant sectors where coordinated market development and delivery can effectively contribute to rural economic development. Specific activities will include:

- (a) Review of existing support programs for development of cooperatives and informal groups across strategic economic sectors in rural areas. A particular focus will be placed on identification of potential community tourism based activities;
- (b) Identification of support strategies to foster identified opportunities.

Activity 4: *Establishing a database by the Gewogs to measure the employment and creation of jobs at local levels to supplement the occasional sample Labor Surveys of the MoLHR.*

This activity will work at Gewog-level implemented by the Gewog Administrative Officers (GAOs) with technical assistance from National Statistics Bureau and the Ministry of Labor and Human Resources, and consolidation by National Statistics Bureau to:

- (a) Establish a Gewog-based database of the employment and job creation situation by regular (half-yearly) collection of Gewog-, age- and gender-wise data and type of job of the employment and jobs created;
- (b) Support the National Statistics Bureau in the consolidation of the data to provide an overview at the national level;
- (c) Promote the establishment and use of the data of the relevant LGs through the performance criteria for the PBG system.

Outcome 3: *Good governance strengthened at the local level*

All Dzongkhags and Gewogs are to formulate their detailed FYPs guided by the 11th FYP's overall goal of "Self-reliance and Inclusive Green Socio-Economic Development". The plans shall identify clear Key Result Areas (KRAs) to address socio-economic development problems/challenges confronting the Dzongkhag/Gewog. Emphasis shall be on reducing poverty, improving social indicators, improving public service delivery, enhancing capacity of local governance and strengthening democratization process, effective public participation and ensuring transparency and accountability in the LGs. The KRAs shall be accompanied by Key Performance Indicators (KPIs) to measure performance. The KRAs and KPIs shall be framed based on the four pillars of GNH. For the "Good Governance" pillar, examples for LGs include:

- Enhance effectiveness and efficiency in public service delivery: turn-around time for commonly availed public service reduced;
- Capacity of local government officials/community enhanced: average performance of local governments;
- Democratization process strengthened: proportion of people participating in trainings/workshops, proportion of people participating in national/local elections, community meetings, etc.

The support of LGSDP is to the extent possible to be aligned to the implementation of the 11th FYP. However, the support is focused taking into account the results achieved by the previous LGSP and JSP, and the lessons learned. The Capacity Development Strategy for Local Governance is now in place, but the actual implementation is yet to be undertaken in many areas, and demand-driven capacity development grants have been made available on a pilot-basis to six Dzongkhags, 13 Gewogs and one Thromde (Class A), based on the menu provided by the DLG. The overall response from the LGs is positive, and further integration and mainstreaming of the other GNH pillars within the good governance outcome implementation should be aimed at.

Output 3.1: Improved utilization of the integrated National Monitoring and Evaluation System [NMES (PlaMS+MYRB+PEMS)] by local governments

To improve the integration of the central planning, budgeting and monitoring system with the plans, budgets and reporting and accounting of the LG, full utilization of the NMES in particular by the GTs is to be undertaken. Pending the completion of the internet connectivity in all Gewogs, the utilization of the PlaMS by some of the GAOs will take place from the Dzongkhag, but it is critical for the FYP implementation and real participation of the local communities in the planning, budgeting and monitoring processes that the GTs' involvement, access to and understanding of the system is enhanced.

The following activities are to be undertaken under this output:

- (a) Support to capacity development of the Gups, Mangmis and Tshogpas in the utilization of the PlaMS, its reporting options, and of the role of the GAOs in the data entry of plans, budgets and progress data;
- (b) Support to the consolidation of reporting and data entry by GNHC could also be considered;

Output 3.2: Strengthened access to demand-driven capacity development available for the LGs

Capacity development of LGs has been largely defined, designed and implemented by the sector and central government agencies. To move from a purely supply-driven modality of capacity development for LGs as institutional capacities develop to a mix of limited centrally provided and locally demand-driven capacity development options, support will be gradually enhanced for demand-driven capacity development.

Under this output, the following activities are to be implemented:

- (a) Support to discretionary grants for capacity development of LGs and the local communities, decided by the GT and DT from a broad menu, consolidated by the DLG, of options of subjects of local governance (including budgeting and planning), GECDP mainstreaming, technical issues (e.g. farm roads maintenance), etc., and of means of capacity development (like informal training within the Gewog and Dzongkhag, formal training courses, peer experiences exchange, e-courses, in-country study visits, etc.);
- (b) Support to the discretionary local capacity development will be gradually rolled-out to all LGs as per the approval by the Program Steering Committee in the annual program planning, following criteria of poverty and environmental/ climate change vulnerability. As far as possible, all Gewogs of an included Dzongkhag are to be provided with the capacity development-grant. The roll-out plan suggests to include all six Dzongkhags¹⁷ and 40 Gewogs from 2013/14, and extends to include all the Local Governments by end of the program.
- (c) Support the capacity development of selected training institutes on good governance at the local level, to support the LGs' and communities' capacity development demands.

¹⁷ Poorest six Dzongkhags where some pilot CD grant had been initiated in selected Gewogs under JSP.

Development of curriculum and materials to enhance LG-citizen interaction and local community participation., Such curriculum and material will need to pay special attention to engagement of women, youth and disadvantaged groups (such as poor households, illiterate groups, and disabled people);

Output 3.3: The Capacity Development Strategy for Local Governance implemented

The RGoB has endorsed the Capacity Development Strategy for Local Governance, and the essential features are to be planned in detail and implemented over the next five years. This will entail continued interventions like induction of newly elected LG members (particularly in 2016 after the next LG elections), revision of the previously provided institutional capacity development to be more contextually relevant to the planning, budgeting and decision-making of the LGs, integration of GECDP mainstreaming in the training modules, and enhancement of the linkages between the local and central levels of capacity development.

Activities for this output are outlined below:

- (a) Support to the implementation planning of the Capacity Development Strategy for Local Governance at the DLG and other relevant central agencies, including revision and improvement of the curriculum/ modules intended for capacity development of the LGs and communities;
- (b) Support to preparation and implementation of the induction of newly elected LG members;
- (c) Support to the establishment of a common LG platform for the aggregation and amalgamation of the needs, demands and interests of the individual GTs, DTs and Thromde Tshogde, which could gradually evolve into a Coordination Committee/ Local Governments Association.
- (d) Support to review and assess the Capacity Development Strategy for Local Governance and its implementation by the end of the program.

Output 3.4: Public participation, transparency and accountability of the local governments implemented

This output will be pursued through the following specific activities;

- (a) In relation to upward accountability, relevant LG officials will be trained on ‘Corruption Risk Management’, using the materials (e.g. e-course on ethics and integrity) prepared on this subject by the Anticorruption Commission;
- (b) Support enhancing transparency at the local level by facilitating the uploading of budgets, plans, annual reports, approved audited GT accounts and DT/GT minutes on the LG websites (Dzongkhag or Gewog) by LGs, and making them accessible to stakeholders by supporting the distribution.
- (c) Conduct leadership trainings, workshops, etc. for women to encourage them to contest in LG election and inculcate motivation and skills development for leadership and decision-making.
- (d) Educate the general public on the importance of women representation in Governance and democracy through awareness, advocacy workshops and leveraging various forms of media.

5. Program Management and Organization

5.1 Program Management and Technical Assistance

A senior officer of Department of Local Governance, MoHCA will be appointed as the **Program Manager** to coordinate and oversee overall program progress and intervene if delays and other problems occur.

Each of the program outcomes (or components) will be assigned an **Outcome Manager** to coordinate and oversee the progress of the outputs and activities under their respective outcomes, and report to the Program Manager. The Outcome Managers will coordinate with the relevant **focal persons** (see the indicative list below) to ensure timely implementation and reporting of the activities.

The following arrangement is proposed for Outcome Managers and focal persons:

- Systems and Capacity Development Division (DLG) as the Outcome 1 Manager, supported by focal persons from the following agencies for implementation of various outputs:
 - Department of National Budget/ MoF (ACG, PBG, fiscal decentralization, and fiscal coordination)
 - Department of Public Accounts/ MoF (ACG, PBG, fiscal decentralization, and fiscal coordination)
 - Department of Revenue and Customs/ MoF (LG own source revenue)
 - Department of Local Governance/MOHCA (legal framework, regulations, etc.)
 - Local Development Division, GNHCS
- Research, Information and Policy Support Division (DLG) as the Outcome 2 Manager, supported by focal persons from the following agencies for implementation of various outputs:
 - NECS (mainstreaming of environment and climate change)
 - GNHC (GECDP mainstreaming and green development initiatives at LG level), RED
 - MoAF (green development in RNR sector)
 - MoEA (green development in trade, industries and energy sectors)
 - MRG (GECDP mainstreaming)
- Systems and Capacity Development Division (DLG) as the Outcome 3 Manager, supported by focal persons from the following agencies for implementation of various outputs:
 - Perspective Planning Division/GNHCS (utilization of PlaMS, MYRB, PEMS by LGs)
 - Planning, Monitoring and Coordination Division/GNHCS (utilization of PlaMS, MYRB, PEMS by LGs)
 - Department of Public Accounts/MoF (MYRB)
 - Local Governments

A **Program Management Group** (PMG) will be established, which will be made up of members from RGoB and development partners. The RGoB members will be the Program Manager, the Outcome Managers and the focal persons in the central ministries and agencies, and local governments. The DP members will be from the EU, ROD, SDC, UNDP and UNCDF. The PMG will meet at least once every three months to review progress, discuss the way forward, and address important strategic issues. Representatives from other national agencies, training institutions, civil

society and private sector will be invited on an ad-hoc basis when their contributions are required to the issues being discussed. The Program Manager will lead and coordinate this group. The ToRs of the PMG, Program Manager and Outcome Managers are provided in Annex 5.

Short-term international, regional or national TA can be accessed to assist with program implementation in cases where adequate resources in the government system are not available to undertake special tasks. ToR will be prepared for each such assignment with clearly specified tasks, expected deliverables and reporting requirements. The PMG will prepare these ToR for review and endorsement by the LGSDP-SC.

The LGs will have a crucial role in the utilization of the ACGs and PBGs for local development with special attention to GECDP issues, and employing best practices of local governance and public participation. They will also be pivotal for institutionalizing GECDP mainstreaming at the local level with capacity development support from the centre.

5.2 Program Steering Committee

A Program Steering Committee (PSC), chaired by the MoHCA Secretary, will be established with members from RGoB and development partners committed to the Program. The PSC will function as the apex forum for dialogue and decisions on the program. It will meet twice a year. The mandate of the PSC includes decisions and guidance on the overall priorities of the program in accordance with the Program Document and associated agreements, approval of major planning documents, progress reports, work plans, budgets, audit reports, and decisions required related to major implementation issues such as procurement and technical assistance as outlined in the annual work plans. Where deviations from the program document are considered necessary, the PSC can make relevant decisions. It, however, cannot alter overall program objectives, but may recommend changes in immediate objectives, outputs and program management. Specific roles and responsibilities of the PSC are detailed in Annex 5.

All documentation for the meetings (plan/budget, reports, proposals for adjustments, etc.) shall be distributed by the Program Manager to the Steering Committee members at least a week in advance together with a draft agenda. The Quarterly PlaMS report, including indicators outcome-wise, output-wise and by LGs, and with narrative remarks, is presented to the Program Management Group, which drafts a narrative Quarterly Summary highlighting challenges and issues of the report to be submitted to the PSC. In its half-yearly meetings, the SC will discuss the two Quarterly Summaries of the PMG, appended with the two Quarterly PlaMS reports. The DLG will be responsible for drafting the minutes of the PSC meetings and distributing these to all participants within a week after the meeting. The PSC approves the minutes at the next meeting.

5.3 Administrative Arrangement

Planning, implementation, and reporting will follow RGoB procedures and systems, financial year schedule, etc. Likewise accounting, financial management, audit, etc. will be as per RGoB rules. However, the DPs can, if necessary, undertake external audits and reviews, at their own decision. Tendering and contracting of technical assistance will be undertaken by the RGoB and LG bodies; if requested, the DPs can assist by contracting following their own rules.

The respective DPs, committed to the LGSDP support program will endorse the Joint Program Document (cover page), and formalise their commitments through the relevant Government/Organizational formal agreements, as required¹⁸ The administrative clauses of such bilateral arrangements should be in conformity with the Joint Program Document.

In continuation of the collaboration established through the 2008 Memorandum of Understanding of Joint Partnership for Good Governance, the partners to the LGSDP establishes a working relationship among its international partners providing support to good governance and decentralization in Bhutan to advance harmonization and alignment of the support to the principles expressed in the Constitution, and the priorities stated in the 11thFYP. The DPs intend to coordinate their activities and share information with a view to harmonize and maximize utilization of existing resources. It is anticipated that the RGoB will take the lead in letting this happen. The parties, committed to LGSDP will abide by the following principles:

- The parties intend to promote harmonization and alignment of support to good governance, decentralization and local development in Bhutan. The intent is to pursue a harmonized and fully-aligned implementation and monitoring approach, while it is acknowledged that individual DPs may continue to provide bilateral support in collaboration with the RGoB;
- The parties consent to establish a partnership for the implementation of the LGSDP as outlined in the Joint Program Document. Furthermore, the parties strive at avoiding bilateral reviews for individual DPs, substituting these by Joint Annual Reviews and planning exercises, including a joint final LGSDP Evaluation by 2017 of the partnership support to the program.
- The parties agree to promote, as much as possible, the pooling of their support to the Program, e.g. in the form of cost-sharing and basket-fund arrangements. Therefore, the parties agree to work together with the RGoB to further refine and implement the principles of good governance and sustainable development, and their promotion at local levels.

The LGSDP is to be implemented by the RGoB in accordance with the arrangements described in the foregoing sections (5.1 and 5.2) and ToRs detailed in Annex 5. The role of the DPs is to financially support the program implementation, contribute technically as required and agreed, receive and review reports, and provide feedback on program implementation. The program vision is to complete its outcomes by the end of the five years' duration to be sustained by the concerned LGs and RGoB. Thus, as far as possible, no further support from the DPs is envisaged as exit strategy of the program objectives.

Support from the Government of Denmark is the final Danish support, which will be concluding by December 2014. Support from SDC will cover the period 2013-2016 whilst support from the UN agencies is expected to phase in from 2014/15, and support from EU from 2015/16.

¹⁸It should be noted that some development partners, e.g. the UNCDF has legal requirements for Memorandum of Understanding, and that these may be required to release budget support, as well as some bilateral partners have country to country agreements. However, overall conformity with the LGSDP Program Document should be ensured.

6. Budget and Financial Management

6.1 Program Budget

The total budget required for the Program is BTN 1,040.00 million. However, as of 26 September 2013, expected funding availability totaled BTN 948.23 million based on the following indicative funding support from various DPs¹⁹:

TABLE 2: Indicative Funding Envelope from Development Partners

Development Partner	Amount (FC)	Amount (BTN million)
Government of Denmark	DKK 32.00 million	358.40
Government of Switzerland/ SDC	CHF 1.00 million	66.24
European Union	Euro 5.00 million	405.60
UNDP	USD 1.5 million	90.30
UNDP/UNEP PEI	USD 230,000	13.85
UNCDF	USD 230,000 ²⁰	13.85
Total		948.23

Year-wise Indicative Funding from Development Partners

Development Partner	Amount (FC)	Amount (BTN)	2013-14		2014-15		2015-16		2016-17		2017-18	
			FC (M)	BTN (M)	FC (M)	BTN (M)	FC (M)	BTN (M)	FC (M)	BTN (M)	FC (M)	BTN (M)
Government of Denmark	DKK 32.00 m	358.40	26.00	291.20	6.00	67.20	-	-	-	-	-	-
Government of Switzerland/SDC	CHF 1.00 m	66.24	0.28	18.55	0.31	20.20	0.27	17.55	0.15	9.94	-	-
European Union	Euro 5.00 m	405.60	-	-	-	-	1.50	121.68	2.00	162.24	1.50	121.68
UNDP	USD 1.50 m	90.30	-	-	0.60	36.12	0.30	18.06	0.30	18.06	0.30	18.06
UNDP/UNEP PEI	USD 230,000	13.85	-	-	0.05	3.01	0.08	4.82	0.05	3.01	0.05	3.01
UNCDF	USD 230,000	13.85	-	-	0.08	4.82	0.05	3.01	0.05	3.01	0.05	3.01
Total		948.23		309.75		131.35		165.12		196.26		145.76

¹⁹ The BTN figures are based on exchange rates as of 26th September 2013: DKK= BTN 11.20; CHF= BTN 66.20; Euro= BTN 81.12; and USD= 60.20 (www.oanda.org). However, all DP funding support will be based on the respective FC figures and, consequently, BTN figures may change depending on the exchange rates prevalent at the time of delivery of DP funds.

²⁰ Additional UNCDF funding support will be influenced by funds that the Global LoCAL program is able to mobilize.

The table below shows program budget by outcomes and outputs:

TABLE 3: LGSDP Budget (in BTN million)

Outcomes & Outputs	Budget (Nu) Million	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18	Total
Outcome 1: Inclusive and equitable socio-economic development at local level	400.00	77.00	79.00	83.00	81.00	80.00	400.00
<i>Output 1.1: ACG mechanism strengthened and supported</i>	350.00	70.00	70.00	70.00	70.00	70.00	350.00
<i>Output 1.2: Performance-based grant mechanism</i>	30.00	5.00	5.00	7.00	7.00	6.00	30.00
<i>Output 1.3: Support to inter- and intra-govt coordination for FD</i>	10.00	1.00	2.00	3.00	2.00	2.00	10.00
<i>Output 1.4: Alternative sources of LG revenue explored and systems and procedures reviewed</i>	10.00	1.00	2.00	3.00	2.00	2.00	10.00
Outcome 2: Environment conserved and sustainably used at local level	180.00	25.00	46.00	48.00	47.00	14.00	180.00
<i>Output 2.1: Institutionalization of responsibility and knowledge of GECPD mainstreaming in LGs</i>	5.00	1.00	1.00	1.00	1.00	1.00	5.00
<i>Output 2.2: Maintenance of momentum and innovation of GECPD mainstreaming</i>	5.00	1.00	1.00	1.00	1.00	1.00	5.00
<i>Output 2.3: Training of LG officials in best sustainable practices and integrated area-based planning</i>	20.00	3.00	4.00	6.00	5.00	2.00	20.00
<i>Output 2.4: Green and inclusive economic development at local level</i>	150.00	20.00	40.00	40.00	40.00	10.00	150.00
Outcome 3: LGs strengthened for good governance	400.00	38.00	64.00	79.00	113.00	106.00	400.00
<i>Output 3.1: Improved utilization of integrated national M&E system</i>	10.00	1.00	2.00	3.00	2.00	2.00	10.00
<i>Output 3.2: Strengthened access to demand-driven CD for LGs</i>	300.00	30.00	40.00	50.00	85.00	95.00	300.00
<i>Output 3.3: Capacity Development Strategy for LG implementation</i>	80.00	5.00	20.00	23.00	24.00	8.00	80.00
<i>Output 3.4: Improvement in public participation, transparency and accountability of LGs</i>	10.00	2.00	2.00	3.00	2.00	1.00	10.00
Program management (JARs, program evaluation, technical studies, PSC, PMG meetings, transitional activities, etc)	60.00	12.00	12.00	12.00	12.00	12.00	60.00
Total:	1,040.00	152.00	201.00	222.00	253.00	212.00	1,040.00

6.2 Financial Management

Budgeting and Annual Work Plan

The Program Manager will, based on inputs from the Outcome Managers and the Program Management Group, prepare a consolidated detailed Annual Work Plan (AWP) using the integrated Planning, Budgeting and Expenditure Management system. The AWP shall include outcome-, output- and activity-based budgets and clear indications of the fund source for each budget item. This AWP shall be approved by the Program Steering Committee. The first AWP for FY 2013/14 will be prepared for PSC review and approval and shall include a tentative budget outlay for the five years of the Program.

Disbursement of Funds

The minimum conditions for access to funds for the first year will cover, but not be limited to:

- a) Annual Gewog Plan with planned investments in accordance with the functional assignments of the Gewogs and defined through involvement of the communities and finally adopted by the GT;
 - b) Indicative Resource Allocation using the revised formula comprising population (35%), area (10%), multidimensional poverty index (45%) and transport cost index (10%)
 - c) Total Gewog wise budget and releases FY 2013-14
- b) Monthly accounts as per the Financial Rules and Regulations, 2001 and existing guidelines of the Ministry of Finance;
- c) Minutes of the GTs related to the Annual Plans;
- d) From the second year onwards, in cases of grave/significant audit comments²¹ to the previous FY's management and expenditures of the Gewog, documentary proof that these memos have been resolved.

All releases of funds require timely and acceptable reporting of previous releases as per the RGoB rules, including the PlaMS-reporting.

Accounting

Any grants made to Dzongkhag and Gewog level will be an integral part of the RGoB budget and will be classified as "grants" in the budget nomenclature with special codes for identification of the two types of grants supported by the Program (the PBGs and the capacity development grants). Expenditures from these grants will be undertaken within the framework of RGoB procedures for flow of funds, procurement and financial management and, will be audited according to the normal procedures of Royal Audit Authority (RAA).

²¹The definition of "grave/significant" will be agreed on between the GNHC and the RAA.

Auditing

The audit and reporting procedures for the LGSDP and its support to the LGs, including the piloting of the PBG and the discretionary Capacity Development Grant, are outlined below:

- (a) The MoF submits Annual Finance Statements of the LGSDP, including all Program expenditures and disbursements to LGs;
- (b) The RAA conducts standard annual audits of these Finance Statements of the Joint Program and of the financial statements submitted by LGs;
- (c) The RAA is, in accordance with the Audit Act, mandated to audit the accounts of public institutions including all Dzongkhags and Gewogs, at least every second year with yearly audits as part of this process on a timely basis, i.e. within 6 months from the end of a fiscal year. The LGSDP's support to the PBGs and the discretionary Capacity Development Grant at LG level will be part of this audit. RAA will send a copy of the Audit Reports to the DLG for onward submission to the LGSDP-SC. Audit Reports will also be sent to the MoF and concerned LGs for follow-up purposes. The Program Management and LGs can upload the audit reports and accounts on appropriate websites for public transparency;
- (d) For the Dzongkhags and Gewogs targeted for piloting of the PBGs, the RAA will include the audit of these LGs in its annual schedule from 2013/14 (i.e. covering the FY 2012/13), to enable an annual performance assessment of these LGs, using results from these audits as well as other sources of information.

6.3 Funding Arrangement

The LGSDP will be supported using different funding modalities. The Government of Denmark has already approved and committed funds through its Transition Support Program. The Government of Switzerland/SDC has also committed the fund. UNDP/PEI is ready to commence funding. UNDP and UNCDF have prepared for, and approved in principle, the LGSDP, but funding levels and commitment will only be finalised by the end of 2013. The European Union has declared its commitment in principle, but formal endorsement and actual disbursement will only be available from 2015/16. The budgeted tentative financial contributions of each organization are thus to be updated when the respective DPs signs off on the signature page of this document. Additional funding may be mobilized from global environment and climate change funds.

The participating DPs have harmonised their support to the extent possible, which has resulted in application of two main funding arrangements for this Program: (a) targeted budget support; and (b) parallel support e.g. support to TA. The different modalities reflect different requirements among DPs and different types of activities under the Program. However, to ensure overall transparency it is important that all funding support for the LGSDP is included and made visible in the Program's budget. Thus, in-kind contributions are to be monetized and shown in the budget.

Notionally earmarked budget support

The bulk of the Outcome 1 of the total program support is directed as notionally earmarked budget support to support for the ACGs at the LG level, which will be fungible with the ACG funds from the RGoB with agreed-to minimum conditions of access applicable to the LGs for releases and tranches. Similarly, the Capacity Development Grant Facility for LGs (Outcome 3) available from the LGSDP

will be directed as earmarked budget support to the relevant LGs, as per the Guidelines, drafted by the DLG and approved by the LGSDP-SC.

Any grants made to Dzongkhag and Gewog level will form an integral part of the RGoB budget and will be classified as “grants” in the budget nomenclature. Expenditures from these grants will be undertaken within the framework of RGoB procedures for procurement and financial management and will be audited according to the normal procedures of the RAA. Specific Finance Identification Codes (FIC) will be allocated by the GNHCS/MoF, and used by all involved RGoB agencies and LGs for the PBGs and Capacity Development Grant (separately).

Contributions from UNDP/UNCDF to program implementation will operate as parallel funding and be managed in line with the national system agreements between UN and RGOB. Based on the annual work plan, funding from UNDP and UNCDF will generally be managed in accordance with UN-RGoB NEX (National Execution) procedures, whereas special procedures may be agreed for special funding areas.

Contributions from other development partners –e.g. SDC and EU – will be managed as per development partner requirement as earmarked budget support or parallel funding. Funds from other development partners to LGSDP could be: (a) transferred directly to the RGoB, as is the case with Denmark; or (b) managed in accordance with individual development partner’s arrangements.

Additional support from other DPs joining the program at a later stage will be channelled according to a specific agreement made at that time.

7. Feasibility, Sustainability and Risk Management

7.1 Feasibility and Sustainability

The LGSDP is deemed feasible as it:

- (a) corresponds and aligns with the 11th FYP in terms of timeframe and strategic context;
- (b) seeks to build on existing policy, fiscal and institutional reforms established in the 10th FYP;
- (c) influences the way in which the ACGs are applied to enhance sustainable local development in an inclusive, resource efficient and cost-effective manner using performance criteria; and
- (d) will fit into and build on ongoing government initiatives of capacity development for good governance and sustainable development at the local level.

Clearly, a considerable focus on the LGSDP is on building capacity at the local levels with support from central agencies. The purpose of this focus is to ensure that good governance and GECDP mainstreaming for sustainable development are institutionalized at the local level and become inherent in RGoB’s local development process long after DPs have departed. The sustainability aspect is further enhanced by the fact that the capacity development is provided by Bhutanese institutions.

7.2 Risk Analysis and Mitigation

Risks associated with the implementation of LGSDP are summarized in the table below:

TABLE4: Risks and Mitigation Strategies

Risk	Probability	Potential Impact	Mitigating Strategy
Implementation of 11 th FYP is delayed, or substantially changed by new Government	Low	High	Transitional preparations and inception activities could be undertaken; governmental intentions are known now.
Approval of LGSDP is delayed by Government or DPs	Low	High	Government approval should be cleared by mid October 2013 after consultation of all stakeholders, including key DPs (main contributors).
Insufficient funding level of program	Low	Medium	Commitment for 2013/14 is secured from Denmark, SDC and UN/PEI, and commitment for following years is expected to be covered within 1-3 years by UN, and in particular EU.
Government does not any longer support fiscal decentralization	Low	High	The Program is aligned with the 11 th FYP and the all political parties are supporting LGs Support under Outcome 1 to define a fiscal decentralization strategy.
LGs fail to achieve the minimum access conditions for award of the performance-based grant	Low	Medium	Introductory support, awareness-raising. Minimum conditions will not be set at an unrealistic high level, most of the grant adjustments will be done through soft performance measures
Performance assessments of LGs are not conducted in a neutral and objective leading to lack of incentives	Low/Medium	High as it will decrease incentives	Neutral assessment teams (contracted out with backstopping support); QA by GNHC/DLG and support/TA from program Clearly defined indicators
Planning and budgeting fails to deliver on the cross-cutting objectives	Low	High	Capacity development support from the demand-driven grants; Support from the incentives in the performance-based grant system; Guidance e.g. by LDPM
Lack of capacity at central level for support to LG empowerment	Medium	Low	Change management support and facilitation of behavior change provided by program; Monitoring of central activities.
Lack of technical capability to implement e.g. GECDP at Central Government or local levels	Medium	Medium	Sufficient backstopping support and TA should be provided; Combination of supply and demand driven capacity development support; During revisions of AWP and program implementation support should be deployed quickly to identified gaps
Decisions by LGs on use of discretionary capacity development grants are beyond the program's framework	Low	Medium	Guidance by menu of options, curriculum manual development and contracting by LGs to relevant training providers; Monitoring of utilization of the discretionary grants by DLG.
Funds are misused at central or local level, and financial mismanagement	Low	High	Strong follow up on the PlaMS, PEMS; RAA audits annually all central agencies; Annual audit by RAA of LG accounts of targeted GTs and DTs, and bi-annual of all LGs; Annual performance assessments of targeted LGs; Transparent and public access to LGs accounts on

Risk	Probability	Potential Impact	Mitigating Strategy
			website.
Program implementation is not managed well	Medium	High	<p>Program Steering Committee addresses all issues of coordination and program/outcome management, and hold meetings regularly and as scheduled;</p> <p>Program Management Group hold meetings regularly as scheduled and prepares quality input to the Steering Committee;</p> <p>Clear terms of reference for Committee, Management Group, Task-Forces, TA, consultancies, etc.;</p> <p>Clear and precise program design;</p> <p>Sufficient TA, backstopping support and guidance should be provided to the implementing parties.</p>

8. Monitoring and Evaluation

8.1 Fundamental M&E Components

The monitoring and evaluation system for the LGSDP will be fully integrated into the National Monitoring and Evaluation System (NMES) which includes PlaMS, MYRB and PEMS. These are currently ready to be implemented in all Government agencies, including LGs, managed by Perspective Planning Division (PPD), GNHCS, in accordance with the 11th FYP.

The M&E system will include three elements: (a) program, outcome progress and output monitoring with reporting by the PlaMS, with regular presentation to the LGSDP-PMG and SC; (b) annual PBGs assessments of targeted LGs; and (c) Joint Annual Reviews of LGSDP, including risk monitoring. In the 4th year of LGSDP implementation a Joint Evaluation is planned to be undertaken, commissioned to external consultants.

8.2 Program Monitoring

Regular Program Monitoring

The LGSDP monitoring will be part of the PlaMS, and clearly defined indicators of outcomes and outputs, aligned to the 11thFYP, as well as physical and financial monitoring of activities will be integrated and maintained through the PlaMS by the respective central and local government bodies. At the beginning of the support program baseline figures and annual targets of the indicators are to be set.

The Quarterly PlaMS report, including indicators outcome- and output-wise and by LGs, and with narrative remarks, is to be presented to the LGSDP-PMG, which will draft a narrative summary highlighting challenges and issues of the report to be submitted to the LGSDP-SC. In its half-yearly meetings, the PCM will discuss the two Quarterly Summaries of the PMG, appended with the two Quarterly PlaMS reports.

Results-based Performance Monitoring

Result-based performance monitoring of those LGs selected for the piloting of PBGs will be developed for annual assessments of performance at outcome and output levels. The results-based monitoring will be based on agreed indicators, and the LGSDP performance indicators will be fully integrated into the NMES, specifically in PlaMS. Further details with regard to fine-tuning of the LGSDP performance-based indicators, assessment procedures, specific reporting, etc. will be worked out prior to, and during, the inception of the LGSDP.

Indicators

A preliminary set of program, outcome and output indicators have been identified, serving as indicators for the LGSDP, in Annex 1 (Preliminary Results Matrix). This set of indicators is regarded feasible and relevant, properly reflecting outcome and outputs of the LGSDP and also reflecting the alignment to the coming LGs' indicators for the 11thFYP. It is anticipated that they will be updated and endorsed in a final version to the first PSC meeting.

8.3 Reviews and Evaluation

Joint Annual Reviews

Joint Annual Reviews of the program progress are to be undertaken each year by consultants/representatives of the RGoB and DPs, led by a national consultant. The ToR for the JAR will be prepared by the PMG and presented to the PSC in its meeting for endorsement. The JAR will each year focus on a specific theme, but standard issues are overall assessment of physical and financial progress, monitoring of the outcomes and outputs, and risk monitoring. The PSC will review and take decisions on the follow-up of the findings and recommendations, and take stock of their implementation at subsequent meetings. The PMG will prepare updates on the status of the implementation of the recommendations for submission to the PSC.

Final Program Evaluation

An external evaluation will be undertaken in 2017, commissioned by RED (GNHCS), to take stock of the overall outcome of the LGSDP, in particular as an input for final transition and institutionalization. The draft ToR of the evaluation will be prepared by the PMG and presented for consultation to the PSC.

Annex 1: Preliminary Results Matrix

Program Results	Indicator	Baseline	End of Program Target	Source of Verification
<p>Development Objective: To promote self-reliant, inclusive green socio-economic development and good governance at the local level.</p>	<ul style="list-style-type: none"> ▪ Number of Dzongkhags and Gewogs integrating the principles and practices of green socio-economic development and good governance in their development plans and programs of the 11th FYP ▪ Public Environment Expenditure review (PEER)/Climate Public Expenditure review (CPR) ▪ Poverty to be halved in all Dzongkhags ▪ .Dzongkhag wise Acreage under community forest) ▪ Proportion of citizens with high level of satisfaction with LGs 	<ul style="list-style-type: none"> ▪ Draft 11th FYP is a ‘green plan’ with the overall goal of self-reliance and inclusive green socio-economic development ▪ 11th FYP Guidelines encompasses principles for environmentally sustainable, climate-resilient, low carbon, gender-responsive and pro-poor development ▪ EDP 2010 provides basis and context for green economy in Bhutan ▪ Population poverty rate is 12% (2012 figure). ▪ Forest cover is 72.5% ▪ Citizen satisfaction with LGs is, in general, high according to Citizen Perception Survey of LGs 2013 	<ul style="list-style-type: none"> ▪ Principles and practices of green socio-economic development and good governance integrated in development plans and programs of all LGs during the 11th FYP ▪ Reduction of national population poverty rate to 5% ▪ Maintenance of forest cover at a minimum of 60% in accordance with the Constitution ▪ High level of citizen satisfaction with LGs maintained in at least 70% of the targeted LGs 	<ul style="list-style-type: none"> ▪ Analysis of Local development plans and programs ▪ Next Poverty Analysis Report ▪ Land use and cover statistics ▪ Citizen perception survey of LGs (towards the end of LGSDP)
<p>Immediate Objective/ Outcome 1: Inclusive and equitable socio-economic development sustained at the local level</p>				
<p><u>Outcome 1:</u> Inclusive and equitable socio-economic development sustained at the local level</p>	<ul style="list-style-type: none"> ▪ Level of improvement in mechanism and modalities for fiscal decentralization and ACG 	<ul style="list-style-type: none"> ▪ Fiscal decentralization mechanism evolving, and ACG for LGs initiated in the 11th FYP at an average of BTN 5 million/ Gewog/year 	<ul style="list-style-type: none"> ▪ Average disbursement of ACG is minimum BTN 5 m/Gewog/year 	<ul style="list-style-type: none"> ▪ Joint Annual Reviews ▪ Ministry of Finance data of annual ACG disbursements Gewog-wise ▪ End of the Program Evaluation
<p><u>Output 1.1:</u> ACG mechanism strengthened and supported</p>	<ul style="list-style-type: none"> ▪ Level of improvement in mechanism and modalities for fiscal decentralization and ACG 	<ul style="list-style-type: none"> ▪ Fiscal decentralization mechanism evolving, and ACG for LGs initiated in the 11th FYP at an average of BTN 5 million/ Gewog/year 	<ul style="list-style-type: none"> ▪ Average disbursement of ACG is minimum BTN 5 m/Gewog/year 	<ul style="list-style-type: none"> ▪ Joint Annual Reviews ▪ Ministry of Finance data of annual ACG disbursements Gewog-wise ▪ End of the Program Evaluation

Program Results	Indicator	Baseline	End of Program Target	Source of Verification
<p><u>Output 1.2:</u> Performance-Based Grant Mechanism focusing on GECPD mainstreaming, Good Governance and Accountability further enhanced.</p>	<ul style="list-style-type: none"> ▪ Level of utilization and performance of ACGs in terms of GECPD mainstreaming, good governance, and accountability ▪ Number of LGs supported with PBG 	<ul style="list-style-type: none"> ▪ 4 LGs (2 Dzongkhags and 2 Gewogs) supported with climate-resilience PBG in the 10th FYP through LGSP/JSP ▪ Performance Assessment Manual prepared through JSP but needs to be updated to incorporate emerging changes and performance parameters 	<ul style="list-style-type: none"> ▪ PBG rolled out to a minimum of 19 LGs (6 Dzongkhags and 13 Gewogs) that were covered for ECP-mainstreaming CD grant under JSP, with the possibility of extension to more LGs depending on resource availability ▪ PBG results in at least 70% of the LG capital investments in infrastructure development in targeted Gewogs being environmentally secure and climate-resilient ▪ Updated PAM in place and used for PBG 	<ul style="list-style-type: none"> ▪ Performance assessment reports on ACG utilization ▪ Joint Annual Reviews ▪ End of the Program Evaluation
<p><u>Output 1.3:</u> Intra- and inter-governmental coordination for fiscal decentralization and LG finance improved</p>	<ul style="list-style-type: none"> ▪ Level of improvement in intra-and inter-governmental coordination for fiscal decentralization and LG finance 	<ul style="list-style-type: none"> ▪ Coordination mechanism exists at macro-level but they have not been effective and lack engagement of LGs 	<ul style="list-style-type: none"> ▪ LG fiscal committee/ taskforce in place and functioning, with approved ToR ▪ Members of the LG fiscal committee/ taskforce trained ▪ Annual LG fiscal outlooks prepared and disseminated 	<ul style="list-style-type: none"> ▪ Minutes of the meetings of LG fiscal committee/ taskforce ▪ Joint Annual Reviews ▪ End of the Program Evaluation ▪ Minutes of PMG and PSC meetings ▪ MoF and GNHCS websites
<p><u>Output 1.4:</u> Alternative sources of LG revenue explored and systems and procedures reviewed.</p>	<ul style="list-style-type: none"> ▪ Availability of information and recommendations, and the level of their use for development of system and procedures for alternative sources of LG revenue mobilization 	<ul style="list-style-type: none"> ▪ There is no systematic study/review of system and procedures for own source revenue mobilization by rural LGs 	<ul style="list-style-type: none"> ▪ Systematic review, providing basis and recommendations, in place and used for developing system and procedures for LG own source revenue mobilization ▪ Handbook for LG own source revenue mobilization developed and used for training 	<ul style="list-style-type: none"> ▪ LG own source revenue mobilization review report ▪ Joint Annual Reviews ▪ End of the Program Evaluation ▪ Minutes of PMG and PSC meetings
<p>Immediate Objective/ Outcome 2: Environment conserved and sustainably utilized at the local level</p>				

Program Results	Indicator	Baseline	End of Program Target	Source of Verification
Outcome 2: Environment conserved and sustainably utilized at the local level	<ul style="list-style-type: none"> ▪ Existence of enabling policies, regulations, and guidelines for green economic development ▪ Improved data, information and knowledge for informed decisions and promotion of green economic development ▪ Number of proposals on green economic development projects implemented at the local level, including number of employment opportunities created.(including those implemented through ACG) 	<ul style="list-style-type: none"> ▪ EDP 2010 sets the basis and context for green economic development but there is a dearth of information, knowledge and supporting instruments. ▪ Gewog Data-bases not in place ▪ No proposals available, and no information of local employment 	<ul style="list-style-type: none"> ▪ Data, information and knowledge created for informed decisions and promotion of green economic development ▪ Gewog Data-bases established in all Gewogs, linked to National Statistics Bureau ▪ At least 1 proposal pr. Gewog pr. Year implemented, and at least 10 jobs created in average pr. Gewog pr. year 	<ul style="list-style-type: none"> ▪ Mid-term Review of 11th FYP ▪ Joint Annual Reviews ▪ Annual information from NSB ▪ End of the Program Evaluation
Output 2.1: Responsibility and knowledge of mainstreaming GECDP issues institutionalized in LGs	<ul style="list-style-type: none"> ▪ Number of Dzongkhags/ Gewogs with GECDP-mainstreamed local development plans and programs ▪ Existence and functioning of DMCs or GECDP mainstreaming mandate as an integral part of an appropriate existing administrative set-up (DEC, DGNHC, etc) at LG level 	<ul style="list-style-type: none"> ▪ Administrative set-up (DEC, DGNHC, etc) exist for mainstreaming ▪ Dzongkhag officials (DEOs, DPOs, etc) have basic awareness and knowledge of GECDP mainstreaming through sensitization workshops (under JSP) 	<ul style="list-style-type: none"> ▪ DMCs created or GECDP mainstreaming mandate built into an appropriate existing administrative set-up (DEC, DGNHC, etc), supported with ToR, training and tools, in all Dzongkhags 	<ul style="list-style-type: none"> ▪ Local development plans and programs ▪ Mid-term Review of 11th FYP at LG levels ▪ Joint Annual Reviews ▪ End of the Program Evaluation ▪ Minutes of PMG and PSC meetings
Output 2.2: Momentum and innovation of GECDP mainstreaming initiatives maintained	<ul style="list-style-type: none"> ▪ The level of GECDP mainstreaming as evident from 12th FYP and new policies, programs and plans 	<ul style="list-style-type: none"> ▪ MRG at national level in place, supported by a Prime Ministerial Executive Order dated 15 Jan 2013 declaring its form and functions ▪ Reference Framework for GECDP mainstreaming drafted and used for 	<ul style="list-style-type: none"> ▪ GECDP issues fully considered and addressed in the 12th FYP, and new policies, programs and plans 	<ul style="list-style-type: none"> ▪ Mid-term Review of 11th FYP ▪ 12th FYP ▪ Joint Annual Reviews ▪ End of the Program Evaluation ▪ New policies, plans and programs

Program Results	Indicator	Baseline	End of Program Target	Source of Verification
		11FYP <ul style="list-style-type: none"> Strategic Action Plan of MRG for GECDP mainstreaming drafted, providing basis for prioritization and way forward 		
<u>Output 2.3:</u> LG elected representatives and civil servants trained in the implementation of best sustainable practices and integrated local area-based planning	<ul style="list-style-type: none"> Level of knowledge and skills among LG officials (elected and civil service) in best sustainable practices and integrated local area-based planning Availability and spread of information on best sustainable practices and integrated local area-based planning 	<ul style="list-style-type: none"> Area-based planning is mandated to LGs in the LG Act 2009 but there is limited knowledge and skills for such planning within LGs (more particularly in Gewogs) Documentation on best sustainable practices and integrated local area-based planning is very limited and scattered 	<ul style="list-style-type: none"> Best examples, from Bhutan and outside, of local area practices in integrated local area-based planning and development reviewed, documented and disseminated to all LGs Relevant officials in all LGs trained using the results of the above documentation 	<ul style="list-style-type: none"> Joint Annual Reviews End of the Program Evaluation Training evaluation reports Training participants' survey
<u>Output 2.4:</u> Green and inclusive economic development fostered at the local level	<ul style="list-style-type: none"> Existence of enabling policies, regulations, and guidelines for green economic development Improved data, information and knowledge for informed decisions and promotion of green economic development Number of proposals on green economic development projects implemented at the local level, including number of employment opportunities created.(including those implemented through ACG) 	<ul style="list-style-type: none"> EDP 2010 sets the basis and context for green economic development but there is a dearth of information, knowledge and supporting instruments. Gewog Data-bases not in place No proposals available, and no information of local employment 	<ul style="list-style-type: none"> Data, information and knowledge created for informed decisions and promotion of green economic development Gewog Data-bases established in all Gewogs, linked to National Statistics Bureau At least 1 proposal pr. Gewog pr. Year implemented, and at least 10 jobs created in average pr. Gewog pr. year 	<ul style="list-style-type: none"> Mid-term Review of 11th FYP Joint Annual Reviews Annual information from NSB End of the Program Evaluation
Immediate Objective/ Outcome 3: Good governance strengthened at the local level				

Program Results	Indicator	Baseline	End of Program Target	Source of Verification
Outcome 3: Good governance strengthened at the local level	<ul style="list-style-type: none"> ▪ Proportion of LGs disseminating budgets, plans, annual reports and approved audit reports on a regular basis to the local public through the notice board/website. ▪ Perception of satisfaction of citizens with LGs' performance. ▪ Number of elected women LG representatives 	<ul style="list-style-type: none"> ▪ Citizen perception of LGs is, in general, very positive as per Citizen Perception Survey of LGs 2013 ▪ Mechanisms for downward accountability of LGs to citizens are not well-defined 	<ul style="list-style-type: none"> ▪ All elected LG representatives trained in 'Corruption Risk Management' ▪ Budgets, plans, annual reports and approved audited Gewog accounts posted on LG website/notice board for at least 90% of the Gewogs ▪ Level of citizen satisfaction with LG maintained at not less than 70% ▪ Women representation in LGs increased to at least 10% 	<ul style="list-style-type: none"> ▪ LG websites ▪ RAA reports ▪ Media reports ▪ Joint Annual Reviews ▪ End of the Program Evaluation ▪ Citizen Perception Survey of LGs
<u>Output 3.1:</u> Improved utilization of the integrated National M&E system by LGs	<ul style="list-style-type: none"> ▪ Number of LGs using integrated national M&E system as a system for reporting in the GT. 	<ul style="list-style-type: none"> ▪ Integrated National M&E system (PlaMS, MYRB and PEMS) in place for roll-out and use on a countrywide scale 	<ul style="list-style-type: none"> ▪ Integrated National M&E system in full use by LGs, and linked to ACG and PBG, supported by capacity development 	<ul style="list-style-type: none"> ▪ Mid-term Review of 11th FYP ▪ Joint Annual Reviews ▪ Information from DLG on Gewog-utilization ▪ End of the Program Evaluation ▪ National M&E system
<u>Output 3.2:</u> Increased access to demand-driven capacity development available for LGs	<ul style="list-style-type: none"> ▪ Number of LGs supported by demand-driven CD grant 	<ul style="list-style-type: none"> ▪ A large part of capacity development is supply-driven, pre-determined by central agencies ▪ Demand-driven capacity development piloted in 19 LGs (6 Dzongkhags and 13 Gewogs) through CD grant to address ECP vulnerabilities in the 10th FYP through JSP 	<ul style="list-style-type: none"> ▪ Roll-out demand-driven capacity development grant to 46 LGs (6 Dzongkhags and 40 Gewogs) from 2013/14 and extend to all Gewogs by the end of the program 	<ul style="list-style-type: none"> ▪ Analysis of implemented Capacity development activities of LGs ▪ Joint Annual Reviews ▪ Information from DLG on the actual roll-out ▪ End of the Program Evaluation
<u>Output 3.3:</u> The 'Capacity Development Strategy for Local Governance' implemented	<ul style="list-style-type: none"> ▪ The induction of newly elected LG representatives has been implemented. ▪ The common platform for LGs has been established. 	<ul style="list-style-type: none"> ▪ Capacity Development Strategy for Local Governance formulated under LGSP and approved by MoHCA for implementation ▪ Induction course implemented for elected LG-members in 2012 	<ul style="list-style-type: none"> ▪ Implementation of the Capacity Development Strategy for Local Governance ▪ Induction course for elected LG-members conducted after 2016-LG elections 	<ul style="list-style-type: none"> ▪ Capacity development assessment of LGs ▪ Reports of induction courses implemented ▪ Reports/minutes of the Common LG Platform

Program Results	Indicator	Baseline	End of Program Target	Source of Verification
		<ul style="list-style-type: none"> ▪ No common LG platform established 	<ul style="list-style-type: none"> ▪ A common LG Platform has been established 	<ul style="list-style-type: none"> ▪ Joint Annual Reviews ▪ End of the Program Evaluation
<p><u>Output 3.4:</u> Public participation, transparency and accountability of the LGs implemented</p>	<ul style="list-style-type: none"> ▪ Proportion of LGs disseminating budgets, plans, annual reports and approved audit reports on a regular basis to the local public through the notice board/website. ▪ Perception of satisfaction of citizens with LGs' performance. ▪ Number of elected women LG representatives 	<ul style="list-style-type: none"> ▪ Citizen perception of LGs is, in general, very positive as per Citizen Perception Survey of LGs 2013 ▪ Mechanisms for downward accountability of LGs to citizens are not well-defined 	<ul style="list-style-type: none"> ▪ All elected LG representatives trained in 'Corruption Risk Management' ▪ Budgets, plans, annual reports and approved audited Gewog accounts posted on LG website/notice board for at least 90% of the Gewogs ▪ Level of citizen satisfaction with LG maintained at not less than 70% ▪ Women representation in LGs increased to at least 10% 	<ul style="list-style-type: none"> ▪ LG websites ▪ RAA reports ▪ Media reports ▪ Joint Annual Reviews ▪ End of the Program Evaluation ▪ Citizen Perception Survey of LGs

Annex 2: Examples for Integrated Approach to LGSDP Implementation

Example 1: Implementation of Maintenance of the Farm Roads

Comprehensive construction of Farm Roads during last five years

The first priority of most local communities in the implementation of the 10th Five-year Plan has been the construction of farm roads to make easier connection of the settlements and villages within the Gewog, or to connect to the Gewog centre and to the Dzongkhag Thromde. ‘Farm roads’ are by definition roads that link farmland areas/villages to an existing road of equal or higher classification to enable the transportation of inputs to the farm and agriculture produce to the markets. However, they are much more than that: they connect to the Gewog office, to the Basic Health Unit, the schools and in general facilitate the social, cultural and economic communication of the people living in the locality. As per the Ministry of Agriculture’s website (the central agency responsible for the policy and guidelines of the farm roads), 3,289 km of farm roads were constructed during 2008-13 benefitting 58% of the rural households with easy access to markets and public facilities. The construction was funded from several sources, but mostly from the Small Development Projects (GoI) and the Annual Capital Grant (RGoB with support from LGSP, SESP, etc.).

Challenges of maintenance and environmental safeguarding remains

It is evident that the farm roads program has accelerated to meet the main development needs expressed by villagers for understandable reasons of acquiring critical access where there is none. However, many of the farm roads have not been built to technical specifications and many have not incorporated environmental and social safeguards, thus leading to poorly constructed roads usable only during the dry season. It appears that the focus has been much more on quantity (number of farm roads and number of kilometres constructed) than on quality of the work, their environmental impact and the maintenance implications. In particular, the subsequent maintenance needs of roads by the community on a routine basis and also by the Dzongkhag for larger scale has not always been addressed. In many cases the routine maintenance has been left to ‘voluntary’ Road Users Group with a doubtful legal status, with few resources and vulnerable members. This has clearly been recognised by the RGoB, raised in the parliament, pointed out by the Royal Audit Authority in separate performance audits, and identified as a major issue by joint reviews and studies. Fortunately, the revised Guidelines for Farm Road Development (revised by MoAF, December 2012), and the focus of the 11th Five-year Plan provides good opportunities to address these challenges – also by the GTs and the local communities.

Focus of 11th Five-year Plan on consolidation and maintenance

To ensure sustainability, the Eleventh Plan shall focus on consolidation rather than expansion. This is also part of the overall objective to achieve ‘self-reliance’. Consolidation shall be pursued in a sustainable manner without compromising access and quality of service delivery. Due to the past investments in the socio-economic facilities, in particular the rural infrastructure, recurrent expenditures are expected to increase sharply on account of the increased maintenance costs, and the revised Farm Roads Guidelines accordingly provides a resource envelope for the local maintenance of farm roads. A Key Result Area for the Roads Sector of the Plan under the pillar ‘Strengthening Good

Governance’ is outsourcing, road maintenance by PPP, and – in particular relevant for this support program – capacity development of Local Governments for Feeder Roads and Farm Roads maintenance (respectively at Dzongkhag and Gewog levels). Similarly, the Ministry of Agriculture in its Plan proposal focuses on consolidating the existing roads by directing its Engineering Division and regional centres to avail most of the available resources (including its Central Machinery Unit) in improving and maintaining these roads. Finally, in the latest Budget Call 2013/14 from the Ministry of Finance, January 2014, the Ministry stresses that in formulating the budget proposal, budgetary agencies shall incorporate gender and ECP (Environment, Climate Change & Poverty) concerns into the respective budgets. Obviously, all involved are aware of the challenges to be addressed.

Implementation options for the Local Governments and local communities

The concrete options for the GTs and local communities to implement enhanced maintenance of the farm roads are many, and could include:

- Contract the maintenance of existing farm roads to a legally established local community group, using the new Community Contracting Protocol 2011 (developed by the Department of Local Governance), which provides for the GT the option to contract directly (without tendering) to a Community Contractor, i.e. an association of local residents, the works of smaller construction or maintenance of local infrastructure. Smaller works means that the total value of the works contracted must not be more than Nu. 1,500,000;
- Invite local Community Contractors to submit tenders of the works of maintenance of farm roads for a total value above Nu. 1,500,000 by Limited Enquiry or Direct Contracting following the Procurement Rules and Regulations;
- As per the new Guidelines for Farm Road Development, for Farm Roads of length above 5 km, routine maintenance provision of Nu. 10,000 per km per year shall be provided by the RGoB. While this routine maintenance budget is provided for those Farm Roads above 5 km, the GT can allocate the fund for maintenance of any Farm Road (even 5 km or less than 5 km) in the Gewog, as per their priority – and e.g. funded from the LGSDP as detailed in the program’s Implementation Strategy of *support to Performance-based Grants* outlined below;
- Design the routine maintenance of farm roads for a longer period (say two-three years) as a project to be tendered and outsourced to (preferably a local) private contractor or Community Contractor, to be funded from the GT’s Annual Capital Grant allocation (see Guidelines for the ACG 2010), or the LGSDP’s *Performance-based Grant* allocation outlined below;
- Utilize the demand-driven GT’s capacity development grant allocated by the LGSDP to setting-up Community Contractors, training them in environmental safeguarding, upgrading and maintenance of existing farm roads, and for technical support during the operations;
- Contract out and recruit additional technical expertise to assist the GT in the environmental upgrading and maintenance of the farm roads, in particular if the capacity of the Dzongkhag Engineers is limited. The program’s *support to the local Mainstreaming Reference Group* (mainly the Dzongkhag Environment Committee) will be a key facilitator in this regard.

Potential positive outcomes

Utilising these options for implementation of the maintenance and improvement of the farm roads, supported by the LGSDP, would result in a number of positive outcomes, addressing the program’s

overall objective of Self-reliant, inclusive green socio-economic development and good governance promoted at local level as well as all the specific outcome goals:

- Environmental safeguarding, and essential, but minor upgrade, which is reversible, e.g. installation of drainage, construction of retaining walls, removal of spoils and cut wood, clearing of blockages, etc., could be undertaken, promoting a sustainable development;
- Strengthening the resilience against impact of climate change by factoring in the extra design components required and costs of CC proofing investments;
- Institutionalisation of regular and routine maintenance of the farm roads will make them safer and operational throughout all seasons. Moreover, their life-time will be substantially extended, and promote the objective of local self-reliance;
- Employing the local people on a regular contract would entail that the workers fall within the Labour Laws and subject to the National Occupational Health and Safety rules, which employers are obliged to follow to protect the well-being of their workers, and promote equity;
- Employing more people locally will create jobs, reduce unemployment and promote 'green growth' at the local level;
- Employment of in particular landless, poor and unpaid female family workers will have a direct gender empowerment effect, enhance the inclusiveness and equity;
- The local governance for both the GT and the local community will be enhanced through the capacity development of preparing maintenance projects, contracting operations and supervising and monitoring the implementation of the maintenance works;
- The incentives in the performance-based GECPD&GG grant will promote LGs focus on cross-cutting issues mentioned above i.e. strengthened focus on gender, environment, climate change, poverty focus, disaster risks management and good governance);
- Public investments will promote use of local labour and promote creation of new jobs in the local communities, especially through community contracting;
- The local economy and revenue generation both through increased agriculture production and job creation will be strengthened towards achievement of the self-reliance and socio-economic development at the local level – and eventually, thereby also strengthen the national development.

Example 2: Inter-linkages between the Outcomes, contributing to Inclusive, participatory and GECDP mainstreamed local planning

One of the areas to be supported by the program is the capacity of the local governments to conduct inclusive, participatory and GECDP mainstreamed planning. This will be supported from a number of mutually strengthening activities under all three outcomes.

First, the incentives in the performance-based grants will promote that this is actually taken place through performance measures on planning procedures as well as measurement of the extent to which GECDP has been incorporated in the annual planning and budgeting documents.

Second, outcome 2 will provide substantial backstopping support within awareness raising, training and institutional support to LGs within those areas, e.g. through strengthening of the work of the

DECs, the planning processes on GECDP and the capacity of the core staff such as the environmental officers, the planner and the engineers.

Third the capacity building under outcome 3 – both the supply and demand driven parts - will address these issues through training, TA, exposure visits, exchange of knowledge equipment etc., and LGs can supplement the generic training and support with more targeted support, using their capacity development grants, addressing their local peculiar needs.

Fourth, the support to guidelines, incorporation of all GECDP concerns in rules and regulations, guidelines and manuals at local level (outcome 2 under the MRG work) will provide useful tools for the LGs in all steps of the planning process.

Finally the support to M&E, both through support on PlaMS, PEMS and MYRB (outcome 3), and through incentives to make better use of this in Outcome 1 (accountability is another area to be supported), will strengthen the actual monitoring of whether progress is made in those areas. Governance indicators in the performance assessment will also promote that information on plans, budgets and actual project implementation is shared with the public to enable strengthened accountability and knowledge in the actual contribution to this process.

Hence although the activities are located under various outputs and outcomes, they are designed in a mutually strengthening and interlinked manner.

Annex3: List of Possible Performance Areas

The following performance areas will be further explored in respect of the formulation of performance measures under the GECDP & GG performance-based grant²²:

Governance, Planning and Public Finance Management

- Planning and budgeting – e.g. participatory planning (compliance with the planning steps in the LDPM), citizen engagement especially the involvement of women and vulnerable groups in planning and budgeting processes
- Targeted trainings, workshops etc to enhance women’s participation in the democratic process at all levels coupled with education and awareness programs for the general public
- Accounting performance (books of accounts, PEMS etc, up-to-date) and reporting on the PlaMS
- Procurement (rules on contracts and community contracting) compliance
- Transparency and accountability – publication of fiscal documents, sharing of information, citizen charters etc.
- Results of the last audit reports (clean, types and severity of audit queries etc.) – has the audit queries for previous years been cleared?
- System for supervision of projects and involvement of citizens
- Anti-corruption strategies/participation in training etc. at the local level
- Other accountability measures
- Compliance with the need to register employment data

Sustainable Socio-Economic Development at local level (incl. Maintenance)

- Considerations on maintenance in planning, budgeting and implementation of projects
- Project implementation performance (achievements as per design)
- Sustainability of design, costing of CC impact etc.
- Systems in place and documentation for follow-up on the quality of the contractors’ work;

Environment sustainably utilized and managed at local level (environment and climate change adaptation performance)

- Assessment of climate change and environmental vulnerabilities and their impacts on livelihood resources with particular attention to poor, vulnerable groups, and women

²² The update of the assessment system and procedures will be based on the experiences gained from the Performance Assessment Manual under the current LoCAL output in the JSP.

- Integration of cross-cutting issues (environment and climate change adaptation, etc.) in planning and budget preparation
- Compliance with existing regulations and guidelines (such as Farm Road Development Guidelines, EFRC standards, and Environmental Clearance regulations)
- Functioning of the Dzongkhag Environmental Committee and/or Dzongkhag-level Committee entrusted with GECDP mainstreaming
- Utilization of funds and implementation under the new grant
- Monitoring and supervision of contract management with a view on environmental/climate change compliance
- Disaster risk planning and budgeting
- Innovative initiatives on climate change adaptation and mitigation

Procedures for assessments

The performance assessments have to be conducted in a neutral, objective, and credible manner, as it is directly linked with access to and size of grant allocations (cannot only rely on self-assessments). If assessments are not of a high credibility and transparently, it will defeat the purpose of creating strong incentives. The source of information will be: PLAMS, PEMS, Audit Reports and on-the spot assessments (for more qualitative aspects). Over time the possibilities to link it with performance-audits will be explored, but for the time being the coverage of this is very limited (only a few LGs and few thematic areas). The type of assessments will depend on type of indicators (quantitative versus qualitative). But it is expected, based on the experiences from LoCAL and from PBGS in 20 countries, that annual assessments (including some field visits and verification of data) will be conducted, and contracted out, with some backstopping support and quality assurance from the program/agencies in charge of this outcome. The intension is to keep the system relatively simple and limit the number of minimum conditions (basically the existing ones + a few targeted related with the new objectives (5-6 minimum conditions) and maximum 25 performance measures (more qualitative indicators, which determine the size of the allocations to each LG).

The assessments will be conducted in year “N” (September) after a FY with impact on N+1. The first year will only focus on compliance with minimum access conditions, and baselines for the performance, as it will take some time for the LGs to learn about the system, and to ensure that they have time to respond to incentives etc.

Annex 4: Preliminary Draft Terms of Reference for Dzongkhag-level GECDP Mainstreaming (which can be integrated into the mandate of an existing Committee at the Dzongkhag Level)

Preamble

Sustainable development is integral to the Royal Government's development philosophy of GNH. A Mainstreaming Reference Group (MRG) was formed and its functions codified at the national level by Prime Ministerial Executive Order (15 January, 2013). The purpose of MRG is to strengthen and facilitate the integration of all cross cutting issues into the government's decision-making processes and development policies, plans, and programs. This has been done to ensure that issues such as Climate Change, Environment, Disaster, Gender and Poverty (GECDP) are adequately integrated into the mainstream development process, and all opportunities that can address these matters are actively sought within the planning and implementation of all development activities.

The functions of the MRG at the national level are to be replicated at the Dzongkhag level through formalizing the integration of mainstreaming functions within the administrative structure of the Dzongkhags using an existing committee most appropriate for mainstreaming responsibilities.

Key Roles and Functions to be Mandated to an Existing Committee

Advocacy

- (a) Responsible for sensitization of all elected representatives and civil servants in the Dzongkhag on the nature of GECDP cross-cutting issues in development, and promoting adoption of approaches to their management.

Co-ordination

- (b) Serve as a technical core working group to integrate and co-ordinate mainstreaming at local government level.
- (c) Facilitate the implementation of mainstreaming cross cutting issues into every development activity through the activities of each member of the committee, and assist all sectors, agencies, CSOs and communities to do so.
- (d) Work with all sectors, agencies and the private sector in the development of mainstreaming processes and approaches.
- (e) Promote innovation and best practice by communication and sharing of experiences both within the Dzongkhag and with other Dzongkhags.

Capacity Development

- (f) Determine the capacity needs within the Dzongkhag to develop and strengthen systemic capacity to implement the mainstreaming in all development activities.
- (g) Identify opportunities to integrate consideration of cross-cutting issues in training programs, and assist in this where appropriate.

Members

The Dzongkhags will determine which existing Committee will be most appropriate to assume the aforesaid roles and functions and will, accordingly, expand the mandate of this Committee.

The nominated Committee will strengthen efforts towards mainstreaming cross-cutting issues into all development planning and implementation, and will build awareness and capacity of GECDP issues within the Dzongkhag.

It nominating the responsible Committee, it should be recognized that the following members, at least, will be critical to the successful implementation of the mainstreaming responsibilities:

- Dzongdag
- Chair of the Dzongkhag Tshogdu (elected LG body)
- Dzongkhag Planning Officer
- Dzongkhag Engineers(s)
- Dzongkhag Environmental Officers
- Representative of key development sector agencies active in the Dzongkhag.

Annex 5: Terms of References for PSC, PMG, Program Manager and Outcome Managers

A. Program Steering Committee

A1. Introduction

The Program Steering Committee will be the apex program body for approvals and decisions concerning the management and implementation of LGSDP. It will provide direction and guidance to the LGSDP to ensure that implementation is done as per the intent of the Program Document, in consistence with the policy and strategic contexts set by the 11th FYP and other associated national frameworks, and in line with agreements with development partners.

A2. Mandate and Scope

The PSC will provide decisions and guidance on the overall priorities of the program in accordance with the program document, the Government Agreement, and other legal documents. Where deviations from the program document are considered necessary, the PSC can make relevant decisions. It, however, cannot alter overall program objectives, but may recommend changes in immediate objectives, outputs and program management.

The mandate of the PSC includes approval of major planning documents, progress reports, work plans, budgets, audit reports, and decisions required related to major implementation issues such as procurement and technical assistance as outlined in the annual work plans.

A3. Composition

The PSC will be made of members from the RGoB and development partners committed to LGSDP as listed below:

- Secretary of the Ministry of Home & Cultural Affairs (Chairperson);
- Director, Department of Local Governance, MoHCA;
- Director, Department of National Budget Ministry of Finance;
- Director General, Department of Public Accounts, Ministry of Finance;
- Head of Policy and Programming Services, NECS;
- Head of DCD, Gross National Happiness Commission
- Head of RED, Gross National Happiness Commission
- Head of LDD, Gross National Happiness Commission
- Head of PPD, Ministry of Agriculture & Forest;
- Head of PPD, Ministry of Economic Affairs;
- Two DT Chairpersons;
- One representative from each DP, committed to the LGSDP;

The LGSDP Program Manager will be the Secretary of the PSC.

A4. Specific Functions and Tasks

Specific functions and tasks of the PSC will include:

- Strategic decisions to ensure continued coherence and synergy between the support program, national policies of local governance and sustainable development, and 11th FYP strategic framework;
- Decisions concerning deviations from the joint program document apart from the objectives (which cannot be changed);
- Endorsement of Review Aide Memoires and ensuring follow-up, including decisions concerning proposed re-allocations;
- Approval of timing and ToRs of technical reviews, Joint Annual Reviews, program evaluations, advisors and consultants;
- Decisions on the recommendations of technical reviews and Joint Annual Reviews, and monitoring of the implementation of the decisions;
- Approval of Annual Work Plans and Annual Budgets, revised semi-annual plans and semi-annual budgets, semi-annual requests for fund presented by the LGSDP Program Management Group;
- Monitoring of overall implementation progress through review of Quarterly PlaMS reports and the narrative summaries with a special focus on delays, problems, bottlenecks, lessons, and recommendations;
- Overseeing the results and follow-up of audits carried out by the RAA as part of the overall external audit process of the RGoB reports submitted;
- Approval of annual financial statements, progress reports, and program completion report.

A5. Working Procedures

The PSC will follow the following working procedures:

- It will meet twice a year, and additionally if necessary;
- The MoHCA Secretary will chair the PSC meetings;
- Decisions will be reached by consensus;
- Notice and procedures for the meetings: The Program Manager will announce the meetings with at least two weeks' notice. All documentation for the meetings (plan/budget, reports, proposals for adjustments, etc.) shall be distributed to the members at least one week in advance together with an agenda;
- Procedures for documenting decisions: The Program Manager will be responsible for drafting the minutes of the PSC meetings and distributing these to all participants within a week after the meeting. The PSC will review and approve the minutes at the next meeting.

B. Program Management Group

B1. Introduction

The Program Management Group (PMG) will guide the planning and implementation of the LGSDP and will refer to the LGSDP-PSC. The Program Manager will head the PMG supported by the LGSDP Outcome Managers.

B2. Mandate and Scope

The PMG will have the overall responsibility for planning and monitoring the implementation of LGSDP. It will ensure that the LGSDP implementation is taking place in a timely manner and within the logical context set by the Program Document and associated agreements.

B3. Composition

The PMG will be made of members from the RGoB and development partners committed to LGSDP as listed below:

- LGSDP Program Manager, DLG/MoHCA (Chairperson)
- LGSDP Outcome Managers from DLG:
 - Systems and Capacity Development Division, DLG (Outcome 1& 3)
 - Research, Information and Policy Support Division, DLG (Outcome 2)
- LGSDP focal persons from:
 - GNHC (DCD, RED & LDD)
 - Ministry of Finance (DPA & DNB)
 - Ministry of Agriculture and Forests(PPD)
 - Ministry of Economic Affairs (PPD & DCSI)
 - National Environment Commission Secretariat (PPS)
 - Local Governments (1 Dzongkhag Planning Officer and 1 GAO)
- One representative from each DP, committed to the LGSDP.

In addition to the above, representatives from other government agencies, training institutions, civil society and private sector may be invited on an ad-hoc basis as resource persons when their contributions are required to the issues on the agenda of a PMG meeting.

B4. Specific Functions and Tasks

Specific functions and tasks of the PSC will include:

- Review and consolidation of annual work plans and budgets;
- Consolidation of budget revisions, including re-appropriations between outputs, for submission to PSC for approval;
- Stock-taking of program-, outcome-, and output-level progress of LGSDP implementation, and taking decisions on operational level issues within their remit whilst compiling higher decision-making issues for submission to the PSC;

- Compilation and submission of quarterly financial reports, semi-annual progress report and annual progress report to the PSC;
- Ensuring timely submission of annual Audit Reports to the PSC;
- Assessment of annual audit and ensuring follow-up on recommendations;
- Review and recommendation of ToR for consulting services for approval by the PSC;
- Approval of short-term consultants/TA based on the approved ToR;
- Setting PSC meetings with minimum two weeks' advance notification, and compilation of documents and issues for PSC meetings for circulation to the PSC at least a week in advance (along with agenda);
- Drafting and distribution of the minutes of PSC meetings to all concerned;
- Review of proposals and recommendation for approval of timing and ToR for Technical Reviews Joint Annual Reviews and Program Evaluation.

B5. Working Procedures

The PMG will operate according to the following procedures:

- The PMG will meet quarterly, and at least two weeks' in advance of the PSC meetings;
- PMG meetings will be chaired by the LGSDP Program Manager;
- Extraordinary PMG meetings can be called by the Program Manager upon request from any of the PMG members;
- Decisions will be made on consensus based on presentations and ensuing deliberations;
- The PMG members will be provided with agenda and relevant documents at least a week in advance of the PMG.

C. Program Manager

C1. Introduction

A Program Manager for LGSDP will be appointed by the Department of Local Governance, MoHCA. The Program Manager will be the overall focal person and coordinator of the LGSDP. He/she will function with support from the PMG and Outcome Managers.

C2. Specific Tasks and Functions

The Program Manager will perform these specific tasks and functions:

- Manage the LGSDP on a day-to-day basis;
- Function as the head of the PMG and, in that capacity, schedule PMG meetings, set up agenda, prepare and distribute documents relevant for the PMG meetings at least a week in advance, and draft and disseminate the minutes of the PMG meetings;

- Function as the secretary to PSC and, in that capacity, schedule PSC meetings, set up agenda in consultation with the PMG, mobilize requisite information from Outcome Managers and other PMG members, compilation and distribute these information to PSC members at least a week in advance of PSC meetings, and draft and disseminate the minutes of the PSC meetings;
- Receive and compile all physical and financial progress reports, and disseminate them to PSC and other relevant entities;
- Consolidate AWP's with inputs from the Outcome Managers;
- Facilitate and ensure timely release of funds and TA support required for implementation of the approved AWP's;
- Ensure timely commencement and completion of Technical Reviews, JARs and Program Evaluation, dissemination of the findings and recommendations, and follow-up on the implementation of the recommendations;
- Any other tasks relevant to program management, specifically as embodied through the functioning of the PSC and PMG.

D. Outcome Managers

D1. Introduction

An Outcome Manager will be appointed for each of LGSDP Outcomes as follows: Outcome 1 Manager from Systems and Capacity Development Division, DLG; Outcome 2 Manager from Research, Information and Policy Support Division, DLG; and Outcome 3 Manager from Systems and Capacity Development Division, DLG. The Outcome Managers will be responsible for coordination of the implementation of activities for delivery of outputs under their respective Outcomes. They will be supported by focal persons from relevant agencies that have implementation responsibility for the activities.

D2. Specific Tasks and Functions

The Outcome Managers will perform these specific tasks and functions:

- Coordinate with focal persons in output/activity implementing agencies to monitor and ensure the implementation of the outputs/ activities under their respective Outcomes in accordance with approved AWP's and budgets;
- Compile progress and financial reports relevant to their Outcomes and submit to the Program Manager for further consolidation and submission to PMG and PSC;
- Respond to queries from the Program Manager, PMG and PSC related to the progress and implementation of outputs/ activities under their respective Outcomes;
- Any other tasks related to the management of their respective Outcomes.

Annex 6: Indicative Schedule for Inception and Initial Program Implementation

Below is a list of required activities to be performed to ensure timely inception and effective implementation of the LGSDP:

General Preparations

8 th July 2013	Final draft LGSDP Program Document submitted by the formulation team
September 24-26, 2013	A working group (with representations from DLG, GNHCS, MoF, and other relevant agencies) instituted and coordinated by DLG/MoHCA to review the LGSDP management set-up presented in the Program Document and recommend suitable options (based on merits and demerits) if necessary.
October 4, 2013	Final edit of the draft LGSDP Program Document and circulation to all stakeholders
October 11, 2013	Receive comments/feedback on the final draft LGSDP Program Document from the stakeholders
October 23, 2013	First meeting of the PMG to draft the annual work-plan 2013/14
October 30, 2013	Approval by RGoB and DPs as necessary and signing
November 6, 2013	First Program Steering Committee Meeting (endorse work-plan and budget 2013/14)
2 nd week of November 2013	Disbursement of LGSDP funds

Activities related to the Performance-Based Grants

November 2013	Assessment of the performance of the 4 local governments under LoCAL with the aim to determine the grant allocations for FY 2013/14 (using the existing Performance Assessment Manual (PAM)).
	Refinement of the PAM for the GECDP and GG performance-based grants (up-date and refinement of the existing LoCAL Manual), including the minimum access conditions and performance measures, scoring and system for performance assessment, leading to a new PAM
	Annex to the annual capital grant guidelines on the PBGs
	Annex to the LDPM on the special issues under the planning of the PB GECDP&GG grants
	Support to vulnerability assessments in 6 Dzongkhags and 13 Gewogs (the LGs in the PBGs) for planning inputs for the FY 2013/14 allocations
	Inclusion of the new PB GECDP&GG grants in the PlaMS under the existing FIC for LoCAL with refinement of the outputs and indicators, i.e. input in the PlaMS of the M&E System
January 2014	Review of the compliance with the minimum conditions for access to the GECDP&GG grants (conditions for disbursements of grants)
February 2014	Expected first disbursement of the PBGs to LGs

Activities concerning the Capacity Development grants

November 2013	Updating of the CD grant guidelines (the simplified mechanism), including support to DLG to establish a roster of training and CD providers
January – February 2014	Support to assist the 6 Dzongkhags and 40 Gewogs in identifying the CD needs and CD plans for the use of the demand-driven capacity development grants
	Support to other LGs in the 6 Dzongkhags with guidance on the future use of the CD grants, needs for CD planning etc.
	Support to LGs on awareness of training modules and options for use of the CD grants
	Establishing the CD coordination committee, mentioned in the LG CD strategy, and revision and improvement of the curriculum development intended for capacity development of the local governments and communities
	Expected first disbursement of the CD grants