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ROYAL AUDIT AUTHORITY



AUDITOR GENERAL'S ADVISORY SERIES

REVIEW ON LOCAL GOVERNMENT DEVELOPMENT GRANT

MARCH 2025



"There shall be Royal Audit Authority to audit and report on the economy, efficiency, and effectiveness in the use of public resources."

(Article 25, The Constitution of The Kingdom of Bhutan)

VISION

A credible Supreme Audit Institution that promotes value for money and good governance in public operations and contributes towards achieving the societal aspirations of Gross National Happiness.

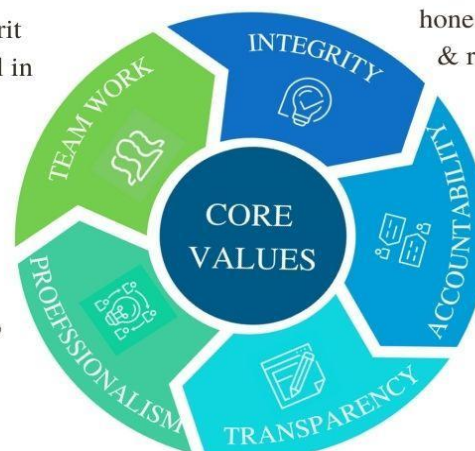
MISSION

RAA is an independent constitutional body which contributes to accountability, transparency and effective service delivery. In the service of Tsa-Wa-Sum (the King, Country and People), we audit without fear, favour or prejudice and provide timely, reliable and quality audit services to assist effective decision making in the public sector.

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PROFESSIONALISM: We perform quality audit services through dedicated and competent work force conforming to auditing standards and best practices.



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(Section 91 of Audit Act 2018)



AUDITOR GENERAL'S ADVISORY SERIES

Review on Local Government Development Grant

MARCH 2025



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ROYAL AUDIT AUTHORITY
Bhutan Integrity House

Reporting on Economy, Efficiency & Effectiveness in the use of Public Resources



RAA/AG-SP/25/2024-2025/064

Dated: 5th March 2025

This Auditor General's Advisory Series on the "Review of Local Government Development Grant" is issued in accordance with Section 114 of the Audit Act of Bhutan 2018. Additionally, Clause 8.2 of the Annual Grants Guidelines for Local Governments mandates the RAA to conduct audits of the Annual Grants in compliance with the Audit Act.

In this Advisory Series, the RAA has attempted to review the Capital Grant or the Capital Block Grants of the Gewogs, of the last three financial years, which are meant for implementing activities contributing towards the achievement of Local Government Key Result Areas (LGKRA) and overall national priorities. The current expenditure trends highlight a pressing need for reforms in planning, prioritization, and monitoring. Through its findings, the RAA has come out four recommendations aimed at achieving the desired developmental goals by 2029.

I would like to thank the Office of the Assistant Auditor General, Samdrup Jongkhar for taking the lead in the development of this Advisory Series. It is for this reason that while efforts have been made to gather information from all 20 Dzongkhags, most of the examples are from the eastern Dzongkhags.

A copy of the report will be available on the RAA's website.

(Tashi)
Auditor General of Bhutan

"Every individual must strive to be principled. And individuals in positions of responsibility must even strive harder."
- His Majesty the King Jigme Khesar Namgyel Wangchuck

Acronym



BBS	: Bhutan Broadcasting Service
BHU	: Basic Health Unit
bt	: Bhutan
FY	: Financial Year
ICT	: Information and Communications Technology
LGKRAs	: Local Government Key Result Area
LGs	: Local Governments
RAA	: Royal Audit Authority
RGoB	: Royal Government of Bhutan
RNR	: Renewable Natural Resources
SWOT	: Strengths, Weaknesses, Opportunities, and Threats

Executive Summary

As per the Annual Grants Guidelines for Local Governments, *'The Annual Grant is a portion of national resources allocated to LGs for public service delivery and executing planned programs and activities. The Annual Grants are provided as block grants and are a part of the Annual Budget Appropriation Act.'* Based on the provisions of the Constitution of the Kingdom of Bhutan, the 10th Session of the Lhengye Zhungtshog approved the allocation of the annual budget to Gewogs in the form of Annual Grants starting from the Financial Year (FY) 2019-20. The purpose of allocating the Annual Grants is to enable LGs to allocate funds to priority local development needs that are within their mandates and are consistent with the National Priorities.

The RAA reviewed Capital Grant or the Capital Block Grants which should be utilized for implementing activities contributing towards the achievement of Local Government Key Result Areas (LGKRA) and overall national priorities. This report evaluates the allocation and use of the Capital Grant across 20 Dzongkhags for three financial years 2021-2024. It highlights inefficiencies and misalignments with LGKRAs that hinder the achievement of desired developmental outcomes. While the introduction of the Annual Grant in 2019 aimed to enhance the financial autonomy of Local Governments (LGs), the current framework has not fully realized its transformative potential.

In financial years 2021-2024, the primary focus across all Gewogs was on farm road development and Lhakhang development (60%). Agricultural support received 25%, while health and education sectors were allocated 10% and 5% respectively. Livestock remains the least prioritized sector. Despite the 2024 Annual Grant Guidelines recommending a focus on projects with high economic and social returns, spending patterns do not align with these priorities. There are instances of underfunding in certain Local Government Key Result Areas (LGKRAs), while some activities receive excessive funding indicating that fund spendings are unbalanced or disproportionate to LGKRAs.

Agricultural investments lacked adequate monitoring and documentation to demonstrate its impact on enhancing productivity. Insufficient reporting and follow-up have resulted in ambiguous outcomes. Notably, spendings on core agriculture and livestock sectors are declining over the years, raising concerns about the food security.

The Dzongkhag and Gewog highlight challenges in aligning activities with LGKRAs. While the Dzongkhag prioritizes activities through public consultations and submits for endorsement, it lacks post-endorsement interventions and strategies to amend plans or re-prioritize planned activities hindering flexibility. Operational challenges

compounded by inadequate coordination amongst Gewogs, Dzongkhags and Gewog RNR offices under the Dzongkhag Agriculture Officer. The inadequate monitoring by oversight agencies and coordination amongst implementing agencies resulted in use of annual grant as per the needs of the Gewogs without considering the LGKRAs that are aligned with the National Priorities.

To enhance the effective utilization of the Annual Grant, it is recommended that Gewogs align expenditures more closely with the priorities outlined in the Annual Grant Guidelines, ensuring a balanced allocation across all key areas and sectors. Strengthening monitoring and evaluation mechanisms may improve accountability and provide clarity on the impact of agricultural and livestock investments. The use of fund should be balanced and proportionate to priorities prescribed in Annual Grants Guidelines for Local Governments.



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APPENDICES

1.1 Background

Article 22 Section 18(C) of the Constitution of the Kingdom of Bhutan ensures that Local Governments receive adequate financial resources through annual grants. In line with this provision, the government reformed the budget allocation system and introduced Annual Grants for Gewogs starting in the 2019-2020 financial year, as decided during the 10th session of the Lhengye Zhungtshog on 22 January 2019. The primary goal of this initiative was to empower local governments to independently plan their developmental priorities and manage financial resources effectively. The Annual Grants aims to enable LGs to allocate funds towards priority local development projects, drive growth, and enhance service delivery.

The Annual Grants consist of two components:

Current Grant – Allocated to LGs for regular operation and maintenance.

Capital Grant – Distributed based on resource allocation for implementing activities outlined in the approved Five-Year Plan. The Capital Grants specifically support the implementation of LGKRAs.

The LG Annual Grant Guideline aims to achieve the following LGKRAs;

LGKRA 1: By 2029, have a vibrant local economy with enhanced productivity and diversified local products. The LGKRAs are;

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

LGKRA 3: By 2029, more residents enjoy improved health and well-being;

LGKRA 4: By 2029, have proactive social protection and support measures;

LGKRA 5: Safety and disaster risks are mitigated and managed at all times;

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

LGKRA 7: Offer public services that are citizen-centric and delivered seamlessly efficiently and effectively.

A total capital expenditure of Nu. 7,822.86 million was incurred during the financial years 2021–2024 across all 20 Dzongkhags. As per the Annual Grants Guidelines for Local Governments, *'In view of competing priorities, those projects/activities with economic/social returns must be accorded the highest priority'*. Further, it also states that the LGs must *'Ensure that any infrastructure development caters to the majority of the beneficiaries at the LGs and that proper cost-benefit analysis is carried out'*.

This report aims to assess how effectively Annual Grants have been utilized in achieving intended local development outcomes, particularly in alignment with LGKRAs, while ensuring efficiency and effectiveness in resource utilization as outlined in the Annual Grant Guideline.

1.2 Problem Statement

Despite reforms aimed at enhancing financial autonomy for LGs, challenges in allocation and expenditure prioritization persist, limiting the transformative impact of these initiatives. Although the Annual Grant was introduced to empower LGs in planning and managing developmental resources, it has not fully resolved inefficiencies and imbalances in resource distribution. Gewog authorities, in particular, may prioritize visible infrastructure projects to gain political leverage, potentially overlooking initiatives with intangible but long-term benefits, such as food security.

The Annual Grants Guidelines for Local Governments provide general guidelines and requirements to align spending with LGKRAs and do not impose rigid prescriptions. While the priorities are outlined through the LGKRAs, they are not graded or ranked as per the scale of their significance in contributing towards national priorities. Additionally, there is a lack of a proper framework to guide the allocation of funds to these LGKRAs, which could ensure a balanced distribution of resources. As a result, it may be challenging to assess whether a Gewog that spent millions on improving the quality of education is performing better than one that spent only a few thousand, as the relative significance of each LGKRA is not clearly defined.

A visible problem across all Gewogs is that all Gewogs are very determined and adamant about farm road and Lhaxhang development preferably one Lhaxhang in each Chiwog. The other equally important key areas like health, education, agriculture, and livestock remain underfunded. Despite guidelines emphasizing cost-effectiveness and long-term benefits, achieving a balanced growth across various key areas is challenging.

All these issues and challenges are seen to have bearing on the resource allocations which ultimately impact service delivery and the ability of LGs to maximize social and economic returns. The imbalanced allocation of resources may undermine the broader developmental objectives of the Annual Grant, including improved well-being, enhanced productivity and strengthened community resilience. Without addressing these inefficiencies, the Annual Grant may fall short of its potential as a transformative tool for local development.

1.3 Objective

Overall Objective

To evaluate the utilization of Annual Grants across the 20 Dzongkhags for the financial years 2021–2024, with a focus on assessing the alignment of expenditures with the LGKRAs.

Specific Objectives

- ⊙ Evaluate the effectiveness of Annual Grant utilization: Evaluate how effectively the grants have been allocated and utilized in achieving local development outcomes, particularly in alignment with the LGKRAs.
- ⊙ Analyze Resource Allocation for Equity and Impact: Examine expenditure trends to determine whether resources have been distributed efficiently across key sectors such as health, education, agriculture, and infrastructure to maximize social and economic benefits.

1.4 Scope

The review was based on the issues identified in allocation and utilization of Local Government Annual Grants in the financial years 2021–2024 across all 20 Dzongkhags. The study involved reviewing relevant reports and records from Local Governments, highlighting trends and patterns in resource allocation and identifying areas of imbalance. Diagnostic reviews were conducted to uncover the underlying causes of inefficiencies, such as underinvestment in critical sectors like health, education, and agriculture, and overemphasis on visible infrastructure projects.

The review included an examination of the policies and guidelines governing the allocation and use of Annual Grants, such as the Annual Grant Guideline, budgetary procedures, and other regulatory frameworks. These documents were analyzed to assess their effectiveness in facilitating cost-effective, equitable, and sustainable development and to identify any barriers hindering optimal resource utilization. The

study also considered feedback from key stakeholders, including Local Government officials and community representatives, to understand the challenges faced in implementing the current system.

The expenditure review was solely focused on capital expenditures, with current expenditures excluded. It was considered in line with the Annual Grant Guideline, where capital grants are allocated for activities that directly contribute to achieving the LGKRAs. This focus formed the core of the report.

Part II: Findings

Investment in developmental activities and resource allocation differ greatly across key result areas. Some LGKRAs have received significant funding, while others remain underfunded, as highlighted in the findings below:

2.1. Lapses in use of Gewog Development Grant

The review of the budget and expenses revealed lapses in allocation and use of the Gewog Development Grant. The spending patterns over the past three financial years (2021-2024) indicated discrepancies indicating inadequate planning and oversight over the budgeting and spendings. These lapses are discussed below;

2.1.1 Disparities in spending patterns over past three financial years (2021-2024)

The Annual Grant Guideline requires to accord highest priority to those projects/activities with economic/social returns. It also mandates to spend no more than 10% of the annual grant for activities related to the preservation and promotion of cultural and religious heritages. Further, a comprehensive cost-benefit analysis is required to support infrastructure development. These requirements were not met as evident from the review of expenditure and other documented records.

The expenditure pattern of the Gewogs under 20 Dzongkhags for Three Financial Years (2021-2024) is illustrated in Figure 1;

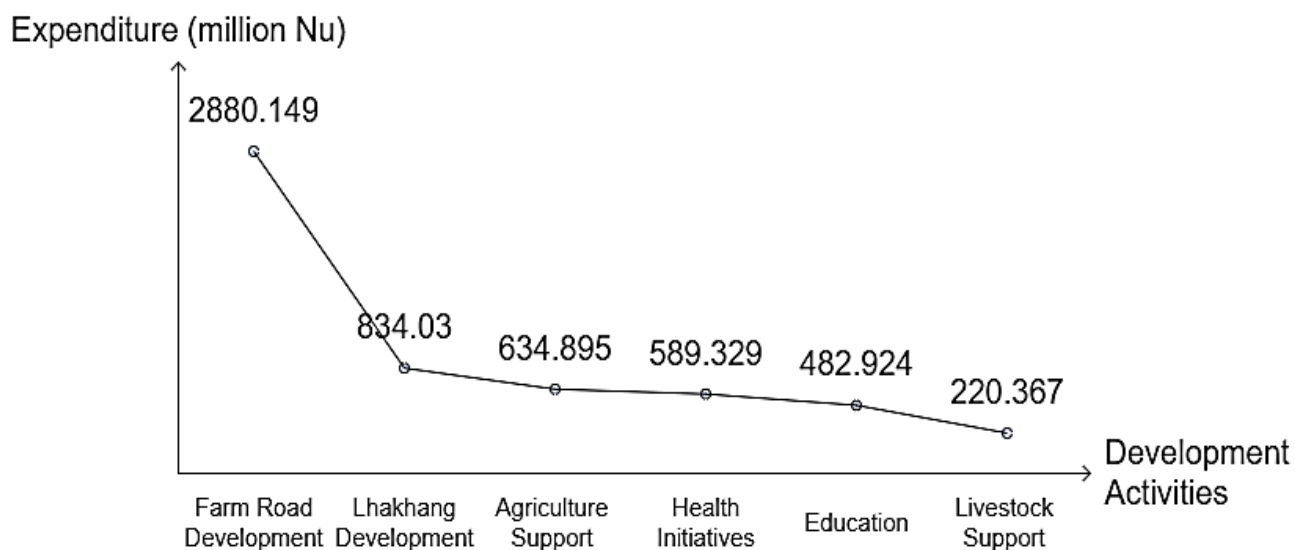
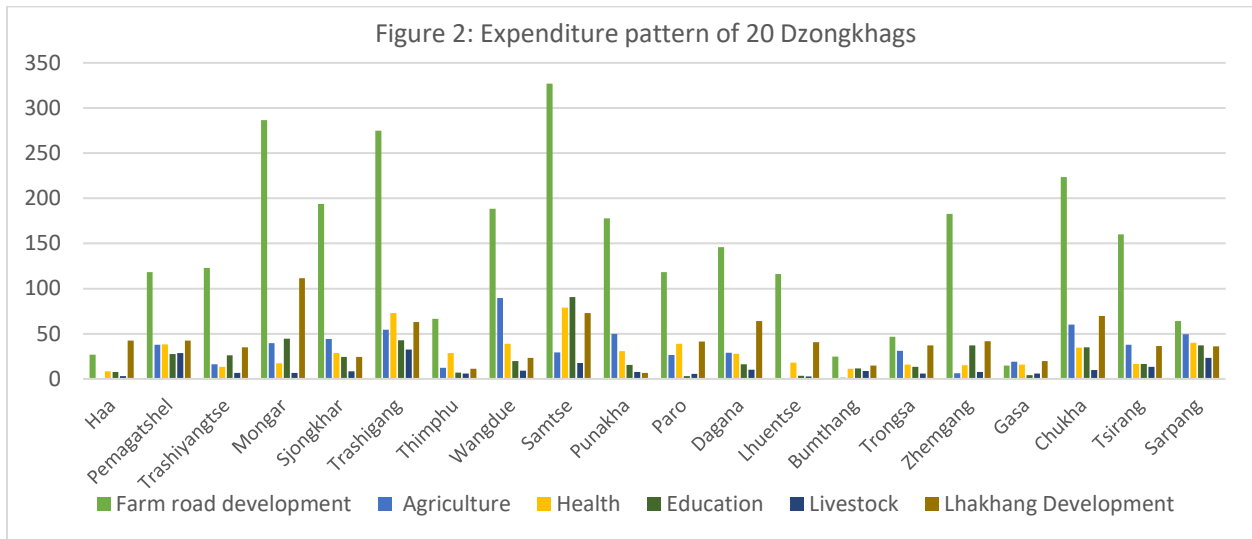


Figure 1: Gewog Expenditure pattern for 3 financial years: 2021-2024 (in million)

The highest expenditure was recorded for farm road development, totaling Nu. 2,880.149 million. This was followed by Lhaxhang development activities with an expenditure of Nu. 834.03 million. Agriculture support ranked third, with expenses amounting to Nu. 634.895 million. Health initiatives incurred a cost of Nu. 589.329 million, followed by education at Nu. 482.924 million. The lowest expenditure was on livestock support, amounting to Nu. 220.367 million.

The primary focus of Gewogs of almost all 20 Dzongkhags is Farm Road Development as shown in Figure 2;



The expenditure on farm road development is maximum in all Dzongkhag except Haa and Gasa Dzongkhags. Farm road development for Haa Dzongkhag is second highest after Lhaxhang Development and fourth highest priority for Gasa Dzongkhag. Livestock development is of least priority across all Dzongkhag. The compiled workings showing Dzongkhag-wise expenditure on farm road, agriculture, health, education, livestock and Lhaxhang development is shown in Appendix-I. Sector-wise expenditure are compiled in Appendices II to VI. Many approach roads such as roads to Lhaxhangs, Lam's Zimchungs etc. were also found booked under the farm roads thereby totally deviating from the farm road definition. For instance, the construction of the farm road from Pangringku to Thrichu Goenpa in Trashiyangtse was completed on May 2024 to connect to Therichu Goenpa instead of connecting to human settlements or agricultural land violating the requirement of the Farm Road Development Guidelines.

The expenditure pattern for livestock development showed a consistent decrease across all 20 Dzongkhags. For instance, during the financial year 2021-2022, a total of Nu. 101.77 million was allocated to livestock development, which declined to Nu. 87.35 million in 2022-2023 and further dropped to Nu. 30.03 million in 2023-2024. This trend

suggests that Gewogs are shifting focus toward other sectors while overlooking the economic potential of livestock activities.

The Gewog authorities frequently cite insufficient budgets as the reason for inadequate progress in education, health, livestock, and agriculture. For instance, students at Shali Primary School in Shumar Gewog, Pemagatshel, continue to use desks and chairs from the 1980s and 1990s, with many items no longer functioning properly. Over the past three financial years (2021–2024), the Gewog has allocated only Nu. 2.4 million to education, which accounts for just 4% of the total budget, reflecting its status as a lowest priority. Furthermore, the trend in expenditure shows a decline in funding for education. Throughout all 11 Gewogs in Pemagatshel, education has consistently been the lowest priority in funding allocations. Similarly, the RAA noted a case where the BHU in Merak Gewog, Trashigang, was left without maintenance or repairs, a situation that was reported on BBS on June 11, 2022. In the financial year 2022–2023, the budget allocated for health development was only Nu. 0.199 million. This clearly reflects that the insufficient funding in critical sectors like healthcare is largely due to improper prioritization and the substantial allocation of available funds to areas such as farm roads and Lhakhang development.

Over the last three financial years, the three least prioritized sectors in terms of expenditure were Health, Education, and Livestock. Specifically, Livestock accounted for 3% of the total expenditure, Education for 7%, and Health for 8% of the overall spending during the financial years 2021–2024.

2.1.2 Misalignment of Annual Grant with LGKRAs

The LGKRAs remain largely unchanged, with only minor adjustments in the following years, as shown below;

- LGKRAs in 2019 & 2022 Guidelines**
- Gainful employment and local economy
 - Food and nutrition security
 - Community health and water security
 - Quality education and skills
 - Culture and traditions
 - Livability, safety and sustainability of human settlements
 - Transparent, effective and efficient public service delivery
 - Democracy and decentralization
 - Climate and disaster resilient development
 - Gender equality and women empowerment
 - Livelihood of highlanders

- LGKRAs in 2024 Guidelines**
- Local economy with enhanced productivity and diversified local products
 - More children/youths have access and benefit from quality education and skills development
 - Improved health and well-being
 - Proactive social protection and support measures
 - Safety and disaster risks mitigated and managed
 - National identity, culture, and values are strengthened
 - Effective & efficient public service delivery

The Capital Grant’s Resource Allocation Formula for implementing activities of the approved Five-Year Plan was not applied. The documented records showing the application of Resource Allocation Formula were not available for review.

The Capital Block Grants are intended to support activities aligned with the achievement of LGKRAs, including agriculture (food security), health (community health and water security), education (quality education and skills), livestock (livelihood of highlanders, local economy, and sustainable human settlements), and other priorities such as gainful employment, efficient public service delivery, climate and disaster resilience, culture and tradition, and gender equality and women’s empowerment.

However, a major portion of the Capital Block Grants was allocated to farm road development alone under the guise of agricultural activity, without directly contributing to food and nutrition security. The highest expenditure was recorded for farm road development, amounting to Nu. 2,880.149 million—approximately 51.05% of the total Capital Block Grant. This was followed by Lhaxhang development (LGKRA: Culture and Traditions), which received Nu. 834.03 million, accounting for about 14.78% of the capital grant. As a result, Gewogs were left with only 34.17% of the capital grant for other critical LGKRAs, including agriculture (food security), health, education, livestock, and other developmental activities.

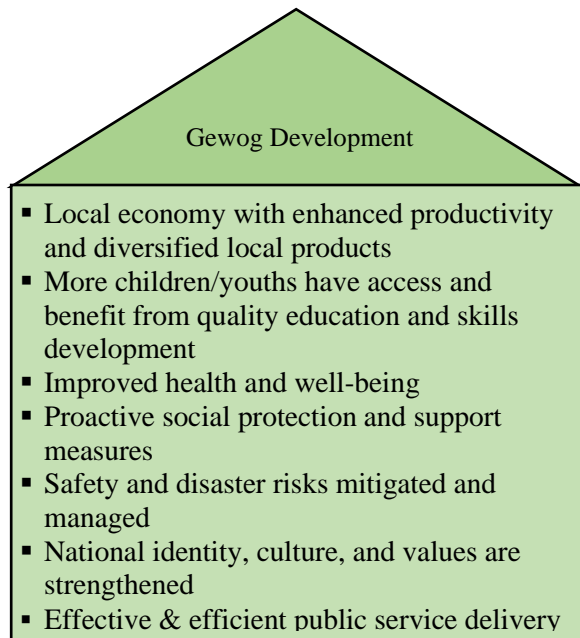


Figure 3: Expected expenditure in FY-2021-2024

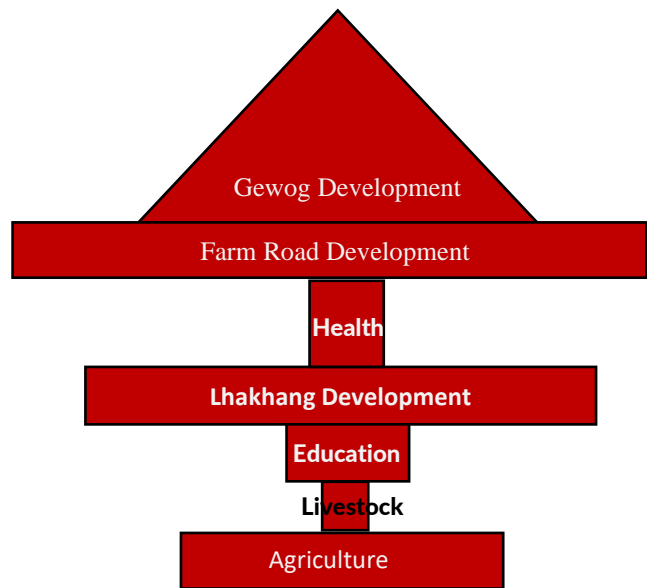
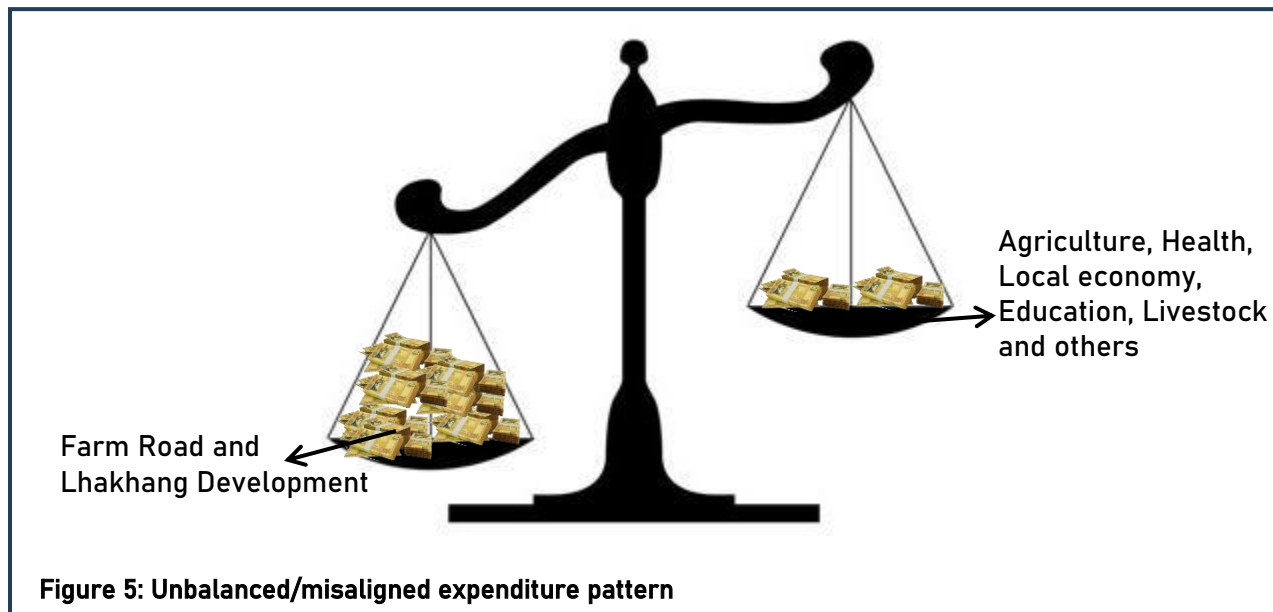


Figure 4: Actual expenditure in FY-2021-2024

Figure 3 illustrates the expected expenditure aligned with the LGKRAs, emphasizing cost-effectiveness and maximizing benefits. In contrast, Figure 4 showcases the actual

expenditure trends for the financial years 2021–2024, highlighting inconsistencies that pose a risk of instability.



The figure depicts a tilted expenditure pattern towards one side, symbolizing an unequal distribution of funds. The left pan represents spending on farm road and Lhakhang development, while the right pan represents allocations for essential sectors such as agriculture, health, local economy, education, and livestock. The imbalance visually highlights the disproportionate allocation of capital block grants, emphasizing how a major portion of the funds is concentrated in two areas, leaving limited resources for other critical development sectors. This imbalance in prioritization reflects a short-term emphasis on visible infrastructure development while overlooking essential long-term investments including intangible ones which are critical for sustained economic growth and well-being. Insufficient funding for key sectors that drive development creates an unstable expenditure pattern, ultimately hindering comprehensive and sustainable progress.

According to the Annual Grants Guidelines for Local Governments 2024, developmental activities aligned with the LGKRAs are expected to be achieved by 2029. However, if the current expenditure pattern continues (Figure 5), the attainment of most LGKRAs remains uncertain and unlikely. This could weaken the effectiveness of the grant system, ultimately hindering its ability to achieve the intended developmental goals.

2.2 Lapses in Implementation and Monitoring

Lapses in implementation and monitoring are evident in the failure to adhere to the LG Annual Grant Guideline. This includes the lack of status reports on agricultural and

livestock activities, inadequate diversification of investments across critical sectors, and the absence of sustainability plans. These gaps hinder the effectiveness of Gewog development initiatives and compromise long-term socio-economic benefits.

2.2.1 Inadequate Monitoring and Supervision

Clause 07 of the Annual Grant Guideline 2024 emphasizes the importance of responsibility, accountability, and transparency, requiring Local Governments to implement proper monitoring mechanisms for their activities. However, the lack of status reports on implemented activities suggests that these monitoring processes are not being carried out effectively.

Clause 11 offers flexibility by stating that Gewogs are not obligated to address all LGKRAs in a single financial year and can instead focus on their annual priorities. While this flexibility allows Gewogs to manage resources more efficiently by narrowing their focus, it also poses the risk of neglecting some critical LGKRAs or repeatedly allocating funds to just one or two areas, as observed in FY 2021–2024. This approach to prioritization could be beneficial if adequate monitoring mechanisms are in place.

The Gewog Planning Cycle involves Situation Assessment, Identification, and Prioritization using various tools outlined in the Local Development Planning Manual. However, tools such as Community Scanning and Mapping, SWOT Analysis, Cobweb Exercise, Participatory Rural Appraisal, Vulnerability and Wellbeing Matrix, Happiness Tree Analysis, and Prioritization Matrix, if conducted by Gewogs, were not documented or made available for review. Some Gewogs admit that priorities are primarily gathered during community meetings, with limited use or without use of scientific assessment and prioritization tools in the planning process. Additionally, development needs are often listed and prioritized based on the Gewogs' existing situations rather than being aligned with LGKRAs. The Gewog Tshogde is required to approve prioritized activities if Gewog Plan as per the laws and guidelines in place for LGs. There is no clear segregation of duties between those responsible for prioritizing activities and those approving them.

The Local Development Planning Manual mandates to gauge the outcome of implemented activities, assess the impact on the people's lives and provide timely de-bottlenecking support to implementation issues and challenges. Despite such requirement, the impacts of implemented activities are either not assessed or not documented by Gewogs. The absence of impact assessments and monitoring reports has hampered the ability to provide useful inputs in next planning cycle. This gap in

monitoring, reporting and evaluation undermines adherence to the guidelines and raises concerns about the effectiveness of LG priorities and resource allocations.

2.2.2 Uncertain returns and sustainability of agriculture and livestock activities

Each year, the Gewogs invest on agriculture and livestock activities. However, the outcomes of such implemented activities are not gauged and its impact on agricultural and livestock productivity is unknown to the Gewog authorities. The absence of a clear diversification and sustainability plan has resulted in activities being implemented without well-defined objectives and outcomes,

This lack of assessment of outcome and impact limits the ability to evaluate plans and programs and track progress or contribution of implemented programs to the Gewogs. The Gewogs across the 20 Dzongkhags have allocated 8% of their total expenditure to seed, seedlings, and agricultural support activities as detailed in Table 1.

Table 1: Expenditure on agricultural

Sl.No	Dzongkhag	Amount (million)
1	Haa	0.519
2	Pemagatshel	37.658
3	Trashiyangtse	16.275
4	Mongar	39.696
5	Sjongkhar	44.096
6	Trashigang	54.64
7	Thimphu	12.397
8	Wangdue	89.404
9	Samtse	29.146
10	Punakha	49.829
11	Paro	26.413
12	Dagana	29.126
13	Lhuentse	0.69
14	Bumthang	1.35
15	Trongsa	30.985
16	Zhemgang	6.398
17	Gasa	19.014
18	Chukha	60.144
19	Tsirang	37.674
20	Sarpang	49.441
Total expenditure		634.895

A total of Nu. 634.895 million was spent on seeds, seedlings, and agricultural support activities by the Gewogs across 20 Dzongkhags over the past three financial years. The Gewogs documented the distribution reports detailing the seeds, seedlings, and equipment provided to beneficiaries. However, the progress reports, crop enhancement reports, diversification process, and overall outcomes of implemented activities were not documented.

The Gewog Administrations under various Dzongkhags invested on procurement and distribution of agricultural inputs such as seeds, seedlings, and equipment to support farming activities. However, the effectiveness and outcomes of these investments remain uncertain due to gaps in documentation, monitoring, and

reporting. Some of the instances are discussed below;

▪ Cardamom Rhizomes Distribution in Khar Gewog

The Khar Gewog Administration procured 70,900 cardamom rhizomes vide Supply Order No. KHAR/RNR-AGRI/02/2023-2024/212, dated 07 April 2024. These rhizomes were distributed to nine villages, including Phadi, Tsebar, and Zordung. Upon review of

distribution records and subsequent field inspections by RAA, it was observed that only 70,500 rhizomes were accounted for. The remaining 400 rhizomes, which were reportedly damaged, were neither distributed nor documented as damaged in the records.

Further, the RAA conducted field visits to assess the distributed seeds and seedlings and observed that the vegetables had already been harvested, and no records on harvest and sales were kept. While distribution records for vegetable seeds and seedlings were maintained, there were no records on the survival status or utilization of the distributed seeds and seedlings.

▪ **Avocado Saplings in Jamkhar Gewog**

Jamkhar Gewog Administration procured 200 avocado saplings from M/S Southern Seedlings Nursery. According to the distribution list, 25 saplings were distributed to eight individuals in four chiwogs (Yub, Ninda, Nachi, and Pachu). However, the joint physical verification team found no surviving saplings at the distribution sites. Despite the allocation and distribution of these saplings, there was no evidence of cultivation or success.

▪ **Corn Flake Machines in Tongmizangtsha Gewog**

A payment of Nu. 193,706.64 was made to Farm Machinery Corporation Limited on 17 June 2021 for the procurement of corn flake machines for Changmadung and Bainangkhar villages. Although the machines were delivered to the villages, the physical verification by RAA on 13 October 2021 revealed that the machines were not installed and had remained unused.

▪ **Seed Distribution in Trashiyangtse and Samdrup Jongkhar**

In 2021, seeds worth Nu. 1.095 million were distributed to eight Gewogs under Trashiyangtse, and seedlings worth Nu. 1,700,219.00 were distributed across Samdrup Jongkhar. While distribution records were available, there were no status reports or measurable indicators to evaluate the outcomes or benefits of these activities.

▪ **Arecanut dehusking machine at Dezama, Pemagatshel**

Choekhorling Gewog of Pemagatshel Dzongkhag procured 2 numbers of Arecanut dehusking machines amounting to Nu. 690,000.00 on 15 November 2023. The machines were intended for use by farmers group of Arden and Dezama and the RAA observed that the machine allocated to Arden farmers Group was not delivered due to lack of a

three-phase power connection. Consequently, the machine was left at Dezama, without realising the intended purpose.

The absence of a clear plan for diversification and sustainability indicates that activities are being implemented without long-term vision or strategic direction. Without a comprehensive plan, the activities risk being fragmented and inefficient, limiting the overall impact on agriculture and livestock development. There is little to no tracking of the outcomes of agricultural activities, such as crop yields, survival rates of seedlings, or the economic success of supported initiatives.

From the Gewog's perspective, operational challenges are further exacerbated by the independent functioning of the Gewog RNR office, which operates under the supervision of the Dzongkhag Agriculture Officer. This structure presents difficulties in coordinating activities and aligning agricultural initiatives with Gewog sustainability goals. The Gewog administration has limited oversight of the RNR office, as job delegation and responsibilities are managed at the Dzongkhag level.

The effectiveness and outcomes of investments and the sustainability of the implemented activities remain uncertain. This coupled with inadequate coordination and monitoring hindered efforts to tailor agricultural activities to local needs and ensure accountability at the local level.

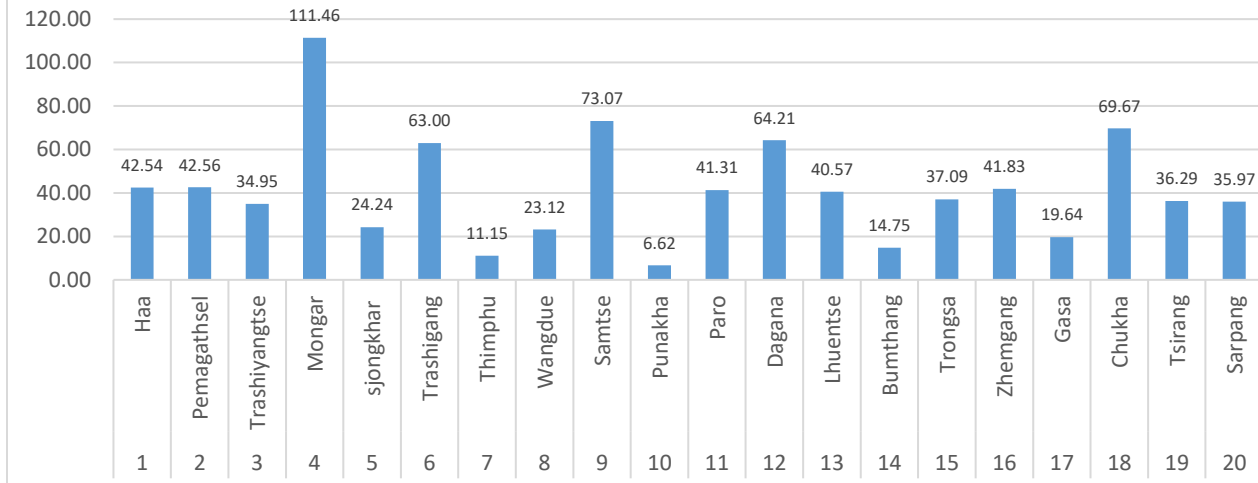
2.3 Expenditure on Lhakhang development beyond ceiling

The Annual Grant Guidelines emphasize the need for Local Governments (LGs) to allocate their resources efficiently, prioritizing projects and activities that generate economic and social returns. This ensures that public funds are directed toward initiatives that contribute to economic growth, employment generation, and overall societal well-being.

To maintain a balanced approach, the Annual Grant Guidelines cap expenditure on cultural and religious heritage activities at 10% of the annual grant. This limit is intended to prevent excessive spending on one sector at the cost of other crucial development needs

Despite the spending cap, Local Governments allocated Nu. 834.03 million toward Lhakhang development during the financial years 2021-2024, which accounts for 14.78% of the total capital grant. This made it the second-highest expenditure category after farm road development.

Figure 6: Expenditure on Lhakhang development for FY 2021-2024



The highest expenditure on Lhakhang development was made by Monger Dzongkhag amounting to Nu. 111.46 million, followed by Samtse Dzongkhag, Chukha, Dagana and Trashigang Dzonkghag. Local Governments have heavily prioritized Lhakhang development, despite it being classified under a single Local Government Key Result Area – Culture and Traditions. This has led to a disproportionate allocation of funds, limiting investments in other key areas.

The 14.78% expenditure on Lhakhang development alone exceeds the 10% limit set for Culture and Traditions by the Annual Grant Guidelines, indicating non-compliance with expenditure limits. This suggests inefficient allocation of public funds, undermining the purpose of the spending cap, which is to ensure an equitable distribution of resources across all sectors and prevent over-concentration of funds in a single area at the expense of other critical development priorities.

3.1. Strengthening the Gewog Planning Cycle

The Gewog Planning Cycle requires a comprehensive Situation Assessment, Identification, and Prioritization process using scientific tools such as Community Scanning and Mapping, SWOT Analysis, Cobweb Exercise, Participatory Rural Appraisal, Vulnerability and Wellbeing Matrix, Happiness Tree Analysis, and Prioritization Matrix. The Gewog plan approving authority must ensure that these planning processes are effectively executed and that the tools outlined in the Local Development Planning Manual are properly applied to support activity prioritization.

3.2 Aligning the resource allocation with LGKRAs

The LGKRAs, as outlined in the Annual Grants Guidelines for Local Governments, should be referenced when prioritizing activities and approving the Gewog plan. It is essential to ensure that Gewog priorities align with the LGKRAs and that capital grants are proportionately allocated across the designated LGKRAs.

The Local Development Planning Manual mandates the use of the Resource Allocation Formula for implementing activities under the approved Five-Year Plan. This formula must be applied during activity prioritization and verified by the approving authority before finalizing the Gewog plan.

3.3 Enhancing Equity and Impact in Resource Allocation

The LGs should avoid an imbalanced distribution of funds, where only one or two LGKRAs receive repeated allocations, as observed in FY 2021–2024. The Annual Grants Guidelines for Local Governments 2024 require that all LGKRAs be achieved by 2029. To meet this objective, Gewogs must ensure equitable fund distribution across all LGKRAs using the Resource Allocation Formula.

A disproportionate allocation to specific LGKRAs should be avoided, and a need-based model should be adopted to ensure an unbiased distribution of resources. Balancing funding across critical sectors such as health, education, agriculture, livestock, and infrastructure is crucial for holistic development. Local governments should adopt a proportional approach that maximizes social and economic returns.

3.4 Strengthen Monitoring of developmental activities

Enhancing financial oversight mechanisms is crucial to ensure accountability and prevent inefficiencies. LGs must strengthen monitoring by systematically tracking progress, assessing the impact of plans and programs, and providing timely support to address implementation challenges. The effectiveness and sustainability of investments should be well-documented, with best practices and lessons learned feeding into future planning cycles.

Additionally, leveraging technology in the Gewog Planning Cycle, activity prioritization, resource allocation, and monitoring should be explored. Implementing ICT solutions for tracking activities, real-time reporting, and performance monitoring can enhance transparency and efficiency in the planning and execution process.

Part IV: Conclusion

While the Annual Grants for Local Governments has the potential to effectively respond to emerging community needs and enhance citizen-centric local development, its current implementation falls short of contributing towards the achievement of most of the LGKRAs.

The review of developmental investment and resource allocation across key result areas (LGKRAs) highlights significant disparities, with farm road and Lhaxhang development receiving a disproportionately high share of the budget at the expense of critical sectors such as health, education, and livestock. The Gewog Development Grant's spending patterns over the three financial years (2021–2024) reveal lapses in planning, oversight, monitoring, and adherence to policy guidelines. These inconsistencies undermine the objective of balanced and sustainable development.

The misalignment of annual grants with LGKRAs further exacerbates the issue. The Capital Block Grant allocation process has failed to apply the Resource Allocation Formula, leading to an imbalanced distribution of funds that prioritizes visible infrastructure projects while neglecting essential long-term investments in human capital and economic sustainability. The lack of clear cost-benefit analyses and inadequate application of scientific planning tools contribute to inefficient resource allocation and spendings.

Lapses in implementation and monitoring mechanisms have also been observed. The absence of comprehensive status reports, weak documentation of agricultural and livestock activities, and inadequate tracking of the outcomes of implemented programs hinder effective decision-making. Without proper assessment of impact and sustainability, LGs risk investing in activities that fail to yield meaningful benefits.

In conclusion, the current expenditure trends highlight a pressing need for reforms in planning, prioritization, and monitoring. LGs must strengthen adherence to resource allocation guidelines, apply scientific assessment tools including Resource Allocation Formula for implementing activities and ensure documentation of planning and implementation works. Ensuring an equitable distribution of funds across all LGKRAs, strengthening oversight mechanisms, and leveraging technology for real-time monitoring are crucial steps toward fostering inclusive and sustainable development. Without these corrective measures, achieving the intended developmental goals by 2029 remains uncertain.

APPENDICES

Appendix I: Capital Grants spendings of 20 Dzongkhags

Sl. No	Dzongkhag	Farm Road Development	Agriculture	Health	Education	Livestock	Lhakang Development
1	Haa	26.915	0.519	8.356	7.635	2.975	42.542
2	Pemagatshel	118.323	37.658	37.995	27.557	28.743	42.557
3	Trashiyangtse	122.962	16.275	13.22	26.08	6.729	34.952
4	Mongar	286.642	39.696	17.404	44.472	6.739	111.462
5	Sjongkhar	193.671	44.096	28.69	24.31	8.32	24.24
6	Trashigang	274.928	54.64	72.743	42.937	32.534	63
7	Thimphu	66.488	12.397	28.465	7.065	5.981	11.148
8	Wangdue	188.53	89.404	39.047	19.821	9.234	23.118
9	Samtse	326.893	29.146	78.938	90.458	17.595	73.067
10	Punakha	177.858	49.829	30.591	15.404	7.867	6.624
11	Paro	118.207	26.413	38.9	3.192	5.739	41.313
12	Dagana	145.923	29.126	27.886	16.338	10.079	64.206
13	Lhuentse	116.07	0.69	17.86	3.37	2.68	40.57
14	Bumthang	24.77	1.35	11.1	11.46	8.93	14.75
15	Trongsa	46.672	30.985	15.964	13.362	5.97	37.089
16	Zhemgang	182.88	6.398	15.195	37.021	7.801	41.83
17	Gasa	14.61	19.014	15.804	4.001	5.807	19.637
18	Chukha	223.575	60.144	34.458	34.915	9.814	69.671
19	Tsirang	160.108	37.674	16.683	16.494	13.472	36.289
20	Sarpang	64.124	49.441	40.03	37.032	23.358	35.965

Appendix II - Expenditure on Lhakang

Sl.No	Dzongkhag	Expenditure on Lhakang development
1	Haa	42.542
2	Pemagathsel	42.557
3	Trashiyangtse	34.952
4	Mongar	111.462
5	Sjongkhar	24.24
6	Trashigang	63
7	Thimphu	11.148
8	Wangdue	23.118
9	Samtse	73.067
10	Punakha	6.624
11	Paro	41.313
12	Dagana	64.206
13	Lhuentse	40.57
14	Bumthang	14.75
15	Trongsa	37.089
16	Zhemgang	41.83
17	Gasa	19.637
18	Chukha	69.671
19	Tsirang	36.289
20	Sarpang	35.965

Appendix III: Expenditure on Agriculture 2021-2024

Sl. No.	Dzongkhag	Farm road	Agriculture support
1	Haa	26.915	0.519
2	Pemagatshel	118.323	37.658
3	Trashiyangtse	122.962	16.275
4	Mongar	286.642	39.696
5	Sjongkhar	193.671	44.096
6	Trashigang	274.928	54.64
7	Thimphu	66.488	12.397
8	Wangdue	188.53	89.404
9	Samtse	326.893	29.146
10	Punakha	177.858	49.829
11	Paro	118.207	26.413
12	Dagana	145.923	29.126
13	Lhuentse	116.07	0.69
14	Bumthang	24.77	1.35
15	Trongsa	46.672	30.985
16	Zhemgang	182.88	6.398
17	Gasa	14.61	19.014
18	Chukha	223.575	60.144
19	Tsirang	160.108	37.674
20	Sarpang	64.124	49.441

Appendix IV: Expenditure on Health 2021-2024

Sl. No.	Dzongkhag	Health 2021-2024
1	Haa	8.356
2	Pemagatshel	37.995
3	Trashiyangtse	13.22
4	Mongar	17.404
5	Sjongkhar	28.69
6	Trashigang	72.743
7	Thimphu	28.465
8	Wangdue	39.047
9	Samtse	78.938
10	Punakha	30.591
11	Paro	38.9
12	Dagana	27.886
13	Lhuentse	17.86
14	Bumthang	11.1
15	Trongsa	15.964
16	Zhemgang	15.195
17	Gasa	15.804
18	Chukha	34.458
19	Tsirang	16.683
20	Sarpang	40.03

Appendix V: Expenditure on Education 2021-2024

Sl. No.	Dzongkhag	Education 2021-2024
1	Haa	7.635
2	Pemagatshel	27.557
3	Trashiyangtse	26.08
4	Mongar	44.472
5	Sjongkhar	24.31
6	Trashigang	42.937
7	Thimphu	7.065
8	Wangdue	19.821
9	Samtse	90.458
10	Punakha	15.404
11	Paro	3.192
12	Dagana	16.338
13	Lhuentse	3.37
14	Bumthang	11.46
15	Trongsa	13.362
16	Zhemgang	37.021
17	Gasa	4.001
18	Chukha	34.915
19	Tsirang	16.494
20	Sarpang	37.032

Appendix VI: Expenditure on Livestock 2021-2024

Sl. No.	Dzongkhag	Livestock 2021-2024
1	Haa	2.975
2	Pemagatshel	28.743
3	Trashiyangtse	6.729
4	Mongar	6.739
5	Sjongkhar	8.32
6	Trashigang	32.534
7	Thimphu	5.981
8	Wangdue	9.234
9	Samtse	17.595
10	Punakha	7.867
11	Paro	5.739
12	Dagana	10.079
13	Lhuentse	2.68
14	Bumthang	8.93
15	Trongsa	5.97
16	Zhemgang	7.801
17	Gasa	5.807
18	Chukha	9.814
19	Tsirang	13.472
20	Sarpang	23.358



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