

THE EUROPEAN UNION’S ADM MULTI PROGRAMME

Quality Support Facilities in the field of decentralization, Local Governance & Local Development

Letter of Contract N°2 2013/330793

**Decentralization in Bhutan**

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October 2015



The project is implemented by IBF International Consulting and Local Development International LLC

The project is financed by

the European Union

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# Bhutan Case Study

In Asia, as in many other regions of the world, decentralization occurs in countries of all sizes and in highly diverse contexts. A few countries are large and have substantial and heterogeneous populations, while others are much smaller in area and have populations lower in number and less varied in composition. Some countries have attained middle income status, while others remain poor. A number of countries have some history of decentralization and democratization, while others have had little previous experience.

Despite the great variety, many Asian countries have chosen to pursue some form of decentralization. The way decentralization is structured and functions, however, is as diverse as the countries themselves, and not always in systematic ways. This variety results from considerable differences in country characteristics, histories and various political economy drivers that shape the dynamics underlying how public governance is managed.

In order to better understand decentralization in Asia, EC DEVCO B2 prepared a set of short case studies--on Bangladesh, Bhutan, Cambodia, Indonesia, Nepal, Pakistan, Philippines, Sri Lanka, Vietnam and Yemen. This note presents the case of Bhutan.

Bhutan is a small land locked country nestled in the Himalayas. It remained an independent monarchy for several centuries, closed to outside influences and operating as an insular agricultural economy. Bhutan has a strong spiritual identity grounded in Buddhist principles and non-material wellbeing. In the late 1990’s Bhutan began its transition into a democracy, a shift initiated by the monarch, King Jigme Singye Wangchuk, who created a development agenda based on the concept of Gross National Happiness, which would more fully capture the identity and philosophy of the Bhutanese people. It was believed that local participation was key to facilitating the Gross National Happiness agenda; this led to the decentralization of functional authority to local governments and a move to democracy. The transition to democracy has been smooth and Bhutan has achieved significant advances in human development indicators and providing access to public services. Decentralization policies are continually evolving to meet the demands of local population and ensure effective governance.

## Underlying political economy context/drivers of decentralization

The main driver for modernization, democratization, and in turn decentralization in Bhutan seems to have been the fulfillment of its overarching development agenda. This development agenda is based on the principles of Gross National Happiness (GNH). There are four pillars for GNH framework: "1) the achievement of self‐sufficiency in economic terms; 2) the protection of the environment; 3) good governance; and 4) the promotion of local culture” (Brassard 2008). Local participation is considered key to facilitate the GNH agenda, and therefore this has also been a driver for decentralization and democratization of Bhutan (Chhoden 2009).

Since the 1980’s there has been ethnic conflict between the Hindu minorities of Nepalese origin who live in Southern Bhutan and the Buddhist majority in Bhutan. The ethnic conflict even turned violent during the 2008 national elections with bombs being set off in the capital, Thimpu (Frelick 2008). The literature available on decentralization in Bhutan does not seem to indicate that this ethnic conflict has been a driver for decentralization. Instead, the literature reinforces that efforts to decentralize have been top down and initiated by the monarchy as a part of their plans to modernize Bhutan.

## Decentralization policy

Decentralization in Bhutan occurred at the same time as its transition to a democratic state noted above. The historically absolute monarchy has evolved into a constitutional monarchy with a parliamentary government. A draft constitution was presented for debate in 2005 and ratified in 2008. This was followed by the first national elections in 2008. More recently, local government elections were held in 2011 and the last national elections were held in 2013. It is interesting to note that there was earlier piloting of local government. Local government elections were first held in 2002, for a three-year term. The third local elections were meant to be held in 2008 but were postponed to 2011 in order to ensure the legal framework for local governments, prescribed through the Local Government Act of 2009 was in place.

Bhutan started the process of decentralization with administrative and fiscal delegation to local governments in the 1980’s. The 5th Five Year Plan (1981-1986) introduced district committees or *Dzongkhag Yargay Tshogchungs* (DYT) and block committees called *Geog Yargay Tshogchungs* (GYT), to facilitate local participation in economic planning. The basic legal framework of these committees was established through the 2002 GYT and DYT Chathrims (Royal Edicts or Acts). The Bhutan Municipality Act was introduced in 1999 and recognized four independent urban municipalities known as *Thrombes*. These acts were consolidated and refined with the promulgation of the Local Government Act (LGA) of 2009 (Brassard 2008).

Today, local government in Bhutan is clearly established through the constitution and the 2009 LGA. Article 22 of the constitution decrees 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” (Constitution). The Local Government Act of 2009 further defines the levels of local governments and their functions. The pillars of GNH are incorporated into the Constitution, Vision 2020 and the 2009 LGA. The development agenda is set by the central government, with local inputs, in five-year increments. Bhutan is currently executing its 11th Five Year Plan (2013-2018).

## Basic structures, actors and mechanisms

Bhutan has three levels of local government; below the center are 20 districts (*Dzongkag*), the next tier consists of 205 blocks (*Gewogs*) and the lowest tier includes 1044 villages (*Chiwogs*). The 27 municipalities (*Thrombes*) are part the third tier of local government. The four largest Thrombes are considered Class A Thrombes and function as self-governing urban governments that fall directly under the jurisdiction of the central government. Unlike many countries, Bhutan ambitiously undertook political, administrative, fiscal and functional decentralization more or less at the same time.

*Administrative decentralization has occurred simultaneously with the formation of local government.* The Department of Local Government (DLG) which falls under the Ministry of Home and Cultural Affairs (MoHCA) is responsible for local administrative functions (Brassard 2008). Local administration uses the same structure as national government. Administrative officers are responsible for public service delivery in their jurisdiction and are accountable to the local government officials. While there is no devolved authority on administrative staff selection, district governments can redistribute their staff based on need, evaluate performance and recommend promotions (Thompson 2010). It is unclear how the lines of accountability function in practice and whether administrative officers remain solely accountable to local government officers or whether their duty of care lies with the sectoral ministries. Horizontal accountability seems to exist at the district level, particularly with the role of the District Environment officer who is mandated to commission multidisciplinary committees for all new projects (Thompson 2010).

Functional responsibilities of local government include providing planning inputs, specific regulatory functions, provision and maintenance of infrastructure, providing for capacity building and some human resource development functions (UNDP, UNCDF). Local governments have no legislative powers but can make rules within their mandates and within the laws set by the Parliament. DYTs have specific regulatory functions. GYTs can levy certain taxes like land and entertainment taxes. Class A Thrombes have the greatest legislative autonomy and can set property tax rates. All local governments consist of elected representative members and led by a chairperson for a three-year term (Royal Government of Bhutan, Local Government Act 2009).

Decentralization of planning in Bhutan was introduced in the mid 2000s through the 9th Five Year Plan. Bhutan has adopted a bottom up planning approach where *gewogs* develop plans which are then consolidated by the district and central governments. The efficiency of this type of approach is currently limited by the capacity of the *gewogs* to forecast needs and therefore there is no prioritization of projects. At the *chiwog* level, micro planning is also uneven. In order to mitigate these capacity issues, the government of Bhutan introduced the Integrated Capacity Building Plan (ICBP) in 2007, but due to the delay in the passing of the LGA, implementation of this plan was also delayed (Thompson 2010).

There are several donor led projects in place to improve capacity for planning, financial management and environmental management for both local residents and government staff (Work Bank 2014). The government of Bhutan is also considering increased regulatory decentralization through the introduction of district based one-stop centers for obtaining licensees and permits. Final authority will remain with the respective ministries but it is expected improve accessibility and efficiency of obtaining regulatory permits and licenses (Thompson 2010).

Fiscal decentralization has also been introduced alongside functional decentralization. Each five-year plan has granted incremental financial autonomy to the local level. The central government has assigned up to 40% of its total budget to local government transfers (UNDP, UNCDF 2006). These transfers are distributed in a ratio of 70 to 30 to district and block governments respectively. The amount for the capital annual grant allocation to the block level is determined by a formula using the Resource Allocation Framework (RAF), which is based on the size of the population, level of poverty and geographical size. The RAF process is continuously improved on with each five-year plan.

While there is greater devolution of planning responsibilities, the central government still controls the disbursement of funds, which are usually in the form of conditional transfers. *Gewogs* currently raise less than 1% of their revenue, depending almost fully on transfers. While 80% of the amount transferred has to be used for specific projects or program areas, 20% of the annual capital grant can be used flexibly and to accommodate cost overruns. There is however, a restriction placed on the amount of annual capital grant that can be used for maintenance, a maximum of 5%. This places a burden on the *gewogs* for ensuring that the infrastructure is well maintained.

Public participation is facilitated through local elections and through capturing local inputs in the planning process. Local elections have been characterized by low candidacy rates, with 15% of the seats left uncontested in the 2011 local elections (Royal Government of Bhutan 2011). Efforts have been made to sensitive local population on the democratization process. The mechanisms for local citizen participation in local government are laid out in the LGA through the use of open meetings. There has been observed attendance at the *gewog* public meetings.

An interesting feature of local government elections in Bhutan is that elected officials may not belong to any political party at the time of election or during their term. This became difficult during the local election of 2011, as local political party members who campaigned and participated in previous elections (2007-2008) stood for local elections (Thompson 2010).

Public scrutiny is not well developed, but there are mechanisms in place to facilitate this. Local government are mandated to publish relevant information to the public either using public notice boards or through annual reports. There are few observational studies undertaken to evaluate whether *gewogs* comply with these requirements; a field visit in 2009, showed that few *gewogs* publish information on public notice boards or through annual reports. This could be a capacity issue, with *gewogs* unable to produce information like annual reports (Thompson 2010). In a landmark achievement for improved accountability, the National Assembly of Bhutan recently passed the Right to Information Act as to curb corruption and empower its citizenry, the act is currently under review with the executive government (Press Trust of India 2014).

## Decentralization outcomes

Decentralization in Bhutan is still in the early stages and there is very little empirical evidence of decentralization outcomes, particularly related to local government budgets and public expenditure. Arrangements for functional responsibilities, accountability mechanisms and administrative mandates are still being worked out. Bhutan is primarily an agrarian economy with over 69% of the population living in rural areas as subsistence farmers. Economic liberalization has resulted in increased provision of infrastructure to these rural communities, some of which are located in remote mountainous areas, but the specific role of decentralization is not well documented.

There is some sense that decentralization of service provision and the provision of infrastructure has led to a reduction in poverty rates*.* Bhutan has seen a phenomenal reduction in poverty from 2007 to 2012 when measured against various indicators. The main drivers for the reduction in poverty has been the commercialization of agriculture, provision of better rural infrastructure like health centers, roads and schools and the construction of the massive hydroelectric projects, the economic effects of which have spilled over to the rural population. The reduction in poverty has not been equitable though; with women-led households being less upwardly mobile than male-led households, and 4 out of 10 chronically poor households falling back into poverty (World Bank 2014). There is a regional variance in the incidence of poverty with urban areas having only 1.7% of their population under the poverty line, while 30.9% of the rural population is considered to be in poverty (UNDP, UNCDF 2009). The Bhutanese government is committed to providing free education and health to all residents, and while there has been overall improved accessibility to these services, but again it is unclear what the role of local governments are in planning and implementing this functions, and whether there are any efficiency or equity variations in service provision.

As noted above, there have been some issues with interest in local elections, with some areas experiencing shortfalls in candidates and some concerns about voter participation. There is poor representation of women in local governments--only 8.9 percent in the local councils, which is only marginally higher than 8.5 % representation in the National Assembly (Dahlerup 2014). There is currently no legislation around mandatory representation of women. There is limited information about ethnic representation, but this has previously been documented as a concern. In 1998 there were only 16 members of Nepalese decent in a 151-member national body. Such poor representation in national politics and lack of Hindu religious representation at the national level has spurred conflict in the past (Patanaik 1998). There does not seem to be empirical evidence to date about whether decentralization has mitigated ethnic tensions.

The effectiveness of aid in improving public service delivery or local capacity is not well documented*.* The Bhutanese government depends heavily on international aid to finance its public expenditure, perhaps raising concerns about accountability. In 2013, 10 percent of its GDP came from foreign grants and 70 percent of foreign aid comes from India. Bhutan has also signed trade agreements with India to provide hydro electricity once the plants come online. There are fears that export of electricity of India could come at the price of reduced service delivery to its citizens (World Bank 2014). Although this is not decentralization specific, there are several donor agencies involved in decentralization planning, capacity building and policy making (UNDP, UNCDF 2009). There is little information available on whether there is coordination among these organizations to ensure a coherent and effective strategy to achieve the decentralization objectives.

Bhutan has taken significant steps to improve transparency to its citizens.This includes the passage of the Anti-Corruption Act and the establishment of the Anti-Corruption Commission. Bhutan also recently introduced a government-to-citizen (G2C) program to provide services to citizens electronically through community centers. The use of electronic information is particularly striking when considering Bhutan’s topographical barriers. The policy commits to ensure these centers are less than a day’s travel for every citizen, so their administration will be further decentralized from the district to the block level. Efficiency of turnaround time on public service requests and the role of the decentralized governments will need to be assessed (Royal Government of Bhutan G2C). Despite these measures, there is some concern that democratization and decentralization has resulted in an increase in corruption *(*Ahmed 2013*).*

## Evolution of decentralization and local government performance

Bhutan’s transition to democracy and its move to decentralize authority is unique compared to other countries. As previously mentioned, the shift was initiated by a progressive monarch who made the decision to create a democratic state. The transition was managed peacefully and in a short amount of time, has resulted in improvements to service delivery and poverty reduction (Ahmed 2013).

Since democracy and decentralization came with economic liberalization, it is difficult to clearly establish causality, and determine whether these improvements were the result of economic growth and huge investments in infrastructure or the decentralization of services. The lack of empirical evidence or research around decentralization outcomes makes it harder to understand the role decentralization played in improving development indicators. The ability of local governments to provide services within a relatively short amount of time could be due to the fact that local government and administrative functions were in place before formal the democratic process took place and these functions remain strongly influenced by the center.

Decentralization in Bhutan has many challenges ahead, the largest of which is capacity issues at the local level and the lack of real fiscal and political autonomy. The recent lack of candidates for the local government elections demonstrates a concerning level of citizen lack of awareness and/or apathy to participation in politics and local governance. Getting citizens more involved would be key to ensuring these decentralization policies are worked out and implemented in an efficient, transparent and corruption-free manner.

Bhutan’s development agenda is built on the pillars of GNH, which is based on “non-material wellbeing, happiness and cultural values." Yet modernization has resulted in some weakening of community vitality.The government's cultural protection strategy has done little to protect Bhutan’s non-monumental assets like villages and other cultural structures that are central to community life. As a result, the government has been working on inclusive policies to institutionalize development that is people centered and culturally sensitive (World Bank 2014). Decentralized bodies like *chiwogs* could play a significant role in being stewards and preserving traditional community links that form the basis of Bhutanese lifestyle and heritage.

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