

AN EVALUATION OF DECENTRALIZATION SYSTEM IN BHUTAN

By

Chhoden

THESIS

Submitted to
KDI School of Public Policy and Management
In partial fulfillment of the requirements
for the degree of

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Professor **KANG, Younguck**

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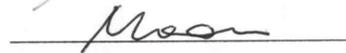
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ABSTRACT

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This thesis aims to explain the decentralization process in Bhutan under the reign of the 4th King, His Majesty, Jigme Singye Wangchuck (1972 to 2006), where a gradual devolution of the political, administrative, fiscal and functional authorities had been made. The decentralization process had been a result of gradual process driven by the country's leadership, using international models of decentralization adapted to the Bhutanese environment. The strong political will of the reigning monarchs, the subsequent changes in the Constitution and laws and the negative offshoot of centralized development administration prior to 1980 had been the key drivers that initiated and sustained the decentralization process in Bhutan. However, the current decentralization system is confronted with the common challenges related to Planning and Implementation Process, sustainability, institution-building, policy-coordination and resource gaps, etc. To ensure the establishment and success of decentralized governing system in Bhutan, collaborative efforts from the involved political actors and stakeholders are of essential elements. In this paper, careful interest has been made in identifying the key challenges that confront the decentralization process in Bhutan and concludes with recommendations focused towards the institutional development, capacity development, proper coordination and cooperation, and role clarification.

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Dedicated to my beloved parents

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ACRONYMS AND GLOSSARIES:

Acronyms:

BDC	Block Development Committee
CCM	Council of Cabinet Ministers
CSO	Civil Society Organization
DADM	Department of Aid and Debt Management
DDC	District Development Committee
DLG	Department of Local Governance
FYP	Five Year Plan
GNH	Gross National Happiness
IDRC	International Development Research Centre
NGO	Non Governmental Organization
Nu	Ngultrum
SNV	Netherlands Development Organization
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme

Glossaries:

Block Development Committee	Also called Gewog Yargye Tshogchung. It is a development assembly established at the county level to facilitate access to decision making by and among the rural population
Block head	Also called gups and they are the chief executive of BDCs
District Development Committee	Also called Dzongkhag Yargye Tshogdue and it is the district development assembly, established as the development forum at the district level.
DDC and BDC Acts	Also called the GYT and DYT Chathrim. They are the legal acts that formalized and endowed the DDC and BDC with administrative, financial and regulatory powers.
Gewogs/Blocks	Development blocks, or village cluster and are the smallest administrative units.
Lhengye Zhungtshog	Cabinet ministers
Ngultrum	Currency of Bhutan (USD1=Ngultrum 48 approx.)

Chapter 1

Introduction

The transfer of fiscal, political and administrative tasks and power to the intermediate and local governments by the central government is called decentralization (Ledivina V. Cariño, 2008). The underlying principles for decentralization is that the local government, being closer to their constituencies, will make quick responses to the local needs and thus efficiently match the public services (Tiebout, 1956) with the local preferences.

However, most of the decentralizations that have recently taken place are mostly motivated by the political concerns rather than improvement in the efficiency of providing public goods and services. Ford (2001), in his decentralization briefing notes for example, states that in many countries, decentralization has happened because these countries lacked meaningful alternative governance arrangements to provide local government services. He further states that the necessity for improved delivery of service to the vast population and the detection of the restrictions and limitations of the central administration seemed to motivate decentralization in East Asia. There are numerous such examples around the globe. The World Bank Group states that the spread of multiparty political system in Africa created the demand for more public participation in decision making. In Ethiopia, the regional or the ethnic group's pressure for active control and participation in the political process has lead to the decentralization process. In Latin America, the democratization process lead to the replacement of dishonored autocratic central regime by the elected government, operating under the constitution and thus, decentralization has been part of the democratization process there. Furthermore,

decentralization efforts in Mozambique and Uganda were outcomes of long civil war and the former socialist states have also massively decentralized as the old central apparatus crumbled.

The decentralization system in Bhutan, on the other hand, had been different from rest of the world where there was civil unrest that compelled the government to take the views of the people in policy making. In Bhutan, the government had to provide the impetus for drawing out the people's participation. The Royal Government's decentralization policy and objectives are described from a 20-year perspective in Bhutan 2020: A Vision for Peace, Prosperity and Happiness, where the goals of decentralization are to empower the people and enable their sustained development. While the objectives are to promote good governance, the policy aims also include popular participation, improving efficiency, enhancing transparency and accountability, providing equitable access to public services and goods, and promoting rapid and sustainable development.

Furthermore, since the end of the 4th Five Year Plan¹ people's participation and self reliance have been central to the development philosophy of decentralization. The decentralization initiatives in Bhutan was based on the belief that the active participation of the communities in the decision making, execution and management of the activities that affect their lives is naturally more effective as they know their aspirations and problems better than the central government agencies. It is also meant to support and ensure balanced and more equitable development.

¹ Development planning is done for a period of five-year. The first five-year plan began in 1961

For instance, the monarchs of Bhutan, the third and fourth King, were in a constant process of devolution of power for more than four decades. In 1953, the National Assembly was instituted as consultative body. The institution of the National Assembly ushered in the process of decentralization in the country. It was followed by the establishment of judicial system in 1960 and the Royal Advisory Council in 1968. His Majesty, the fourth King since the day of his accession to the throne has worked tirelessly towards decentralization and people's participation. In continuation to the process of decentralization in 1981, the District Development Committee (DDC hereafter)² was instituted and this was followed by institution of Block Development Committee (BDC hereafter)³ in 1991. These two institutions were entirely made responsible for the implementation of most development programs.

Furthermore, the executive powers of government were devolved from the palace secretariats to the professional bureaucrats headed by a cabinet of ten elected ministers in 1998. The District development Committee and Block Development Committee Acts (DDC and BDC Acts hereafter) were enacted in 2002. Election process on the basis of adult franchise was introduced in 2004(DLG, 2006). In 2008, the Constitution of the kingdom of Bhutan was adopted and this would further regulate a coherent institutional framework that combines the political, financial and administrative decentralization with a strong unifying government.

² DDC comprise of two elected members from each of the blocks and national assembly. It includes the government officials at the districts who have observer status.

³ BDC comprises of elected members from village depending on the size of the village. It also includes the extension officials of the government who have an observer status.

Despite the strong political support, willingness and initiatives, the decentralization system in Bhutan is not free from the common challenges as have experienced by many other countries. Planning and implementation process, capacity issues, issues of sustainability, institutional problems, resource gaps and coordination problems have impeded the decentralization efforts in Bhutan. The main purpose of this research is to describe the different aspects of devolution process in Bhutan. The thesis focuses and emphasizes the understanding of the concepts used in the thesis (political, administrative, fiscal and market decentralization) and also explains the key driving forces of decentralization process.

This research has concentrated in identifying and analyzing the key challenges faced in the process of decentralization and concludes with policy recommendations. Considering the uprising issues on Decentralization system in Bhutan, this thesis tries to answer the following questions on capacity building efforts and policy coordination problems:

- What are the key drivers that enable the environment of decentralization process in Bhutan?
- What are the most pressing challenges faced in the decentralization process?
- How can the challenges be overcome?

The lack of the primary data had been a critical constraint to conduct an in-depth study on this research and thus the study employs research based on secondary data analysis. This paper applies the meta-analysis framework where the secondary data and information collected from the secondary researches including but not limited to journals, book, web resources, country reports, donor project reports, other official reports,

publications, acts, laws, rules, plan documents, regulations and others. The facts and status of decentralization in Bhutan are classified and evaluated based on the theoretical concepts and an in-depth literature review had been carried out along with some informal interviews for data input and analysis.

Chapter 2

Literature Review:

Introduction:

Decentralization is a relatively universal concept and the conditions for its sustenance are often presumed to be same elsewhere. Thus this work, though primarily about the decentralization in Bhutan, would adopt global approach to the issues discussed in order to gain the theoretical concepts. The literatures cited in this thesis are predicated on the themes of decentralization, their principles, the rationale for decentralization and the risk and disadvantages of decentralization. The purpose of this review is to give an understanding of the previous studies and place the present study in the larger context.

2.1 Definition of decentralization:

Many scholars have tried to conceptualize decentralization and they have remarkably treated the problem of conceptualizing decentralization and a number of articles and books bear the explanatory success. Decentralization means different thing to different people. Politicians, administrators and development professionals use the term decentralization in various ways and there is no definite standard definition. Thus there are many definitions of decentralization brought out by different scholars. However, all of them convey the same meaning .Work.R (2002) and Cheema and Rondinelli defined decentralization as the devolution of responsibilities for management, planning, and resource raising and allocation from the central government to the: Units of the central government ministries or agencies at the field level; Subordinate units of government; corporations; functional authorities; private or voluntary organizations; and nongovernmental organization. Decentralization is associated to the subsidiarity concept

in which the functions need to be devolved to the lowest level of social order that is competent of accomplishing them.

Correspondingly, the UNDP (1999) also defines decentralization or decentralizing governance as the process of authority restructuring whereby it creates a system of co-responsibility between the regional, local and central levels of governance institutions and this is in accordance with the subsidiarity principle. Thus, it increases the overall effectiveness and quality of the governance system and it also boost the sub national government's authority and capacity. They further state that decentralization: escalates the voices of the people in all the decisions; supplements people's capacity development; increases the responsiveness of the government; and enhances the transparency and accountability and thus, it contributes towards strengthening good governance.

Rizal P. Dhurba (2001) identified the two fundamental dimensions of decentralization as:

- Decentralization as means; where decentralization is the process of transferring functions and power from the central government to the local government units and organizations.
- Decentralization as a philosophy; where decentralization entails the sharing of power and functions between and among the various levels of governments and enables them to identify and respond to the local needs and priorities, mobilize and allocate resources and deliver services.

He further states the three principal objectives of decentralization as following:

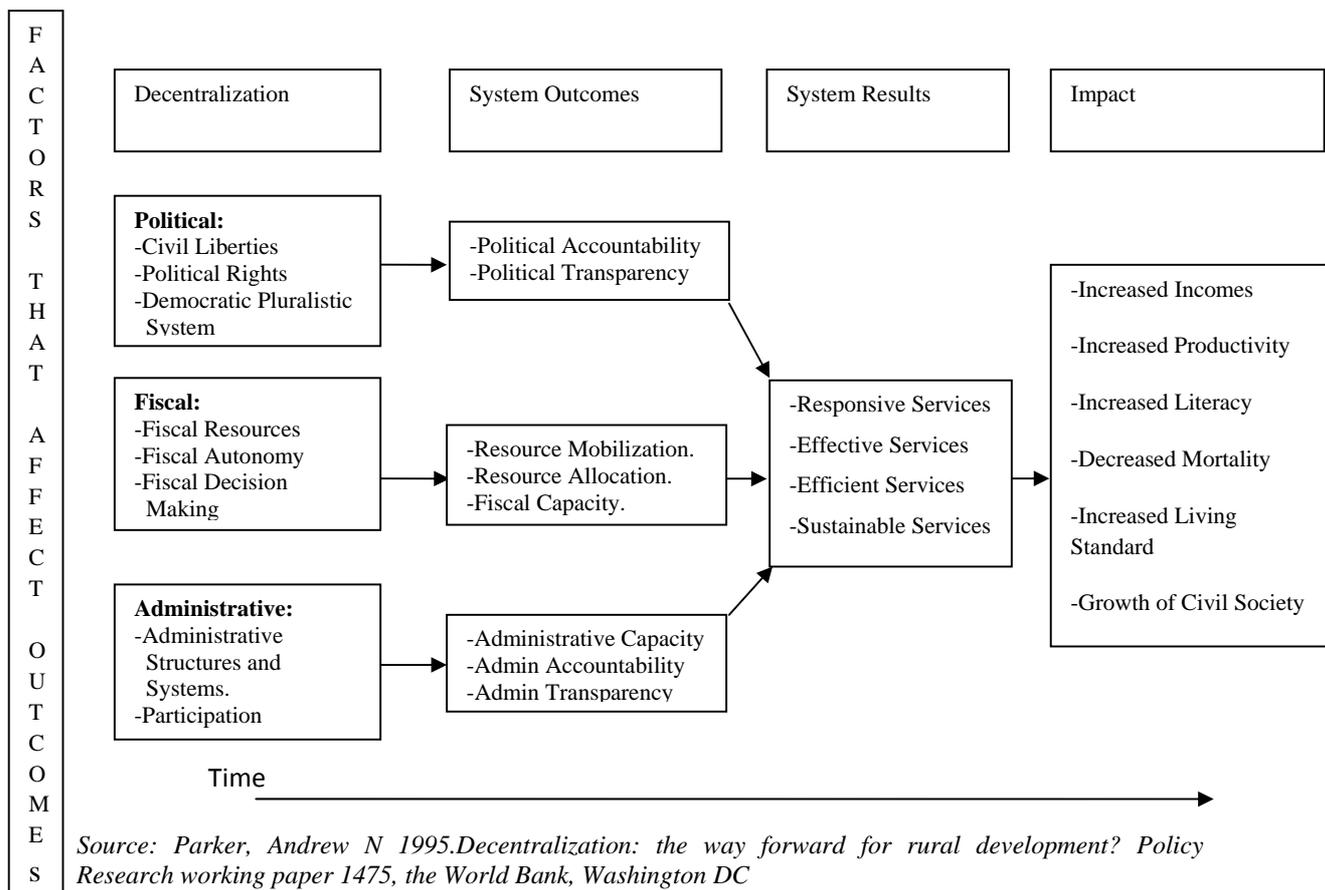
- Enhance national development throughout the country especially in the underdeveloped regions and areas.

- Enable equal sharing of development responsibilities for the central and local authorities and equal bearing of the national burden of managing and exercising functions related to national development.
- Enlarge the government capability and capacity to deliver better services to the people and to enrich the knowledge, skill, ability and competency of the people allied with the development related public and non public organizations and local government institutions.

Thus, all the definition of decentralization propounded by the various scholars and writers passed on same connotation and concludes that decentralization brings government closer to the people and empowers people to participate in and influence the decision made with their close community.

2.2 Types of Decentralization:

There are no prescribed rules and regulations governing the decentralization process that apply to all countries. Decentralization tends to takes different forms in different countries according to the objectives driving the change in structure of government. Decentralization in its three fronts is presented in the figure 1 below;



Different form of decentralization includes political, administrative, fiscal and market decentralization. It is necessary to make distinction between the various types of decentralization in order to understand the dimensions to successful decentralization and to find out need for coordination among them. However it is not possible to have definite distinction between the different types of decentralization. The different forms of decentralization are discussed as follows:

2.2.1 Political Decentralization:

Political decentralization may mean different thing to different people. Political decentralization is the process of shifting from the central government to the local government and communities, the:

- Power to choose the political leadership and representatives: and
- Power and authority to make social, political and economic decisions

Rizal P. Dhurba defines political decentralization as the correlate of democracy and is based on internal party democracy as well as democratization of state, de-concentration of wealth and social power and in creation of civil society through mass mobilization and mass participation in the institution of representative bodies. He cites the objective of political decentralization as to increase the efficiency of local political unit, increase the participation of the citizen through empowerment and provide more freedom of choice in the process of electing the matter which is of their primary concern.

Political decentralization can support democratization by giving citizens, or their representatives, more influence in the formulation and implementation of policies. However, it is often associated with pluralistic politics and representative government. Thus, decentralization is conceptualized on the belief that election of the local representatives allows the citizens to have a better knowledge of their political representatives and also the elected officials to have a better knowledge of his constituent's needs and desires. Also if more people are involved in the decision making, rather than the decisions being taken by the national political authorities, the decisions will be better informed and more relevant to diverse interests in society.

Political decentralization requires structural arrangement that goes beyond putting in place local governments. It requires a combination of vertical and horizontal decentralization in which the vertical decentralization transfers power and authority from central to local government and the horizontal decentralization empowers the local communities and enables them to receive and utilize the powers transferred to them. (Kauzya M. John, 2007). Political decentralization, unlike administrative decentralization is not concerned primarily with increasing efficiency, improving service delivery by the

government, removing bottle necks and reducing delays and increasing the ability to recover cost, but it is concerned with the devolution of power to the grassroots and leading to the formation of local level governments. Thus, Political decentralization often requires constitutional or statutory reforms, the development of pluralistic political parties, the strengthening of legislatures, creation of local political units, and the encouragement of effective public interest groups.

The belief that political decentralization is a good form of decentralization based on the following arguments, as favored by its proponents has been reshaping governments across the globe:

- The decision making that is more suitably left to the regional governments is essential for promoting democracy and good governance. The local authorities who are more aware of the local situations and hence in the better position to take judicious decision have the decision making power in their hands.
- Political decentralization ensures more efficient allocation of resources, enhances the mobilization of local resources and improves local governance. These are effective strategies of poverty reduction.
- The decentralized government enables the people to participate in local development. There is greater awareness of community preference in decision making which leads to a greater people's participation in the governance system and greater sense of belongingness of their infrastructure facilities thereby contributing towards sustainability of infrastructure.
- Decision making at the lower levels implied an enormous reduction in the time taken for decision making and administrative costs.

- Since the local government comprises of local popularly elected representatives, it would enable greater participation of the marginalized communities.
- Political decentralization would lead to a balanced regional development as there are inefficiencies in administering a very backward economy through a highly centralized political authority and the development of that area might often get neglected.

However, the political decentralization despite a range of positive trends cannot be a panacea. It would rather be presented as solution to larger number of problems. Nath, Vikas states that political decentralization often fails to achieve its objectives because of the complex phenomenon involving many geographic entities like the international, national, sub-national and local levels and the social factors like the government, the private sector and civil society. He further stated that political decentralization often fails in absence of efforts towards strengthening of accountable local government institutions and developing popular participation. It is unlikely that decentralization of the state will be accompanied by increased political power of the people if people do not exercise democratic control over the central apparatus of the state. Political decentralization can also result in loss of control over scarce financial resources by the central government and loss of economies of scale. The weak administrative and technical capacities at the local and field levels may result in services being delivered less effectively and efficiently in some parts of the country. Equitable distribution of the services becomes difficult as administrative responsibilities may be transferred to the local levels without adequate financial resources. Political decentralization can be time intensive activity if it aims at strengthening democracy and empowering citizens as it has to be a process oriented

activity. Thus, territorial unity and a minimum level of political stability should be present for any policy of political decentralization.

2.2.2 Administrative Decentralization:

Generally, administrative decentralization is the process of transfer of planning, financing and management responsibilities and functions from the central government, regional governments and its agencies to local governments, semi-autonomous public authorities and regional or functional authorities. As per the Decentralization Thematic Team of the World Bank, administrative decentralization redistributes responsibility, authority and financial resources for providing the public services among the different levels of government. Thus, administrative decentralization divides the labor through functional differentiation and claims bureaucratic accountability to the people at the lower level than to the superiors by the structuring of rules, procedures and institutions.

As far as development is concerned, Administrative decentralization is the most practiced and accepted form of decentralization. Cohen and Peterson states that administrative decentralization has been used by developing countries and nations in transition as strategy for addressing critical governmental needs like more effective and efficient production, delivery of public goods and services, improved governance, increased transparency and accountability.

Administrative decentralization has three forms: de-concentration, delegation, and devolution and they have different characteristics.

a) De-concentration:

De-concentration is the process of redistribution of the decision making authority, financial authority and management responsibilities among the different levels of central

government. The Decentralization Thematic Team (World Bank, 2007), states that de-concentration creates strong field administration or local administrative capacity under the supervision of central government ministries. The specific functions and tasks of the central administration staff are transferred to the staff stationed in the lower level governments within the national territory. The managers of these lower/ field level governments and agencies have authority for autonomous decision making as the staff, equipment, vehicles and budgetary resources are transferred to the regional and district offices. Thus, it enables the local and field level offices to efficiently and effectively carry out the tasks through timely decision and reasonable latitude of flexibility and discretion as per the local needs and conditions. The primary objective of de-concentration is to improve the production efficiency of the administration with an improvement in the impact of the services delivered as second priority. General de-concentration happens when a wide range of tasks are de-concentrated to an administrative system which is horizontally integrated. Functional de-concentration occurs when the specific tasks are de-concentrated to the field units of a particular ministry or agency.

However, the decentralization team also admits that in de-concentration, the central government agencies in the capital city simply shift their responsibilities to the regional, provincial and district offices. Despite the shift of financial and management responsibility to these offices, the appointments, salaries and assignments of the local administrative leaders were dependent on the central government. To this, Rizal P. Dhurba also affirms that de-concentration does not allow adequate freedom to the local units to take initiatives and decision without the consent of central government. The field

and local level agency just acts as the agents of the central government and does not have any autonomous status. Siddiqui (2005) states that de-concentration is a less desirable option as it retains central control and direction. He further states that de-concentration will trouble the activities at the local level if there is a poor quality of bureaucracy. De-concentration is not a widespread type of administrative decentralization. However, it is commonly practiced in the developing countries.

b) Delegation:

Delegation is more common form of administrative decentralization. It is through delegation that a central government transfers the decision making responsibility for public function to semi-autonomous organizations which are not fully controlled by the central government, but they are ultimately accountable to it. Thus, delegation as per World Bank, 2007 is the transfer of administrative and decision making authority for the carefully spelled out task from the government to the semi-autonomous organizations.

In delegation, the functions are transferred to the functional and regional development authorities and the special project implementation units with the consideration that these units would take up their budgeting, personnel recruitment, procurement, contracting and other matters reasonably free of central government regulations. It is also done with the consideration that these functional units would perform as the agent of the state while performing prescribed functions, with ultimate authority remaining with the central government (Siddiqui, 2005).

Delegation is a way to balance local and national government interest. As per Sylvian H. Boko, 2002, governments delegate responsibilities when they create: Public enterprises; special service districts; housing authorities; special project implementation

units; semi-autonomous school districts and transportation authorities. These organizations usually have high discretionary power in decision making and are often free of the limitation of regular civil service personnel and they can even collect user fees. Delegation does not restrict to the national service delivery, it can also be adopted by any level of government. However, Siddiqui (2005) also insists that delegation can be troublesome if there is no local accountability in the organization to which the delegation has been made and if the delegated organizations tend to be adherent to the higher level bureaucrats and political leaders despite their stated legal position.

c) Devolution:

Sylvian H. Boko (2002) cites devolution as the transfer of responsibilities for decision making and administration of public functions to local governments who elect their own functionaries and councils and have independent authority to make investment decision. Thus, devolution creates and strengthens the government institutions at the local level by devolving powers and functions to them. In this kind of system, the local government has lawfully recognized geographical limitations within which they work out their authority and carry out public function.

Rizal P. Dhurba (2001) identifies the essence of devolution process as the decentralization of power and authority of decision making to the districts, villages and towns, thus enabling the growth of autonomous units of self governance. The UNDP, 1999, states that devolution in its purest forms has certain fundamental characteristics such as:

- The central authorities have no direct control over the local government and thus, the local governments enjoy independence and autonomy.

- There is comprehensible and legally recognized geographical limitations for the local governments, within which they exercise authority and carry out public function;
- Local government has corporate standing and the authority to secure resources to carry out their tasks;
- Local government should be an institution that provides the local citizens with the services that meets their requirements and also the local citizens should have some influential power over it.
- Devolution is a system in which there are mutually beneficial and coordinated relationships between the governments both at the local and central levels.

Thus in devolution, the local governments have the responsibility to decide which services should be provided on the priority basis and to whom.

Devolution sets the basis for political decentralization and it is through devolution, that the government at the central level relinquishes certain tasks or forms new government units that are outside its direct control. Devolution is inferred as one of the best forms of decentralization (World Bank, 2007). Here the local bodies have legal existence to exercise their own choices of decision-making concerning their own needs and aspirations. There is minimal or no control from the centre. It is through devolution that the local capacities and knowledge are best used as devolution provides opportunity for the effective participation of the local people in the local decision making process through their own local government institutions elected by themselves. Thus this ultimately leads to proper administrative, political, and economic system management. It

results in improved allocative efficiency as it opens the systems to the influence of the beneficiaries of the services delivered.

However, Siddiqui (2005) argues devolution to be free of problems and states that devolution is incapable of serving the underprivileged if they do not participate and if they are not empowered. Thus, he suggests certain conditions and reforms to be made for the success of the system of devolution. In support of his argument, FAO Technical Cooperation Team also states that if the accountability process which is the prerogative of the central government interferes with the local government's decision making autonomy, or if the transfer of resources is insufficient to cope with the responsibilities transferred, there is inadequate devolution.

2.2.3 Fiscal Decentralization:

Fiscal decentralization comprises the financial aspects of devolution to regional and local government. Fiscal decentralization generally refers to the process of changing the source and distribution of resource availability at the local levels of governments. Fiscal decentralization system defines how and in what ways the revenues and expenditures are organized among the different levels of government in the national polity.

For the local governments to fully deliver the potential benefits of decentralization, they need to be financially empowered, thus fiscal decentralization is conceptualized by UNDP (2005) as the empowerment of communities and citizens by fiscally empowering their local governments. They further stated the four pillars of fiscal decentralization as:

- The assignment of expenditure responsibilities to different government levels;

- The assignment of tax and revenue sources to different government levels;
- Intergovernmental Fiscal transfers; and
- Sub national borrowing.

Kenneth Davey, 2003 states that Fiscal decentralization covers two interrelated issues: the first being the division of revenue sources and spending responsibilities between the different levels of government and the second being the amount of discretionary power given to the local and the regional governments for determining their revenues and expenditures. These combined dimensions have a major impact on the reality of decentralization in its broader political and administrative sense. He further states that the amount of power and responsibility the regional and local governments actually exercise depends significantly on: ranges of public services they finance; the adequacy of the revenues to take up these responsibilities; the amount of the choices they have in apportioning their budget to the desired/required services; and the availability of the authority to determine the rates of their taxes and charges.

According to the Wiki Answers, Fiscal decentralization can take the form of:

- Self-financing through user charges,
- Co-financing or co-production in which the users of the goods and services participate in providing it through monetary or labor contributions;
- Introducing/increasing property taxes, sales taxes and indirect charges to expand the local revenues;
- Intergovernmental transfers in which the central government transfers the general revenues from the taxes collected to the local governments for their general and specific uses.

- Authorization of municipal borrowing and the mobilization of either national or local government resources through loan guarantees.

There are some conditions necessary for the success of the Fiscal Decentralization.

According to Kenneth Davey (2003):

The councils must be locally elected. If the local leadership is appointed by higher levels of government, their accountability will be upwards and down ward to the local population and the efficiency gains that are at the heart of fiscal decentralization strategies will not be captured. In order to ensure that the implementations be locally directed and the services not delivered as per the direction of the centre, it is important that the local councils appoint the local chief officers. (p.8)

It reaffirms that political autonomy is crucial element of decentralized system. He also stated that there should be significant set of expenditure responsibilities and significant amount of taxing power, budget making autonomy and transparency. There should also be a hard budget constraint as it will force the local officials to live within their means and also make the local officials accountable for the hard choices they make.

The proponents of fiscal decentralization states that fiscal decentralization ensures preference matching, increase efficiency through competition and increase accountability: The local governments being closer to the citizens and being better informed about the local preferences, will be in a better position to provide public goods and services which meets people's needs. The competition amongst various territories makes the public services more efficient and innovative. Fiscal decentralization, by reducing the distance between the governments and the governed, is expected to stimulate participation and improve accountability (Kolstad, Ivar and Fjeldstad H. Odd, 2006). Thus, it is because of these positives aspects of fiscal decentralization that many countries, especially the developing countries where their central government had a poor performance in

achieving the macroeconomic stability, sustainable growth and adequate level of public services had resorted to fiscal decentralization. The national governments in these countries were unsuccessful in ensuring economic union, a stable macroeconomic environment, regional equity and central bank independence. The success of decentralization in Latin American countries like Brazil, Chile and Columbia to improve their public participation, efficiency and equity of public provision and accountability of the public sector prompted the other countries to review their own fiscal arrangements (Shah, 2005).

Fiscal decentralization is also not a perfect form of decentralization as it also has its negative aspects. Kolstad, Ivar and Fjeldstad H. Odd (2006) states the negative aspects of fiscal decentralization as: Decentralization may lead to inefficient decision and use of resources if there are positive or negative externalities present between regions or if the fiscal functions have economies of scale or scope. The opponents of fiscal decentralization states that there will be high risk of escalating the national inequity if too much fiscal decisions are transferred to the local governments and the central government may be left with few policy instruments to correct this. The local government often lacks the capacity to handle the tasks transferred by the fiscal decentralization. Thus to curve these risks, Somke, Paul (2001) lists out some key elements that should be included in a good fiscal decentralization programmes: an sufficient enabling environment; Assignment of the local government with appropriate set of local revenue source; Establishment of adequate intergovernmental fiscal transfer system; and establishment of adequate access of local government to development capitals. Thus these elements would enable an effective and efficient fiscal decentralization system.

2.2.4 Economic or market decentralization:

Economic decentralization outlines the intervention of government for decentralizing economic planning and development functions with the ultimate goal of utilizing country's resources fully for maximum and low inflationary outputs with efficiency and economy. Economic decentralization assures citizen's sovereignty in the choice of goods and services through the market mechanism.

As per the Decentralization Thematic Team (World Bank, 2007), from the government's perspective, privatization and deregulation are the most complete form of decentralization because they shift responsibility for functions from the public to private sector. They allow the businesses, cooperatives, private voluntary associations, community groups and other non-government organizations to carry out the functions that had been primarily or exclusively the responsibility of the government. The key components of economic or market decentralization is **Privatization, Deregulation and Denationalization:**

In privatization, either the role of government in the activity or ownership of asset is reduced or the roles of private sector in these areas are increased. Privatization allows the private sectors to take up those functions that were monopolized by the government. The provision and management of the public services and facilities are contracted out to the commercial enterprises. Privatization transfers the responsibilities to provide services from public to both profit and nonprofit making private sectors through the divestiture of state owned enterprises. It finances the public sector programs through the capital market. Thus, privatization includes the various ways in which the private sector takes up the

functions that were previously carried out by the government. The objectives of privatization as per Aktan C. Coskun;

- Greater efficiency: Privatization increases efficiency as privatization promotes competition which is vital for obtaining more efficient and effective public services.
- Showing the true and full cost of the service provided: Generally the goods and services provided publicly are underpriced due to some political, economic and social reasons but privatization shows the true and full cost of the service provided.
- Promotion of Technological Advancement: Privatization encourages competition and competition forces the entrepreneurs to initiate new production methods. Thus, privatization promotes and initiates technological advancement.
- Development of capital market: Privatization plays a vital role in promoting equity market thus, promoting the development of capital market.

He further supports that privatization also helps in expanding the wealth and realizing extensive private ownership in society, curbing inflation, raising extra revenues for the government, eliminating hidden unemployment and reducing the power of Public employee unions. Privatization is generally favored by the donors. However, Siddiqui (2005) stated that privatization can increase the level of exclusion of the under privileged people through new pricing policies in discriminatory market. It can lead to distortion of the intended beneficial effects by the rent seeking rich in control of the economy. He further argues that privatization without adequate regulations can also lead to loss of quality.

Deregulation is generally adopted because in deregulation, there are fewer and simpler regulations which will lead to a raised level of competitiveness, thus resulting in higher productivity, more efficiency and lower overall prices. It also erupts because the bureaucratic control over policy breeds bribery, corruption, commission and patronage and thus encumbers the growth of productive economic activities

Deregulation eases the private sectors to participate in the service provision by reducing the legal constraints on them. It encourages competition among the private sectors for the services that had been previously monopolized by the government. Deregulation permits the elimination of entry barriers and other price control and thus, allows the market to respond to people's need.

Denationalization is a form of privatization that engages selling to the private sector, the government owned enterprises or government owned assets used in producing goods and services. Denationalization also encompasses demunicipalization and other forms of destatification.

Privatization and deregulation as per the World Bank (2007) has been commonly practiced alternative in developing countries. Local governments are also privatizing by contracting out service provision or administration.

2.3 Rationale for decentralization:

All the forms of decentralization, under the appropriate conditions can play important roles in increasing participation in the economic, social and political activities. Decentralization helps to alleviate the tailbacks in decision making that are often a result of centralized governance system where planning and control of important economic and social activities were done by the central government.

The World Bank Group noted that, decentralization helps the central government in reaching its services to larger number of local areas. It encourages the larger representation of the diverse religious, cultural, ethnic and political groups in the decision making process. Thus, decentralization draws the attention of the government officials to the local conditions and needs and it can reduce the complex bureaucratic procedure. Decentralization increases the participation of the people in the decision making and makes the government more aware of the local conditions and makes them responsive to the local needs and demands. Thus, decentralization brings the government closer to the people. Shandana.K.Mohmand (2005), states that decentralization is recognized as a largely positive aspect of political development. He further states that by bringing governance, decision making, and implementation of basic services closer to the people, decentralization promises both greater efficiency and a more responsive government based on more accurate information. He justifies that the proximity between people and state can foster greater understanding. Better perception of the needs at the local level and closer contact, promises greater transparency of decision making processes and greater accountability of the elected officials to the general populace. Most importantly, decentralization has the potential to allow citizens to play a direct role in decision making and implementation.

As per the International Development Research Centre (IDRC), the case for decentralization made on various ground are:

- Local authorities are mostly associated with the local preferences and conditions and they respond to the local needs timely and swiftly. Decentralization encourages the marginalized sectors of the community like the women, minorities

etc, to participate at the local level facilitating a more sensitive approach to policy formulation and execution.

- Decentralization often enhances the transparency and accountability and thus, the misuse and misappropriation of the money for development activities reduces.
- Decentralization reduces the absenteeism among the government employees, like in local schools and health clinics as the elected officials receive complaints from their constituents and can improve discipline. Thus, it increases the effectiveness in service delivery
- Decentralization can lead to reduction in the disasters as it provides bureaucrats with early warnings of potential disasters, enabling quick remedial action.
- It is through the decentralization process that the development projects become more sustainable and cost effective because local people are mostly involved in their design, execution, and monitoring and they develop a sense of ownership in those developmental activities.
- Decentralization encourages communities to find solutions to their everyday problems, yielding innovative ideas, which are more accustomed to local conditions.

Robert Ebel (1998) points out that the western world has adopted decentralization because they see it as a cost effective way of providing public services and the developing countries are pursuing decentralization reforms to offset macroeconomic instability, ineffective governance and economic inefficiencies. He further states that Post-communist transition countries are embracing decentralization as a natural step in the shift to market economies and democracy. Although the main reason for

decentralization around the world is that it is simply happening, there are a multitude of design issues that affect the impact of different types of decentralization on efficiency, equity and macro stability.

Different political and economic contexts have led to different means of decentralization and the common reasons for those countries to practice decentralization are to overcome the defects of decentralization such as:

- Inefficient centralization: The centralized governments are always unable to accommodate differences in local needs due to diverse situations. Decentralization brings decision-making closer to the people and therefore yields programmes and services that better address local needs.
- Inefficient taxation: poor match between government services and tax costs. By contrast, decentralized governments can stimulate positive effects like efficient distribution of large cities and economic development. Decentralization can result in better information on local needs and thus lead to a more responsive government. Devolving some political, administrative and fiscal authority to sub-national level governments develops a system of co-responsibility between institutions at the central and local levels, thus increasing the overall quality and effectiveness of the system of governance while improving authority and capacities of sub-national levels.

Braathen.E, Chaligha.A and Fjeldstad H.Odd cites that decentralization is expected to address the following crucial aspects:

- Increase popular participation in planning and development;
- Make plans more relevant to local needs;

- Facilitate coordinated or "integrated" (multi-sector) planning;
- Increase the speed and flexibility of decision-making and implementation and;
- Generate additional resources and encourage more efficient use of existing resources.

In addition to the above stated advantages of decentralization, Rizal P. Dhurba (2001) justifies decentralization on three important dimensions:

a. Political Dimension:

It strengthens local government institutions by equipping them with required power and functions. It facilitates the debureaucratization by: minimizing the negative trend of bureaucratization; facilitating to take administration to the door steps of the people; and discouraging bureaucratic way of administrative behavior. Decentralization also provides opportunity for the mobilization of people's participation in development process.

b. Administrative dimension:

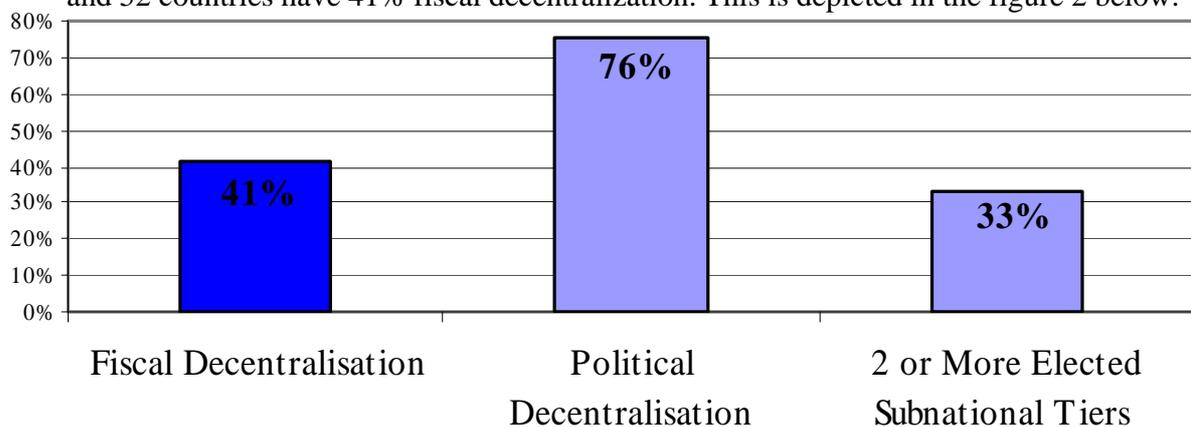
Decentralization is expected to improve administrative efficiency, make government quickly respond to the need and aspiration of the people and enhance the quantity and quality of services government provides to people. Decentralization also helps the public employees as well as the elected officials to sharpen their competency and capability and thus enlarge the governmental capacity to serve the people.

c. Development dimension:

Decentralization has been rationalized from the point of dimension on the ground that the developing countries need to adopt more socio economically equitable pattern of economic growth in order to fulfill the basic needs of all segments of the society, thus

such pattern of economic growth along with the spreading of its benefit to those groups of people passed by the economic progress can be achieved through decentralization.

It has also been justified on the ground that a number of developmental activities can be performed better by the local government than the central governments. Decentralization can also be considered as an instrument to advance and enhance national development to fulfill national interest, public demand and societal needs. Thus he concludes that such political, administrative and development significance of decentralization has caused many third world countries to move towards decentralization of power and functions to local government. Decentralization had been flourishing all over the world and almost every country is undergoing some form of decentralization, political, fiscal, administrative or functional decentralization. World Development Report (1999/2000) states that entering the 21 Century, 96 of the 127 countries surveyed are 76% politically decentralized, 42 countries or 33% have 2 or more elected sub national tiers and 52 countries have 41% fiscal decentralization. This is depicted in the figure 2 below:



Source: World Development Report (1999/2000)

These statistics are based on a survey of 127 countries for which fiscal and political decentralization data could be collected. Decentralization Table: A1 WDR 1999/2000.

However there is a growing body of literature examining the rationales for decentralization.

2.4 Risk and Disadvantages of decentralization:

It is apparent from the above literatures that the demand for decentralization had been very strong. However there are serious drawbacks and if the decentralization measures are not applied at the appropriate moments and circumstances, it may harm rather than heal the decentralization system. Thus, decentralization, although politically very fashionable nowadays all across developing and transitional countries, it does not offer all the promises it makes. Thus, it is necessary to understand the negative effects of decentralization in order to have a better understanding of its dangers and contribute to a wiser application of potentially desirable decentralization programs.

Rémy Prud'homme (1995) points out the dangers of decentralization as:

- Decentralization can increase disparities:

Decentralization can lead to increase in disparities. This is because the poor in well of regions do well than the poor in more deprived regions. The decentralized redistribution is self defeating. If the authority adopts an income redistribution policy in which the rich are imposed high taxes and high benefits are given to the poor, then the rich people will move to low tax bracket area and the poor will tend to move in from areas that offer lower benefits. The imposing authority will not be able to sustain its policy. Thus, it should be the central government's responsibility to redistribute the income.

- Decentralization can jeopardize stability:

A decentralized system makes macroeconomic policies more difficult to implement. Fiscal and Monetary Policy are the main instruments of macroeconomic policy. Fiscal Policy is a very powerful instrument for stabilizing the economy. It is an instrument which only the central government can manipulate and the local authorities have no incentive to undertake economic stabilization policies. The impact a particular regional government could have on national or global demand and on prices is negligible. Even if the influence of the regional government is significant, most of the impact would be outside its jurisdiction because sub national economics are much more open than national ones and sustain greater leakages to other regions as a result of over spending or under spending. Moreover, a regional government would have to pay the full political cost of an economic stabilization policy that would bring it only partial benefits. Therefore, regional and local governments can never provide enough economic stabilization and thus it is the central government who can provide it.

- Decentralization can undermine efficiency:

The existing literatures on the economies of scale in various local public services are of the view that there are few local public services for which economies of scale imply nationwide supply. The welfare losses attributable to economies of scale that would result from decentralization are probably minimal. There might exist the economies of scope and the central bureaucracies may be more efficient providers than local bureaucracies. The central bureaucracies are likely to operate closer to the technical production frontiers as the central government bureaucracies are likely to attract more qualified people as they offer better carrier.

Rémy Prud'homme also holds the view that corruption is more rampant with decentralization. Corruption is more widespread at the local than at the national level and thus decentralization automatically increases the overall level of corruption. This outcome, by the way, might not be bad in terms of redistribution, because the benefits of decentralized corruption are better distributed than the benefits of centralized corruption. However it would certainly increase the costs in terms of allocative efficiency, because it leads to the supply of services for which the levels of kickbacks are higher. It is also costly in terms of production efficiency, because it leads to corruption-avoiding strategies that increase costs, favor ineffective technologies, and waste time.

The FAO, Technical Cooperation Department states that decentralization, through its diversification of the sources of service delivery offers many advantages like helping to test different approaches, increase the amount of resources and multiplies experiences and opportunities. However, they concur that decentralization may often be a source of disparity of treatment, duplication of efforts and sometimes even of conflicts. The department highlighted the following challenges and risks of decentralization:

- Similarity in goals but difference in priorities between the local governments, civil society organizations (CSO hereafter) and the central government:

There may be consensus between the local government, CSOs and central government but the disagreement may be on the priorities and strategies. There may not be any problem in case of de-concentration and delegation as the central government is firmly in control, however the problem arises in the case of devolution. The problem arises as to how the central government administrations deal with the variety of different priority rankings by local governments and CSOs claiming support for their initiatives.

There will be discrepancies if the local priority rankings differ from the central government priorities developed under a development plan. Thus the department argues that for effective devolution, the central government should respect diversity of priorities and strategies and a very basic decision must be taken on the amount of resources the central government is ready to transfer to local governments and CSOs for them to decide what to be carried out and the broad basis on which resources are allocated to individual organizations.

- Difference in strategies adopted by different level of government because of their difference in goals.

The pursuit of different goals by the local government, CSOs and central government may result in different strategies to be followed by the three bodies and this may be of serious problem. Problems may arise as to: how the central govern can ensure that the resources transferred to the local organizations will contribute towards achieving foremost goal of public policy; how can the government ensure that certain activities will be supported by local people; which government priority activities should be devolved to which level of government; and etc.

Decentralization is seen as a key strategy by some countries to fulfill the needs of the governments and also it is taken for a major shift from traditional command economies to market economies. To this effect, Bird et al (1995) states that decentralization involve the process of transition of a nation state from a command to a market economy. This national transition requires major reforms. It requires the reconsideration of the structure of tax and transfer mechanisms. The expenditure responsibilities need to be realigned among the various levels of government. It also

requires the change in view of the government responsibilities. The local and sub national governments should build their staff and institutional capacities as they are accountable for their fiscal decision. The role of the public sector should be reduced. Thus, he concludes that decentralization is an expensive affair.

In support to the above literatures on the negative aspects of decentralization, The World Bank also states that decentralization may not always be efficient, especially for standardized, routine, network-based services. It may, according to them, lead to following situations:

- The central government having no control over the scarce financial resources;
- The administrative responsibilities being transferred to local government without adequate financial resource may make the provision and equitable distribution of the services very difficult;
- The system of coordinating the national policies might become very complex because the functions are most likely to be captured by the local elites; and
- Distrust between public and private sectors may grow that may weaken cooperation at the local level.

Thus it is obvious from the above literatures that the decentralization is an expensive affair. The Local Government should have enough resources if they have to have discretion on spending. Bird et al., 1995 states that to make local autonomy meaningful, the sub national government need locally controlled revenues. Decisions about the provision of services with primarily local benefits must be made by local governments, and these governments must have the resources to carry out such decisions. In most countries the sub national revenue base is inadequate and largely centrally controlled,

with the result that sub national governments remain undesirably dependent on ad hoc central transfers. Greater spending discretion for those expenditures assigned to the sub national level and greater flexibility for sub national governments to raise their own revenues are thus needed in most countries if sub national governments are to be made more accountable to local residents and local public services are to be delivered more efficiently.

Conclusion of the chapter:

Despite the disadvantages, risks and weakness of decentralization, many of the developing and transitional countries have boarded on some form of decentralization programmes. The practice of decentralization has so far produced cases of both success and failure. The success and failure depends to a large extent, on the design and institutional frameworks of a given country. The most important factors to hold things together are: Well designed policies and very good support institutions around it; Presence of excellent leadership; and very strong political will of the leader to make things work. In supplement to this factors, there are equally important forces like good advocacy networking by the politicians both at the national and local levels, good decentralization strategies, good regulatory framework, committed players be it internal agency or donor agencies and development partners. Shandana.K.Mohmand (2005) states that decentralization requires a specific environment to succeed and cites Heller's three necessary but not sufficient prerequisites of successful decentralization: First, a strong central is required so that decentralized despotism and elite capture at the local level can be avoided. This requires regulation and coordination between levels of government, functions that can be performed only by an effective

central state. A weak central state will end up catering to the needs of local in order to create local power bases to maintain its power at the centre and thus, this will wear away the effectiveness of decentralization effort. Second, there should be a strong civil society and there should be close connection between the state and the civil society, especially in the form of social movements. This is required for breaking the power hold of local elite groups, and for allowing an alternate channel of information collection, feedback, mobilization and participation. Lastly, there should be an ideologically cohesive political party that has significant ties to grassroots organizations.

Thus, conclusively this literature review presents the following three broad issues:

- Decentralization basically means transfer of decision making power and resources from the centre to the local government.
- Decentralization is a political reform pursued by many countries where they particularly aim to gain efficiencies in the delivery of public goods and services, make equitable distribution of public goods and services, make governments more responsive to local needs, and establish macroeconomic stability.
- The success and failure of the decentralization system differ among countries depending on the efforts made and the degrees to which the citizen accept their political concept and practice.

Chapter 3

Historical Perspective on Decentralization process in Bhutan:

Introduction:

Key to the making of the decentralization effective in Bhutan, have been the very strong and committed political will of the Kings and institutionalization of good regulatory frameworks. This chapter presents a brief introduction of Bhutan and the evolution of decentralization system in Bhutan. The chapter outlines the key institutions and the key drivers that enabled the environment of decentralization process in Bhutan. After highlighting the key drivers that enabled the environment of decentralization in Bhutan, the thesis highlights the account of political, administrative and fiscal decentralization in Bhutan.

3.1 Bhutan at a glance:

Bhutan is a small landlocked country in the eastern Himalayas, bordering China (Tibet) to the north and India to the east, south and west. The country is 38,394 sq.km in area with inhabitants of 682,321 in 2008 and per capita income of US\$5200 as of 2007 (CIA, 2008). Bhutan adopted the holistic philosophy of Gross National Happiness as a development tool and nurtures the view that “Gross National Happiness is more important than Gross National Product”. As per the Happy Planet Index of 2006, Bhutan had been ranked as the happiest country in Asia and eighth happiest country in the world. The country is divided into four administrative zones, with 20 districts and 201 development blocks (geogs, or village cluster), and the central administration is based in Thimphu the Capital City. After centuries of direct successful monarchic control, Bhutan

held its first democratic election in March 2008. Bhutan is also the last remaining monarchy, constitutional or otherwise, in South Asia.

3.2 Evolution of decentralization in Bhutan:

The self help initiatives of the local associations taken up within the capacities of blocks and villages have made Bhutan to traditionally run along decentralized lines. The governance system in Bhutan had never been centralized to the degree most developing countries under their colonial rule has experienced, that favored the emergence of a professionalized bureaucracies which lead to emergence of centralized governments. The decentralization system in Bhutan started as early as 1980s which as per Ura (2004), effectively preceded decentralization initiatives in most developing countries, where decentralization propagated in 1990s. However, decentralization has been practiced in some African countries like Tanzania and Kenya in 1972.

Decentralization in Bhutan had been different from rest of the world where there was civil unrest that compelled the government to take the views of the people in policy making. In Bhutan, the government had to provide the impetus for drawing out the people's participation. The royal government of Bhutan initiated decentralization in pursuit of the dual objectives: the democratization; and the achievement of self reliance in the blocks through the realization of the potentials of individuals within the blocks. Both of these goals were aimed at taking the decision-making process closer to any given community and the individuals in it. The Royal Government of Bhutan firmly believed that the more the community people are engaged in the decision making, the more operational the philosophy of Gross National Happiness would be. Thus, decentralization has been made central to the vision of Gross National Happiness (Bhutan, 2003). In order

to achieve this vision, more powers and authority were vested to the people. From the beginning of the Fifth Five Year Plan in 1981, Bhutan has shown a high level of commitment to decentralization and participation. In its milestone toward decentralization, Bhutan firmly moved towards securing a balance between the participation of people in development activities and the gradual transfer of power to the lower level of government.

Bhutan's effort to involve the people in governance dates back to the reign of the third king⁴ who established the National Assembly in 1953. Other instrument for the decentralization and good governance, like the high court was established in 1968 and the Royal Advisory Council was established in 1965. The top concerns of the Royal Government of Bhutan since the start of Fifth Five Year Plan in 1981 had been the decentralization and people's participation. The formation of local development committees, the District Development Committee in 1981 at the district levels and the Block Development Committee in 1991 at the block levels has developed the formal structures and procedures for decentralization system in Bhutan. The major milestones had been the enactment of the Local Governance Acts called District Development Committee and Block Development Committee Acts, providing power to the local elected bodies. Through these legal frameworks, the competence, powers and capacity of the local development committees and the individuals they represent were strengthened so that they could define and practice their collective welfare effectively and efficiently and make greater contribution towards the development of their block. Further, the legal basis for the assignment of powers, functions and finances to the district and the block

⁴Third King's reign:1952-1972

level were provided with the revision of the DDC and BDC Acts in 2002. Furthermore, the Draft Constitution of the Kingdom of Bhutan 2005 enshrined the concept of Democratic Local Government. Gradually, the political, administrative, functional and fiscal powers had been devolved from the centre to the district and block levels. Thus, with all this reforms, it gave greater opportunities for the wider cross section of people to involve in political and developmental decision makings and developed a strong base for the decentralization system in Bhutan.

3.3 Key drivers of decentralization in Bhutan:

The key drivers that account for prompting decentralization process in Bhutan are unique from the rest of the world. Devas (2005) stated that in the 1990s, in the Central and Eastern Europe, decentralization has been prompted by the demand for democratic control and autonomy from the local level. It has also been taken up as a reaction against the failures of the centralized states over the previous four decades. The same can be said for in some Latin American countries and some countries of Western Europe. In some parts of the world, decentralization has been taken up as a response to actual or potential regional conflicts. In some countries, decentralization has been seen as a way of restructuring states afflicted by conflict, especially arising from ethnic diversity. Added to these reasons, is also the pressure from the international agencies like the World Bank as these agencies are concerned about the failure of central governments to deliver services efficiently and to address poverty and thus endorsed the economic arguments for decentralization. However, in Bhutan, the drive for decentralization process is primarily attributed to the hard work and the royal initiatives of the reigning monarchs.

The key drivers discussed includes the: Politics that account for the political will of His Majesty the 4th King⁵ and the politician and the political devolution. The regulatory drivers include the Constitution and Laws that provided the legal basis for the decentralization activities in Bhutan. Negative outcome of the centralized development administration prior to 1980 and the strategies adopted through the policy frameworks for the implementation of decentralization process has also been a prime force, driving the country towards decentralization process.

3.3.1 Political Drivers

a) Political will of Monarchs:

Reforms in Bhutan have not followed usual patterns generally observed in other parts of the world. In Bhutan, the monarchs had been the main agent of modernization and decentralization process. Mathou (2008) remarks that contrary to Huntington's general predicaments that "the struggle between a pro-status quo traditional elite and pro-change modernizing elite is likely to be fatal to any monarchical system lacking the Western European political-cultural background", the process of political modernization has not been fatal to the monarchical system in Bhutan. The monarchs had been the prime movers of the change in the country, be it political, social, or economic reforms. The monarchs of Bhutan has undertaken to build participatory state and government and this is an experiment not to be found anywhere in Asia. The Third King of Bhutan, Jigme Dorji Wangchuk envisioned that the centralized system of governance without the decentralizing power might endanger Bhutan as an independent and a self sufficient nation state and also it may not be adequate to meet the requirement of a nation state

⁵ Fourth King's reign: 1972-2006

engaged in socio economic transformation. Thus, he initiated the move to ensure the governance of the country more decentralized and democratic. His political initiatives date back to 1953, when he instituted the National Assembly (Tshogdu Chenmo) with elected members representing every block⁶. (Bhutan, 2008) It stood out as a historic landmark in the Bhutanese Political History. This was a significant reform in which it allowed, for the first time, the participation of the ordinary people in the collective discussion at the national level. The National Assembly became the forum where the laws were enacted and issues of national importance were discussed by the representatives of the people. An important move towards democratization has been the establishment of the Royal Advisory Council in 1963. This served as a link between the King, Council of Ministers and the people. It performed the advisory role to the King until which time, it was performed by the National assembly thereby enhancing the latter's legislative functions. Prior to 1968, the National Assembly lacked the legislative supremacy. The King could veto any decisions or legislative bills passed by the National Assembly and all resolutions required his approval. The third King, with his visionary aim of introducing liberal principles into the system, he voluntarily surrendered his veto power during the 29th session of the National Assembly and thus, the full legislative power was vested in the National Assembly. Hereafter the royal assent was not required on any decisions and resolutions of the assembly.

During the 30th session of the National Assembly in May 1969, the third King made a momentous move towards democratization where he introduced the no confidence vote in the King. With this, the King could be forced to abdicate from public

⁶ Blocks are the smallest administrative unit.

service if two-third of the house supported vote of no confidence in his conduct of affairs. However, this system was abolished by the spring session of the National assembly in 1973 as the National Assembly members felt that, His Majesty, as the rightful hereditary king of Bhutan, should enjoy the complete loyalty and confidence of the Bhutanese people. The national assembly members also felt that this system of no confidence vote for the King could be used by the unwelcomed elements both from within and outside to destabilize the country as Bhutan is a small landlocked country.

Fundamental seed of change in local-centre relationship came with the accession of the Fourth King, Jigme Singye Wangchuck. Decentralization and people's participation have been the thrust of major reforms during his reign. Right after his accession to the throne in 1974, he began a process of both political and administrative decentralization. Administrative decentralization was aimed at delegation of authority as well as transfer of manpower from the central agencies to the district administration. The political decentralization was aimed at encouraging people to participate in planning and implementation of development activities in their areas. The formal organizational structure and procedures for decentralization have evolved in the last three decades through the establishment of local development committees. He enhanced the decentralization of decision making at the district and local levels with the institution of the DDC in 1981(Bhutan 2008). This was his first institutional efforts towards decentralization. It was established as the development forum at the district level. They provided the institutional framework necessary for decentralization.

In 1991, His Majesty established another lower level institutional configuration, BDC to facilitate access to decision making by and among the rural communities. He

wanted a more localized channel and platform for the materialization of interests of small scale communities constituting blocks, without losing their individualities in the wider aggregation process of district plans which in turn was amalgamated into national sectoral plans and thus he wanted increasingly to propel the country towards a high degree of localization. The BDCs and DDCs were used as the main channels of communication between the rural population, the district and the central administrations so that the Royal Government policies fully address the needs and desires of the people. The old acts for the DDCs and BDCs were amended in 2002 under the directives of His Majesty to widen the scope of their authorities as well as to introduce adult franchise system for the first time to elect block head or chief executives of BDC (gups). In the same year, the block-based five-year plans were launched along with devolution of some degree of fiscal powers.

Thus the onset of this radical reform toward decentralization could be attributed mostly to the political will of the Kings. The existing literatures and policy documents divulge the basic intention of such royal concern and major decentralization initiative as:

- To reduce people's excessive dependence on the government for the provision and maintenance of rural infrastructure and services;
- Promote rural self reliance and;
- To develop the sense of ownership of the development infrastructure and facilities.

The establishment of the Department of Local Governance (DLG hereafter) in 2005 is also a foremost indicator of the political commitment towards the decentralization process in the country. This department is expected to contribute to the process of

decentralization efforts mainly by acting as coordination agency and spearheading activities that directly concern. The department as cited by UNDP (2005) is mandated to:

- Coordinate and support administrative functions of the Districts.
- Monitor and coordinate the functioning of BDC and DDC.
- Facilitate and manage the existing Local Governance Programmes.
- Serve as national focal agency for the coordination, management, and prevention of disasters.
- Strengthen the capacity of districts and blocks through institutional and human resource development and provision of technical and administrative support.

Thus with the view of locking the administration and development to people's active support, cooperation and participation, the King has been devoting a great deal of his time and personal attention to building a participatory political process from the district to the village level in all parts of Bhutan.

b) Political Devolution:

With the continuous initiative of the reigning monarchs towards the political decentralization, the fourth king also proved in favor of progressive devolution of his powers. He renounced the chairmanship of the Planning Commission which is prime body in the Bhutanese administrative system. He relinquished the chairmanship of the planning commission to decentralize the decision making process. In 1998, the greatest change in the devolution of power took place when the 76th session of the national assembly dissolved the Lhengye Zhungtshog(Cabinet ministers), through an unprecedented Royal Edict. The king proposed to put an end to his direct rule of the kingdom and offered Bhutan a cabinet form of executive power and thereafter the

National Assembly elected the members of the council of ministers by a secret ballot. They were no longer appointed by the King. He took up this imperative decision because he believed that the future of Bhutan could not be left in the hand of one individual and thus wanted to establish a unique and permanent political system. The king made himself accountable to the National Assembly. Many members of the administration and the assembly pleaded to the King to keep the chairmanship of the Cabinet, however the King insisted on renouncing his function of head of Government. Henceforth, it was decided that the chairmanship would be assumed by elected ministers on a one-year term rotational basis and they are the head of the government consecutively. Hereafter the king does not chair the Council of Cabinet Ministers (CCM hereafter) which has the full executive power and thus, the full executive powers were devolved to the councils of ministers. The CCM informed the King on the matters that concern the security and sovereignty of the country and the King, thereafter, began to serve as the head of the state while the government is managed by the prime minister. This marked the dawning of a new era in the country's political history and thus was the highest form of decentralization which brought a massive reform in structural changes, also procedural and responsibilities. The king, keeping in view the present wellbeing and future interest of the country, made himself accountable to the National Assembly by requiring the vote of confidence to the King. Despite the repetitive appeal by the people's representatives to the king on his directive for a confidence vote, the mechanism for a confidence vote in the King was endorsed. It was also noted by Mieko in her publication on "why should the world worry about poverty?-The case of south Asia", that the enlightened leader of Bhutan, King Jigme Singye Wangchuck has guided the nation's development process by

an unconventional philosophy of the “Gross National Happiness”. This philosophy has set the main objective of public policy as enabling individual citizen’s pursuit of happiness. Since then, good governance has long been the norm not the exception. Rapid economic growth has been sustained over three decades while protecting the nation's natural environment and cultural heritage, and a peaceful political transformation has shifted an absolute monarchy and centralized public administration to a participatory democracy and a highly decentralized system of governance. Thus, the monarchs of Bhutan always strived towards ensuring a system of government which enjoys the mandate of the people, provides clean and efficient governance, and also to build a mechanism of check and balances to safeguard the national interest and security.

3.3.2 Regulatory Drivers:

Institutional system like the DDC, BDC and Local Governance Acts were established for implementing the decentralization system in the country and they provided the legal basis for the assignment of powers, functions and finances to the district and the block. On 18th of July, 2008, the constitution of the Kingdom of Bhutan was adopted. This marked the highest form and initiative of decentralization in Bhutan. The constitution provides legal framework for a democratic political system that is best suited for Bhutan and establish a system of governance intended to safeguard the security and sovereignty of the nation, as well as to ensure the wellbeing of Bhutanese people for all times to come. It led to the genesis of parliamentary democracy. Thus the regulatory drivers discussed are:

a) Enactment of the DDC and BDC Acts:

As presented in the earlier chapter, with the royal initiative and good will to increase people's participation in the decision making, the DDC and BDC were instituted in the year 1981 and 1991 respectively in all the 20 districts. The establishment of these institutions was the first major step in decentralization and people's participation in decision making. They were the in charge of local administration. The BDC serves as a political and administrative structure and the two functions are fused within BDC at the block level. A cluster of villages elect a representative to the BDC for a one year term. The chairman and the deputy chairman are elected in blocks-wide general election for a three year term. At the district level, unlike the block level where the governing body and the administration are merged into a single entity, there is distinction between district administration and DDC. Until 2002, the chairman of the DDC was the Chief district administrator (Dzongda). Henceforth the chairman of DDC is elected from among its members by secret ballot. The institution of these committees heralded a new system of decision-making, especially with regard to conceptualization, designing and implementation of development plans of the district, involving people's representatives. This new era of development planning at the district level, distinguished itself from the past traditions of plans being formulated and implemented by the central government as departmental or sectoral plans. The scale of operational unit for planning and management of development was smaller and closer to the communities. Kinga and Ura, 2004 states that the two local developmental committees allows the people to participate in broader political, social and economic decision making. It also increases the capabilities of the participating agents to think through their collective priorities and to

stimulate means and initiatives for their fulfillment. It is through these forums that the bureaucrats are made responsive to the worldview of the villagers. To further institute coherent policy and regulatory framework for development planning, the DDC and BDC Acts were enacted in 1995. In pursuant to the profound vision and noble conceptions of reforms of His Majesty the King aimed at strengthening decentralization and devolution, DDC and BDC Acts were revised in 2002 to bring greater peace, happiness and prosperity in the Kingdom. Prior to the revision of the two acts in 2002, decision making was centralized in the hands of the bureaucrats as the authority for budget disbursement was vested with the district administration. The revision of the DDC and BDC Acts formalized and endowed these two institutions (DDC and BDC) with administrative, financial and regulatory powers. In order to promote need based variation in rules and standards across 201 blocks, the authority to approve and implement individual BDC regulations on a diversity of regulations was designed. The levels of development activities and beneficiary contributions of the people could be independently decided by the BDC. The most important among BDCs power pertains to administrative direction and approval, particularly over:

- The authority to prepare and execute the plans of the blocks;
- The responsibility to provide care and custody of the community land and service amenities ;
- The authority to hire and fire support staff who are not civil servants;
- The authority to appoint the tender committee at the block level and award contract works.

Financial powers of BDCs include: approval of block budgets and expenditures; of sanctions of works through tenders; and of rates of local utilities. The DDC have the authority to give regulatory direction and approval on various social, economic, cultural and environmental related matters in the district. They can also accord administrative approvals on district plans, prioritize the development activities, urban and municipal plans. The financial powers of DDCs have been broadened to include:

- Prioritization and allocation of district and block plans once the budget is confirmed by Ministry of Finance;
- Re-appropriation of district budget;
- Re-appropriation of one block 's budget to another block ;
- Review and ratification of blocks accounts; and technical sanctions up to Nu.20 Million.

Further, effective actions were taken up to strengthen the decentralization process with particular emphasis on devolving local development planning, implementation and monitoring. A nation-wide re-election of block head was held on the universal suffrage basis, from September to December 2002 to enhance the quality and experience of the BDC leadership. The DDC and BDC Acts, 2002 authorized the local committees to make decisions on local plans, policies and budgets pertaining to the socioeconomic development of their locality.

b) Enactment of Local Governance Act:

The National Assembly 2007, recognizing the local governments as elected bodies to represent the interest of local communities and to fulfill their aspirations and needs, enacted the Local Governments' Act of Bhutan, 2007. It translates the important

constitutional principle of decentralized governance into law and mandates the formation of local governments for the development, management and administration of areas under their jurisdiction (10th Plan Document). The Local Governments' Act along with the Constitution provide strong framework for decentralization. The Local Government Act provide for further power and authority to be given to decentralized bodies and elected representatives at local level (The functions of the local government are listed out in Appendix I). It facilitates direct participation of the people in the development and management of their own social, economic and environmental wellbeing through decentralization and devolution of power and authority.

c) The constitution and the genesis of an era of Parliamentary Democracy:

It has been a general acceptance that popular participation, political stability, and good governance are essential for development to be successful (DADM, 2003). Accordingly, in many countries there were popular pressure to enhance people's participation and good governance based on the pluralist democratic politics. Bhutan's political transition to democracy is taking place in an atypical manner. The fourth King, His Majesty, Jigme Singye Wangchuck had an enlightened notion that it is dangerous for the security and welfare of the country to depend on one individual as it does in a monarchy. Thus, he has shown untiring commitment to devolution and decentralization. His Majesty has been keen to follow his own path to reach an objective that has been the vital lead of his reign: Leading Bhutan towards modernization, decentralization and eventually participation and democratization, and converting an absolute hereditary system of government into a constitutional monarchy. In 2001, Bhutan took an extensive step by deciding on drafting the constitution of the Kingdom as the fundamental law of

the land. His Majesty the king initiated the constitutional process to ensure the democratic participation of all his people in the country's governance. Thus, the decision to embark on drafting the constitution of the Kingdom of Bhutan was made without any external and internal pressure. A drafting committee mainly consisting of the National Assembly member and the members of the Royal Advisory Council was set up and in 2002; the draft constitution was presented to DDCs, BDCs and the National Assembly for wider discussion. Bhutan's constitution was the first constitution in the world that has been launched in the internet for open discourse. The drafting committee under the constant guidance of the king and in close consultation with people from all districts have culminated the draft constitution into a final version and adopted the constitution of the Kingdom of Bhutan in 2008.

The adoption of the constitution was the culmination of the series of the decentralization activities initiated by the monarchy in the long interest of the country and the people. Through the adoption of the constitution, His majesty successfully replaced the royal decree of 1953 which gives the monarchy the absolute powers. However, there was a vigorous resistance from the members of the national assembly and his people. The adaption of the written constitution promoted a new form of government called the Constitutional Monarchy based on a two party parliamentary.

The constitution enshrined the concept of Democratic Local Government. Article 22 of the Constitution of the Kingdom of Bhutan states that

Power and authority shall be decentralized and devolved to the 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. It also states that all the twenty Districts shall have local governments (comprising the DDC, BDC and Municipal Committee).

The constitution states the objectives of the local governments as to:

- Provide democratic and accountable government for local communities; ensure the provision of services to communities in a sustainable manner;
- Encourage the involvement of communities and community organizations in matters of local governance; and
- Discharge any other responsibilities as may be prescribed by law made by Parliament.

The constitution also explicitly states in its chapter 18 of Article 22 that the local government shall be:

- Supported by the Government in the development of administrative, technical and managerial capacities and structures which are responsive, transparent, and accountable;
- Entitled to levy, collect, and appropriate taxes, duties, tolls, and fees in accordance with such procedure and subject to limitations as may be provided for by Parliament by law;
- Entitled to adequate financial resources from the Government in the form of annual grants;
- Allocated a proportion of national revenue to ensure self-reliant and self-sustaining units of local self-government;
- Supported by the Government to promote holistic and integrated area-based development planning; and

- Entitled to own assets and incur liabilities by borrowing on their own account subject to such limitations as may be provided for by Parliament by law.

Thus, the local government should ensure inclusion of local interests in the national sphere of governance and should also provide as a forum for public consideration on issues affecting the local territory. The constitution provides strong regulatory framework for decentralization process to further consolidate and take best shapes both in form and substance.

3.3.3 Negative outcome of the centralized development administration prior to 1980:

One primary reason that prompted decentralization process in Bhutan was also the negative offshoot of a centralized development administration before 1980. This happened because, Bhutan's population were largely marginal farmers and did not have education and exposure required to take up roles and responsibilities for their own local developments. Thus it has led to heavy dependence on the centre and the centre had been doing the roles of caring parents. People have been pampered by the paternalistic roles of the government. The people depended excessively on the state for the provision and maintenance of any form of rural and public service infrastructure. The people were neither involved nor consulted for any developmental activities and were unaware of those activities even in their own localities. People lacked the sense of ownership of the community development services and infrastructure which is a vital condition for successful decentralization process. The establishment of the DDC and BDC could not help this problem as the members participated only for helping the districts to determine priorities. Participation in the block level was limited to representatives of household in

the villages and not by individuals. However, the move from representative to individual representation has already begun as was evident during the elections of the block heads in 2002 based on adult franchise system and the process has been further strengthened by the transition of the country to a constitutional democratic country.

Thus our successive kings initiated the decentralization process primarily to make economic planning highly participative and break the dependence chain. It thereby reduces the role of the central government as well as reduces the national resource implications. Thus, Ura.K and Kinga.S,(2004) states that the decentralization process in Bhutan has been pursued expecting the people to work hand in hand with the government, and learn to solve their own problems and strive to achieve self reliance within the framework of national priorities, plans and policies. The decentralization policy was also introduced to develop the sense of ownership of the development infrastructures by the people as our local populace had the general feeling that anything provided by the government is free. Thus the Royal Government of Bhutan had been fervently pursuing the policy of Economic self reliance and thus the decentralization activities have been carried out vigorously through all five year plans.

3.3.4 Strategies adopted through the policy frameworks for the implementation of decentralization process:

The above literatures reflects that Bhutan had been keen on pursuing decentralization and thus Bhutan's decentralization policies are well articulated in documents like the Bhutan 2020, the Human Development Reports, Five Year Plan documents and the Good Governance Plus. The policy frameworks fasten royal government's initiative toward decentralization on a strong footing. In pursuant to these

and other reform objectives, the government of Bhutan has adopted significant strategies that were implemented through the policy frameworks, the most significant being the mobilization of resources and the role of actors in decentralization process.

a) Mobilization of resources:

Experiences all over the world shows, embarking into decentralization system as an expensive affair which most of the poor countries sees it as an element that impedes their decentralization initiatives and efforts. Similarly decentralization in Bhutan also required heavy public spending. Because of the country's tardy disposal of the isolation policy as late as 1960's, it had stalled the country from catching up the socio economic development as that of the other development worlds. In its decentralization initiative, the country had to overcome basic capacity issues of the actors involved in the decentralization process. However, as the decentralization process deepened and consolidated further, Bhutan received continued support from many international development partners and donor agencies in the area of decentralization and local governance. The UNDP alone released a capital grant of USD 0.514 million (Ministry of Finance) in support of decentralization programs that included financing drafting of legal documents, conducting workshops and conferences, training of local actors, infrastructural provision like the office automation and construction of the block head's office, financing pilot programs and capacity building of the actors involved in decentralization process by training them both within and abroad.

As a part of internal funding, the Royal government of Bhutan funds the annual remuneration for the local functionaries, the capacity building and provision of infrastructure for the decentralized governance and capacity building and policy support

for decentralization. The government spends around USD1.33 million annually (Ministry of Finance) as remuneration for the local functionaries excluding the allowances like the travel and daily subsistence allowance and sitting fees. The Royal Government allocated and spend around USD 5.025 million for the construction of the block head's office as the creation of new tiers of local administrative units requires developing necessary infrastructure like offices and office automations (Planning Commission, 2002). A huge amount of resources has been expensed by the government as part of capacity building process for local government, supported either by the Royal Government of Bhutan or the donor agencies. However, it was beyond the scope of this paper to assess the total amount of resources expensed by from the government's exchequer as it was very difficult to obtain the required data.

b) The role of major actors of the decentralization process; the government organization, donors and media:

The key actors like the government organization including the ministries and departments, the donor and media had been the instrumental strategy used by royal government in its drive towards decentralization.

In its role as government organizations, every ministry and departments were keen in pursuing the decentralization policy. A major policy shift had been in 2005 with the establishment of the lead agency for decentralization process, the Department of Local Governance under the ministry of Home and Cultural Affairs. This lead agency was established to further strengthen the commitment towards decentralization policy in terms of making favorable policy environment for overall decentralization initiative.

More than the central departments and ministries, the districts played key roles in the implementation of decentralization programs.

The donor supports had been key to the overall success of decentralization policy in Bhutan. Donor initiatives like Strengthening Capacities for Development Management and Decentralization Project (SCDMD hereafter) as a preparatory assistance project focused on strengthening the enabling environment for decentralization. Japan International Cooperation Agency (JICA hereafter) had been supporting the enhancement of capacities for strengthening local governance and decentralization and to facilitate and ensure improvement in the delivery of public services to communities. Other donors like Netherlands Development Organization (SNV hereafter) and Danida had been instrumental in the decentralization process in Bhutan and there are several donors that continue to fund projects directly related to decentralization. However, various sectors as per the UNDP and UNCDF, 2006, had been targeting the same actors at district and block level leading to an increased pressure on the local government levels as capacity development and sectoral development issues are somewhat uncoordinated. They further states that the DLG, recognizing the need for better sector coordination are taking initiatives within human resource development planning. It is expected that decentralization will be a continuous process given the recent initiatives towards democratization and the good governance policy review. It is expected that the decentralization process will continue to deepen and strengthen local democratic and administrative systems. With the framework described in the Good governance plus report (GG+ report hereafter) for a formula-based fiscal transfer system to both District and Block level for both tied and untied grants, the RGoB will need both technical

assistance support and increased budget support in the near future to develop the system countrywide. The GG+ is proposing to radically change the planning and budgeting process in Bhutan by adopting a two-year and three-year rolling budget system and retaining the five-year planning horizon but only as a framework. Budget allocations will be governed by a Medium Term Fiscal Framework (MTFF hereafter) that will allow for allocation of both tied and untied grants to block, town and district levels (GG+ document).

In the field of media as an actor, the constitution of the Kingdom of Bhutan explicitly provides for a clause on the fundamental rights for the right of freedom of speech, opinion and expression. The constitution also grants the freedom of press as the key channel through which people voice their fundamental right of speech, opinion and expression is through the press. The new media networks are evolving to take an increasing role in bridging the gap between the state and the people. The different forms of media have already taken on their new roles to act as policy forums for wider public discussions. The media's role is particularly important in the area of decentralization as it will try to disseminate information from and to the either sides of government and people. Media can serve to be an effective tool for third party evaluation of the actors in play in the decentralization process and make all the actors involved accountable to their constituents for their decisions and actions.

Thus, putting in place a set of strategic policies for implementation policy has been a key driver for enabling decentralization environment in Bhutan. However, the exact implications of such policy dimensions cannot be measured at the moment as the

country has recently gone through a transitory phase of shifting toward a parliamentary democracy in late 2008.

3.4 Political, Administrative, and Fiscal Decentralization in Bhutan:

The principal key drivers, discussed above enabled the environment of decentralization in Bhutan, and thus the implementation of the decentralization system in Bhutan had been a progressive approach. This thesis would like to outline the political, administrative and financial decentralization in Bhutan. All the discussions will lend their relevance to the driving forces that have been discussed in the previous chapter. Brassard (2008) cites that to have a successful decentralization system, the process must involve devolution of functions as well as financial decentralization, and ensure greater autonomy to the regions. Consequently, participation of the local population in the decision making, planning, implementation and evaluation processes is at the heart ensuring good local governance and requires capacity building at the individual and institutional levels. In Bhutan, the three aspects of decentralization, political, financial and administrative are strongly interlinked, self-reinforcing and they occur simultaneously. Decentralization began with the delegation of various functions from the central to the local government. Shifting of decision making authority has begun with the increasing capacities at the districts to carry out the function. Functions were delegated from the districts to the blocks and the revised draft DDC and BDC Acts institutionalized changes in the decentralization process whereby greater authority, responsibility and resources for several functions were handed over to the sub-national bodies.

3.4.1 Political decentralization:

In Bhutan, the authority for the matters of local nature that are best resolved at the local level, are being devolved to BDC and DDC, both of which consists of elected functionaries. This is supported by the views of the advocates of the political decentralization who assume that decisions made with greater participation will be better informed and more relevant to diverse interests in society than those made only by national political authorities. (World Bank Group).The concept implies that the selection of representatives from local electoral jurisdictions allows citizens to know better their political representatives and allows elected officials to know better the needs and desires of their constituents. As discussed earlier, the Political decentralization often requires constitutional or statutory reforms, the development of pluralistic political parties, the strengthening of legislatures, creation of local political units, and the encouragement of effective public interest groups (Ledivina V. Cariño, 2008). To this effect, in Bhutan, the DDCs were empowered to formulate plans, propose agenda and make decision on the socioeconomic development of the districts. They were to play the central role in the making of development plan for a district while the bureaucracy was to implement the decision fundamentally made by the local people. The role of the civil servants was to gather ideas from the people as the basis of development programmes. His Majesty stressed on production of a district plan in close association with the local population and to make district, the element of planning. Thus the establishment of DDCs did away with the traditional practice of centralized planning for the whole country. The BDCs were instituted to provide additional institutional bodies to make the people at the grass root level more politically conscious and to share a greater level of decision making with the

government in the development process and nation building. The two development committees, the DDC and the BDC involves the people in broader political, social and economic decisions while simultaneously increasing the capabilities of the participating agents to think through their collective priorities and to stimulate means and initiatives for their fulfillment. It also makes the bureaucrats sensitive to the worldview of the villagers whose knowledge, beliefs and assumptions can be different from theirs (Ura.K and Kinga.S, 2004). These committees formed an integral part of the decentralized system of economic planning, ensuring direct participation of the local communities in the development process through the division and dispersal of power. The powers of the central, district and block agencies are being delineated so that each level develops its own competencies and jurisdictions.

As discussed in the earlier chapters, Laws, institutions and legal frameworks like the DDC and BDC Acts, Local Governance Act had been instituted, thus enhancing the power, authority, functions and responsibilities of elected officials of BDC and DDC. These include the power to: decide, implement and maintain development activities to serve their needs; the power to adopt regulations which are applicable within their own jurisdictions; the authority to hold officials with frontline local services related to environment, water, rural communication, health, forest, livestock, and agricultural services; and the authority to retain and use revenue from local taxes and levies from local utilities.

In addition to the reforms towards decentralization, democratization had been taking place. The major political turning point came with Royal edict to devolve the executive power to the Council of Ministers in 1998 and led to election of the members

of Council of Ministers via a secret ballot at the National Assembly. As mentioned in the earlier chapters, a further sign of political devolution of powers was His Majesty's initiative to institute the mechanism of registering the vote of confidence in the King despite the repeated appeal by the people to rescind it. A major event that marked decentralized system of local government institutions was the election of Block head through universal adult suffrage in 2002. These phenomenons which were the direct result of the decentralization effort were forerunner to the drafting of a written constitution for the first time in Bhutan's history in 2005. His Majesty the fourth King stated that the reforms on decentralization and devolution of power have been quite but continuous. He said that while promoting the people's participation in the decision making process, he has always trusted his people to make their own choices. His kingship would not be worthy of the people if it was not based on the mutual trust and confidence and we should have faith and integrity of the people, their capability, and their commitment and loyalty to the country. Thus he stated that we must therefore draw up a written constitution and establish a political system which will enable the Bhutanese people to shoulder this sacred responsibility. (9th Five Year Plan Document). Thus the constitution had been adopted in 2008 and the country marked into an era of parliamentary democracy.

3.4.2 Fiscal decentralization:

In the process of decentralization, a significant change has been the devolving of greater authority and responsibility to the sub-national bodies based on the local government legal framework, the DDC and BDC Acts, 2002. It includes handing over to the block level, the power to decide, implement and maintain development activities and

the authority to retain and use revenue from local taxes and levies from local utilities (UNDP, 2005).

The DDC Act, 2002 states that the essence of decentralization and devolution of power lies in empowering the local authorities with planning, financial and fiscal powers. These three are the most important elements when it comes to decentralization and devolution of decision-making powers. Thus to enable the DDCs to effectively carry out its roles and responsibilities, they had been vested with adequate financial powers through the DDC Act, 2002(See Annexure II and III).

Prior to 2002, before the DDC and BDC Acts came into force, budget disbursements power was invested in the district administration. The funds were allocated directly to the responsible sector at the districts head quarters (dzongkhags) only. For most block specific activities, the activities were implemented by the community and managed by the district sector head and thus the decision making was formally centered in bureaucracy's hand. From 2002 onwards, letter of credit accounts were opened for blocks and thus the funds for the block specific activities were allocated directly to this account. Most of the resources benefiting the geog fall under a sector specific programme, but are allocated directly to the Block Letter of Credit (LC hereafter) account, and hence are the responsibility of the BDC. The Block head and District Finance Officer are held responsible for the management of the funds in the Block LC account while the block head has the sole authority of authorizing payments according to which the finance personnel make payments and the payment process is regulated by the national Financial Rules and Regulations of 2002.

UNDP (2002) noted that, recognizing the fact of small tax base and the efficiency of the existing centralized tax authority, there is no need for Bhutan to assign the revenue and expenditure between the different levels of government. The rural taxes were collected by the Block head and were directly remitted to the Department of Revenue and Customs and the other members were ignorant of the amount of tax collection as the rural taxes collected had to be directly remitted to the centralized agencies. However the enactment of the new DDC and BDC Acts in 2002 devolved the administration of the rural taxes to these local bodies, thus linking the resource mobilization to the local benefit. A radical move had been the collection and retention of rural taxes which includes land tax, house tax, cattle and livestock tax, and grazing license fees for maintenance expenditures of the block infrastructure facilities. The rural tax collected needs to be reported to the BDCs and DDCs, who then have the responsibility of keeping the local people informed of the revenues and thereby increases the transparency and accountability in the process. However the Acts does not allow the local authorities to introduce new rural taxes or even revise the existing taxes as it is the prerogative of the Ministry of Finance.

Ura.K and Kinga.S, 2004 points out, a significant change in the blocks where the Blocks not only determine their own plans and development programmes, the block head were also empowered to prepare annual budget proposals which are incorporated as part of the overall district budget once the BDC endorses it. They further states a momentous move in the fiscal decentralization as the empowerment of block head to sanction development activities that cost Nu.50, 000or less. However, in the event the cost exceeds Nu.50, 000, the sanction of the BDC must be sought. For development works

which cost less than Nu.500, 000, the BDC can award work to a registered local contractor if the cost quoted by the contractor is within the range of +/- 5% of the work's cost estimates which would be prepared with the support of district engineers and other technical personnel. For works that cost between Nu.500, 000 (USD10, 416 approx.) and Nu.4, 000, 000, (around USD 83,333 approx) tenders shall be floated within the district, and for works costing above Nu.4, 000,000, tenders shall be floated in the entire country. Earlier the contract works for any local development activities were executed by national contractors and now that the money would remain within the locality, the direct benefit would be to the local economy and the people. Now the block head is the chairperson of the tender committee which mostly constitutes of BDC members and they have the discretion to determine how best the local economy and people would be benefited.

The major financial powers of the DDC includes prioritization and allocation of resources to block and district plans, re-appropriation of budget of one block to another and from particular activities that cannot be implemented within the given time frame to another activity in different block where budget is needed and the activity can be completed within the time frame. The DDC can also review, approve and re-appropriate the district plan budget which was an authority earlier associated with the Chief district administrator or other higher departmental and ministerial authority. The most significant facet of the financial decentralization is that the real financial authority concerning sanction of payments, authorization of financial transactions and award of contracts for development works rest with the BDC.

However the country, at the moment does not have enough skills and knowledge on effective management of the financial decentralization. Some literatures have noted

that the financial decentralization in Bhutan has been implemented as a result of political will of the government to make local government responsible for collection of local taxes and allow them to use the same for funding the maintenance of the development infrastructure in their blocks. However, the size of local tax-base is very small and the financial decentralization, at the moment, may not be recommended as the local governments might be tempted to spend more than what they can mobilize through local taxes and other levies and user charges. This situation, in worse situations, will call for governments having to fill up the resource gaps (and having to bail the Blocks out if they cannot honor their financial obligations in the event when there is the provision for local governments being allowed to borrow). In addition, the local governments, when the tax base is small and not uniform across all the regions, the power given to them to spend the tax money on their maintenance of development infrastructure might lead to regional imbalance in development status because some blocks or districts are ideally situated in business or trade areas, and these blocks or districts will mobilize more tax amounts. The UNDP (2002) also stated that some caution is needed while considering the devolution of fiscal decentralization. It states that the functionaries at the local government would not effectively assess the tax and might lead to other worse associated problems. Thus, the local governments, as some literature suggests, could be allowed to collect the taxes but they may not be allowed to make tax assessments. To this effect, the two acts, DDC and BDC Acts do not provide for the local governments to either increase or decrease local taxes except allowing them to manage with user fees and other levies.

3.4.3 Administrative and Regulatory decentralization:

As cited in this thesis, administrative decentralization shifts the responsibilities from central government officials in the city to those working in regions, provinces or districts and thus seeks to redistribute authority, responsibility and financial resources for providing public services among different levels of government. Correspondingly, the fourth King, His Majesty Jigme Singye Wangchuck took important steps in decentralizing the administration and involving the people in decision making process. The districts discharge the civil function on behalf of the Ministry of Home Affairs. This responsibility includes the maintenance of law and order, land records, census and revenue collection. From the 5th FYP (1981-1986) onwards, District staff has become increasingly involved together with the DDC's in the planning and implementation of the successive five year development plans. With the issuance of decentralization guidelines in 1993, the coordination of the development functions was formally assigned to the Ministry of Planning and in 1995 the district Planning Officers were made responsible both administratively and functionally to the Ministry of Planning. Preceding the 5th FYP, planning process was centralized and it was a top down exercise. However, with the initiation of the decentralization process from the 6th FYP (1987-1992) onwards, there was a marked change, which set the pattern for preparation of the 8 FYP (1997-2002). The planning process involves the setting of the national objectives and guidelines for plan preparation by the Ministry of Planning in consultation with the sectoral ministries and districts with the final endorsement coming from the Planning Commission. The national objectives and guidelines are finally prepared and circulated after incorporating all the views and recommendations from the districts and central government agencies by

the Planning Commission which is now renamed as Gross National Happiness commission (8th FYP Document).

The block-based planning approach launched in the 9th FYP (2002-2007) constituted another critical milestone in strengthening decentralized governance in Bhutan. The communities to a greater extent are responsible for the implementation, monitoring and evaluation of their developmental activities with support from the district administration and central agencies. In accordance with the DDC and BDC Acts, regulatory powers along with the administrative and financial power have been devolved in certain areas. The blocks prepared their own plan which were formulated by the communities, processed by the BDC and approved by DDC. The key administrative change since 2002 has been to transform the administration from a de-concentrated to decentralized unit of government. The district administrations now reports to a political body comprising of the DDC chair and members. Unlike the traditional mechanism of having a government appointed bureaucrat, the Chief district administrator as the chair person of the DDC, the adoption of the DDC and BDC Acts, 2002, instituted a mechanism to install elected chairperson from among the voting members. The election of DDC chairperson was the most fundamental change, shifting the pivotal role in a DDC from the district's top civil servant to an elected person. This change signifies the evolutionary direction of DDC's towards a district governance evolution. The members and chairperson of the BDC's are all electives of the grass root communities. All the government officials who were earlier the member of the DDC and BDC are no longer the members and they are observers. The chief district administrator and the district administration, which earlier used to chair the DDC, are now only at the implementation

level and they need to support the BDCs and DDCs in implementing the resolution passed by them. Thus the enactment of the DDC and BDC laws in 2002 empowered the elected bodies at the district and block .This observable fact brought about a real change in the outlook of the DDC forum in terms of exercising both regulatory and administrative powers. (Regulatory and administrative powers are listed out in annexure IV and V).

For the effective implementation of the administrative and regulatory duties and exercise of powers in achieving intended results, the local governments should have a set of well qualified human resource and also the UNDP (2004) states that administrative capacity is an important key element in any decentralization reform and should target all levels of government and be processed in accordance with the overall implementation of the reform. Presently, Bhutan does not have comprehensive and coordinated human resource development policy in tune with the decentralization policy. However, to this effect, starting 2003, the government has recruited block accountants and posted in all the districts for looking after the accounting and book keeping of development expenditure of the blocks. In 2004 the first batch of District Human Resource Officers were appointed. In 2005, new graduate level officers have been recruited in districts as the DDC secretaries and in 2007, the new graduate level officers were appointed in the blocks to provide planning support to the blocks. Also the Department of Local Governance has initiated the integrated BDC/DDC Capacity Building Plan to ensure continuity and sustainability of capacity building of the BDC and DDC members.

The DDC and BDC Acts provide adequate legal framework and institutional support for the conduct and overall powers and responsibilities for the local government.

However these two acts also suffer a number of shortcomings in the context of implementation mechanisms especially in the context of conflicting roles of the local government functionaries and the bureaucrats at the district level. For example:

- In the formulation of the plans, the sector/ ministry bureaucrats are equally empowered to work jointly with the BDC members and the local constituents. Thus, this instill some sector interests in the local activities and technically, the BDC seems to have no say in the sector initiatives unless the BDC and the sector bureaucrats mutually admit to take more views of the former.
- All the plan activities also come from the bottom and there is no enough accountability and responsibility of the implementation on the local government functionaries. The accountability and responsibility are rather vested on the district bureaucrats, who usually represent their sector ministries and departments.
- For the local governments to be effective, accountable and transparent on their decisions affecting their constituents, the present system of administrative flow of reporting and supervision is not very strongly instituted. The institutional arrangements require the blocks to be responsible for both planning and implementation of their own local plans and the reporting of the plan progress are not yet institutionalized at the BDC level. Thus the sector staff presents the progress report to the DDC and it is not done by the DDC chairperson.
- There was no awareness on the regulatory powers of the BDC and DDC members, the nature and extent of devolved powers were not specified, the BDC and DDC members required clarification on their roles and thus there were role confusion which has a negative impact on ensuring accountability in implementation.

For an effective administrative decentralization system, there should be greater administrative autonomy and pioneer role in the staffing pattern, its numbers, recruitments, trainings promotions and transfers. However, the powers to handle these personnel issues still rest in the central ministries and departments. The sector officials are being transferred and promoted through a mechanism where the head of agency inevitably comes into the picture. UNDP, 2004 noted that apart from sector officials, other staffs that were skilled and capable enough to undertake developmental activities in the district were from different ministries and the Chief district administrator did not have any role in the promotion and transfer of the sectoral staff as they were directly done by the parent ministry. Thus the local governments have very little or no authority at all to decide their own requirements of the staff required for efficient delivery of decentralized public services. The 10th FYP (2008-2013) document states that although local level administrative autonomy has been considerably enhanced and the concept of democratic and decentralized governance formally enshrined under Article 22 of the Constitution, the process of decentralization in the country is not entirely complete and the efforts to implement the final aspects of decentralization will need to be undertaken within the Tenth Plan period.

Thus, Bhutan had attained certain level of achievements in more than two decades of decentralization initiatives. Some notable achievements of decentralization highlighted in the 9th Five Year Plan documents are:

- Devolution of administrative and financial powers, and human resources from the capital to the district administration;

- Increased capacity of the BDC and DDC to make collective decisions regarding their development plans and its implementation; and
- Autonomy of BDC and DDC to make regulations and legislations applicable within their jurisdictions.

Thus experiences over the past decades have reinforced the confidence of the Royal Government in the capacities of the communities to plan and implement development activities on their own. All these observable fact lead to a way forward towards the democratic governance in the country's embarkment to parliamentary democracy in 2008 and the country's transition provides a special opportunity to fully consolidate the gains of decentralized local governance and enhance prospects for Bhutan's young democracy. The new political environment will facilitate a greater plurality of actors participating in national and local governance that will help promote greater transparency, accountability and efficiency in public service delivery and implementation of development activities at both the national and local levels. The local level interest and concerns would also be effectively represented in national decision-making and thus determine equitable development outcomes in regions and local communities.

Conclusion of the Chapter:

The key driver of the radical reforms brought about in the sphere of good governance and decentralization has been the political will of the successive Kings. It has been followed by the institutionalization of regulatory system like the DDC and BDC, enactment of the DDC and BDC Acts and the Local Governance Act. Other major drives were the negative offshoot of a centralized development administration before 1980 and the adoption of significant strategies that were implemented through the policy

frameworks. The gradual strengthening and consolidation of decentralization process has culminated in the drafting of a written constitution for the country which was adopted in 2008 by the first elected parliament. The constitution provides for statutory requirement for establishment of District Committee (DzongkhagTshogde), Block Committee (Gewog Tshogde) and Municipal Committee (Thromde Tshogde) which is main vehicles of decentralization. With such evolution of constitution and other regulatory instruments in place, the speed of the decentralization process is expected to go even faster in the immediate future while also ensuring effective decentralization per se. The implementation of decentralization system has also been effective because of pursuit of sound decentralization strategies and significant roles played by all the major actors involved, and incentives derived from the process of decentralization. Bhutan had done beyond mere decorating of the policy documents in the arena of decentralization. There had been practical devolution of power and authority politically, administratively and fiscally. There was real transfer of power accompanied by resources from the centre to the sub-national governments. The popular participation has increased. The ninth plan formulation exercise stands out as an excellent example of participatory approach to development planning. A notable impact of decentralization had been the streamlining and improvement of budgeting and accounting regulations. Though Bhutan made a significant progress in the decentralization system, it is still faced with challenges in the face of changing socioeconomic and political times. The challenges are discussed in the following chapter.

Chapter 4:

Key Challenges of the decentralization system:

Introduction:

This chapter presents the key challenges that impacts smooth implementation of the decentralization system in Bhutan. Decentralization has reached a significant height in Bhutan, attributing to the heightened drive towards decentralization mentioned in the prior chapters. However, decentralization system in Bhutan is still confronted with challenges, thereby deteriorating the effort to the concerted and systematic approach towards decentralization. The challenges listed here are focused on the following five key areas.

1. Capacity Issues;
2. Sustainability issues;
3. Institutional problems in regard of the structural arrangement of DDC;
4. Coordination problems among various actors and stakeholders;
5. Resource gap; and
6. Challenges in the Planning and Implementation Process;

4.1 Capacity issues:

The decentralization process in Bhutan entailed a major shift in the roles of the government at all levels. This is expected as decentralization creates more opportunities for local autonomy and responsiveness to more specialized constituencies. It also gives sub national governments more room to fail if specific steps are not taken to build local technical and managerial capacity (World Bank, 2002). The decentralization process in Bhutan shifted the existing role of the government to that of proactive and engaging

development facilitator, assisting and enabling communities to identify priorities and to allocate and utilize resources efficiently and effectively for development project. With devolution, the roles of elected representatives in BDCs and DDCs have shifted from advisors and implementers of selective delegated functions to full decision-makers on issues affecting the development of their blocks and districts. The roles of administrative personnel at these levels have changed from directing the course of development in the blocks and districts to advising the elected representatives in BDCs and DDCs and facilitating development. Thus, the orientation and training of both elected representatives and administrative personnel at the block and district levels are critical for ensuring that devolution takes hold and flourishes. However one major factor that has beset decentralization system in Bhutan has been the capacity problem, especially at the local level and even the central government suffers some height of capacity constraints. The capacity constraints are discussed below.

4.1.1 Inadequate administrative and executive capacity at the local levels of governments:

One of the key elements in any decentralization reform is the development of the administrative capacity at all levels of the government. The capacity development goes beyond training, although training of politicians and staff should be an integrated part of the reform. In order for the decentralization system to be a success, there should be a sufficient implementation capacity at the local level to carry out the development activities delegated to them. In Bhutan, though there has been an increase in the overall staff working at the local level, the staff strength working at the local governments is

comparatively lower than those in the central government which impedes the local governments in carrying out their delegated activities effectively.

There is lack of executive staffs at the blocks. As a result of the ongoing decentralization, the blocks have now become auditable and accountable units of the government and the block heads are the political and executive head of the blocks. Due to the additional responsibilities at the blocks and also due to the lack of executive staff at the blocks, the block heads has been performing the dual role of governance and the routine administration and thus, there is conflict of interest where the block head is responsible for implementing and auditing his decisions and actions. The current five year framework is also not appropriate for block and district level planning where there is little or no capacity to forecast needs, changes or developments over time. The block heads and the clerks who assist them are not competent to perform the newly devolved tasks like the basic accounting, preparation of bills, vouchers and payments, scheme selection, preliminary estimation, work supervision and operations and maintenance management. There is heavy reliance on the district administration to undertake all technical support work including scheme estimation, design, tendering, contract management, supervision and monitoring. This restricts the ability of the geog to exercise its mandated authority as provided in the BDC Act and causes considerable inefficiencies due to delays in timely technical support. It also overstretches the resources available there and thus, impedes the decentralization reforms in the blocks.

Thus, there is a clear need for additional capacity support at block level. However, the government has recently appointed a block administrative officer each in all the

blocks which would partially address the administrative capacity required at the blocks and would enhance accountability and increase capacity in routine administration.

4.1.2 Lack of Technical knowledge at the blocks(local government) and capacity at the District level to provide technical backstopping services to blocks is overstretched:

The decentralization system has placed increasing workload to the new leaders and also demanded for transparency, efficiency and accountability. They shoulder more responsibilities. Valuing and having the capacity to systematically monitor, evaluate, report, review progress and document all this are essential from the centre down to local block level. Thus, for the local governments to shoulder their new roles and responsibilities effectively and discharge their assigned critical functions ably, the existing capacities of local governments and institutions will have to be enhanced considerably. Here the immensely critical factors that will determine the success that the local government will enjoy in carrying out their function and responsibilities would be the institutional capacity building and human resources development at local levels. Thus, achieving this will require improvement in the quality and numbers of administrative and technical staff in districts and blocks (local governments). Equipment of the community leaders with technical knowledge and fluency over the general policy issues that comes with policy issues were very vital. However, in the current scenario, there is reluctance among the civil servants to serve in rural areas and also the line ministries tends to retain their most qualified personnel in the centre. Many of the local leaders are hardly literate and in many instances, the local leaders are not even in the position to distinguish between an annual plan and the five year plan documents.

In order to ensure precise estimation of the cost and feasibility of the development projects, the BDC Act, 2002, highlights the necessity and obligation for delivery of technical support from the district administration during the planning of the block development activities. But this had not been realistic by the fact that most of the blocks in the districts are geographically spread and it is very difficult for the district technical staff to take part in all the proposed activity sites especially when the activity list are very long. Thus the UNDP, 2005 found that the most of the estimation of proposed activities in the blocks was mostly based on rough guesses or desk reviews, rather than being professional estimates. BDC members as well as the district staff have limited technical support which is one of the main obstacles to finalizing the implementation of locally planned activities within the financial year. Experiences shows that in many cases, due to the lack of proper cost estimation, the actual cost of the project exceeded the estimation and in some cases it resulted in the non implementation of the activities. Even if the district bureaucrats were able to provide the technical support, it would result in role conflict between the district bureaucrats and the local leaders as to who should do what. This form of capacity constraint has been one of the most challenging counter forces to decentralization in Bhutan as the lack of such technical knowledge and being not fluent with the decentralization policies poses serious problem for implementation of decentralized activity projects.

4.1.3 Labor shortage in the Blocks:

In Bhutan, labor shortage at the local level has been observed as a major capacity constraint for the execution of the decentralized activities. Bhutan has instituted a system of labor contribution from the beneficiaries called the Zhapto Lemi. The rural

communities and beneficiaries of the development schemes contribute labor to both development and maintenance of the development infrastructure like the community/primary schools, outreach clinics mule tracks, renovation of the historical and religious monuments etc. and the number of days spent by the communities or beneficiaries on such contributory scheme depend on the volume of plans approved for the year. This community contribution levied heavy burden to the local people, especially to those households who did not have active work force. The problem of labor shortage in some blocks could be attributed to the low population density, population scattered over the difficult terrain and men seeking seasonal employment outside the block. It was also difficult for the farmers to cope with the labor intensive farming activities along with the labor contribution towards the construction of the development infrastructures as the time required for community contribution conflicts with the time required for their farming activities. The decentralized development projects needs to be paused when the timing coincide with the farming activities. This entire shortcoming causes a situation where the local leaders are confronted with the challenges of mobilizing local labor force in the implementation stage of the development plans and also many of development projects are hardly completed. Thus, the non involvement of the beneficiaries in the development activities not only left the development projects unexecuted in the local communities, it also questioned the improved sustainability of the projects. The WHO (2005), distinguished that the sustained improvements are achievable only with beneficiary involvement in planning, construction and management. The projects must be based on felt needs and provide the services the community wants and also the beneficiaries must

be involved in the project from the first step and assume ownership and responsibility for the system. However, this could not be realistic in the decentralization system in Bhutan.

The labor shortage also affected the overall implementation capacity at the block level. The UNDP (2005) observed that some blocks are not able to implement their planned activities and the sector heads go beyond their role as facilitator and force them to complete the work on time. In such situations the sector heads at the districts intervene and manage as the blocks have low implementation capacity, thereby resulting in confusion of accountability.

4.1.4 Lack of facilitating infrastructure:

As Bhutan moves towards a people centered block based development approach and empowers people at the grass root level to make their own decisions on issues affecting their community, a certain level of facilitating infrastructures like the roads, telecommunication facilities, electricity and information technology facilities are indispensable. However Bhutan still has many blocks without the access to roads, telephone services, banking institutions, postal services and etc. It is also a tremendous challenge to deliver information to the people at the local level given our rugged terrain and geographical barriers. Inadequacy of the facilitating infrastructures makes it extremely difficult both for the blocks to interact with the higher level of government or the higher level of government reaching down to the local governments for the provision of the public services. For example: When the materials for the construction of the development infrastructure have to be transported by head load to the far flung villages from the nearest road point, it becomes very tedious and takes a lot of time often delaying the implementation of the development plans. Thus, the lack of these facilitating

infrastructures had been a serious predicament for the effective implementation of the decentralization process in Bhutan.

4.2 Issue of sustainability:

The BDC Act, 2002, grants the blocks to retain and spend local taxes, levies and other user charges. However the tax base in Bhutan is so small and the tax collection from local level is very insignificant in the range of Nu. 40,000 to Nu. 45,000 as reported by UNDP, 2002, which is not a significant sum compared to the magnitude of development activities that are being implemented at the local level. The participatory mechanism affected through decentralization policy has shifted both power and responsibilities to the lower levels of government and now the blocks implement a sizable amount of development work on their own. Thus, in the face of increasing activities at the block level and given the limited tax base, the sustainability of the activities is questioned. The most applicable example would be that of decentralization of the maintenance of the farm roads. It is skeptical as to whether the blocks can maintain the road especially when there is heavy damage during monsoons. Thus, the blocks rely mostly upon the state support in the form of provision of subsidies and other sectoral grants that are required to resolve the issue of sustainability and thus the activities are subject to their sectoral and geographical priorities and thus, its sustainability is questionable.

4.3 Institutional Problems:

Until 2005, the deputy chief district administrative officer called the Dzongrab was the secretary in the DDC. However, in 2005, the government in the move to promote decentralization policy has recruited graduate officers as DDC secretaries. Thus, a major

structural problem that could hinder the process of decentralized decision making of the DDCs through involvement of the high government bureaucrat has been overcome. With the enactment of the DDC Act, 2002, there had been a significant conceptual change in the institutional setup of the local government. The chairman of the DDC is now elected from among the voting members of the DDC and the Chief district administrator now remains as a guest observer. This was in favor of the more decentralization and participation as the new chairman will have better local knowledge and would be more close to the people and would be in the position to hear their voices in correct perspective. This has eased the communication between other members and the people down the line. However, the existence of the Chief district administrator as the guest observer and sharing a seat next to the Chairman during the convening of the DDC puts some restrictions and pressure on the members in expressing their views freely because of the fear of suffering some punitive administrative action later and thereby result in some influential power over the DDC decisions.

4.4 Resource gap:

The decentralization system in Bhutan faced considerable shortage of fund. However, one of the preconditions for the effective decentralization as per the Danida Best Practice is the adequate financial resources to undertake functions i.e the finances to be provided by the local revenue sources, fiscal transfers or borrowings. However, in Bhutan, as stated earlier, the tax base of the blocks is so small that they cannot fund their development plans on their own. The process of decentralization has given autonomy to the blocks to propose the activities they need the most. This was a very excellent move in addressing the local needs but it results in a mere cataloguing of the wish list, rather than

a realistic plan. The local governments hugely depend on the resources from the state government to carry out the development activities. The lack of proper coordination and indicative outlay between the central government responsible for mobilization of the finances for development plans and the blocks, results in widening gap between what people actually wants and what the available resources of the government can fund. Thus it results in a persisting process of further pruning and slashing of DDC activities and also in the overall national aggregation and consolidation process done by the government. The literacy rate of Bhutan is only 60% as of 2006 and thus most of the people in the blocks are mostly uneducated who can hardly understand the difference of the noting the request and plan approval. As soon as their requests are noted, they misunderstand it for final approval and when their activities are not approved on genuine infeasibilities, they lose faith and trust in the government. People do not understand the resource incapacity of the government thus having an adverse impact on the entire development planning system. Thus this creates a distance between the people and the governments in terms of losing trust and confidence in the latter.

The process of decentralization has obviously increased local participation in the development planning process and has drastically enhanced their powers to prioritize and identify needs of the people, however, it has also created huge imbalance in the demand for and supply of development services. This is primarily attributed to the lack of resources both at the local and central level. The initiative of decentralization, the granting of autonomy to locally planned activities may not go in line with the resource position of the governments (both local and central). Also the lack of adequate resource base would make the bottom up approach in planning cycle merely result in huge

resource gap. Thus, there should strike a balance between the local demand and the provision of budgetary support from the government.

4.5 Coordination Problem:

One of the major challenges faced by the decentralization system in Bhutan is the lack of coordination between the donors, national institutions, non-governmental organizations and civil society organizations. However, for an effective decentralization system, all initiatives towards fulfilling the objectives of decentralization should be carefully coordinated to avoid overlaps and duplications and to ensure more systematic implementation of the decentralized activities, which could achieve greater results. Thus the coordination challenges faced by Bhutan are discussed here.

a) Coordination of development projects supporting decentralization:

Recognizing the prospects of huge resource implication, implementing decentralization on its own would have placed Bhutan in a difficult situation without the donor support. Currently there are around ten projects in support of decentralization funded by the donor. These donors have played vital roles both in the advocacy and implementation of decentralization programs through several projects. Therefore, it is very important to ensure proper coordination of donor projects so as to ensure other coordination issues that emerge surrounding decentralization activities and programs implemented through donor assistance.

However, the donor funded projects have their own set of objective and implementation modalities and reporting formats developed either by the donors or mutually agreed between the implementing sector and the concerned donors. These donor funded projects are implemented by different sectoral ministries, departments and

agencies. The blocks receive funds from different projects along with the RGoB subsidy grants. Some projects support capacity building at the central and district level, while some projects concentrate on the capacity building at the block level, thus channeling funds into the block letter of credit account. Thus, when there is no uniformity in approaches of the various projects like the conditions, implementation methodologies and reporting formats, its results into a cumbersome coordination exercise for the district and the block staff when they handle more than one development project. They also face capacity problems in implementation and reporting with different formats and requirements from the different donors. A numerous numbers of uncoordinated works also puts arduous pressures on both the sector staff at the district level and block sector staff and the functionaries. Also the lack of coordination in the implementation of programs financed through different sources would result in output less than maximal. Thus, a system should be in place to institute proper implementation modality and reporting format so that there is synergy and complementarities in the outcomes.

b) Coordination between sectors:

One notable challenge of the decentralization system in Bhutan as reported by district sector staff and the block head is the lack of proper coordination between the various sectors which is evident both at the local and the central level of government .The UNDP, 2005 states that the development projects are implemented by different sector ministries, without much communication between the project management of the different projects and often create a situation where the coordination and synergy of different project is very limited. For example: In a project for construction of a community school, the policy dissemination, progress reporting, and monitoring is done

by the education sector while the actual execution of work at the field in terms of drawing and designs, estimations and technical supervision are done by the engineering sector. These two implementers, however, often do not coordinate adequately thereby delaying the completion of the project. Some projects even end up half-completed or even without beginning and the project money is lapsed. Thus, the degree at which the projects complement each other in support of decentralization is not very obvious. The lack of coordination among the sectors is resulting in project overlaps, over planning and a situation where block level planned activities might not be possible to implement with the capacity of the block. The UNDP (2005) also remarks that:

Cross-sector coordination is a common challenge in all countries embarking on an ambitious decentralization exercise. Often the existing sector-based administrative structure has deep roots and is difficult to change. It further states that, the success of the decentralization process will be highly dependent on the degree of coordination between the various sectors at blocks, district and central levels and the question is whether the structural setup of the administration at central, District and Block level is geared to further integrated area based development, or whether it will need adjustment, and if so, how and when.

Thus, the decentralization system in Bhutan, if not adequately addressed in the implication mechanism, could suffer serious setback with existence of such coordination problems.

c) Coordination between District and Block:

In the function of the local governments in Bhutan, the development plan executions are coordinated at the district head quarters and the block head has to report the execution of these works to district headquarters. Thus, much time and effort is spent on coordination of administrative task between the block and district level. The Block head and any other members of the BDC are called to the district headquarters by the

district administration at their own conveniences for all the coordination works. For most procedures like the verification of the bills and signing of the checks, the block head has to meet with the concerned sector heads. The Block head and the members of the BDC lose much of their time in responding to official calls and work at the district administration. They also have to attend consultation meetings and other workshops called on by the central ministries and departments. Thus, the local government functionaries, in addition to the regular duties, are faced with the additional responsibility of attending such affairs with their concerned districts and also the centre government. The problem is aggravated by the long distance and mountainous terrains which makes the exercise more difficult. These problems are serious issues that affect efficient and effective implementation of development projects and plans at the blocks, thereby retarding the success of decentralization in Bhutan.

4.6 Challenges in the Planning and Implementation Process:

Planning and implementation has been a key challenge in the process of decentralization in Bhutan. The long time prioritized activities are stated in the respective block's Five Year Plans and it is refined in the Annual Block Plans. However, the implementation depends on the fund availability from the sectors and donors. Thus, they lack information during the time of block level annual planning exercise. Thus the UNDP (2005) has reported the following situation as its result:

- The overall five year list of activities in the block plan always exceed the available funds and thereby resulting in the non- realization of some activities.

- The implementation capacities at the respective blocks as well as the availability of the capacity to support implementation at the district level are not taken into account in the Block plans.
- The technical support staff at the district level could not provide adequate assistance like technical estimation like technical estimation as they do not know whether specific block project will receive fund. Thus, this results in unrealistically low high budgets or activities which are not feasible to implement.

Thus, this calls for a systematic and realistic planning and implementation process in Bhutan.

Chapter Conclusion:

Thus, the decentralization system in Bhutan is faced with many challenges as discussed above. Challenges have been faced in the planning and implementation process. The decentralization of tasks to the blocks has called for increased capacities to discharge new roles and face new risks. Thus, incapacity at the local governments had been a concern for the moment, which has to be carefully addressed. The sustainability of the blocks is questionable, given the limited tax base. It calls for continuous and unfailing requirement for the state to provide annual subsidies and expertise for the development of the Blocks. The presence of the chief executive officer of the district as the observer in the DDC could, in some subtle ways, have adverse influence on the DDC decisions. Despite the substantial powers being devolved to the local communities, the local authority is facing resource constraints to effectively utilize the powers and authorities being devolved. However, we should also understand the resource position of the government, where the country depends almost entirely on external assistance for capital

investments. A pressing problem faced by the decentralization process is also the uncoordinated approach to addressing decentralization system especially when dealing with donor supported development activities. This calls for streamlining the approach through better coordination mechanisms. The delays in the implementation of developmental activities occur as a result of lack of proper coordination between the sectors, local governments, central departments and ministries. Thus, a system that connects all the players and stakeholders in the process of decentralization would result in avoidance of duplications, overlaps, and over-planning of decentralized activities.

Chapter 5:

Conclusions and Recommendations:

Introduction:

Experience of Bhutan concludes that decentralization in Bhutan had been a key result of the political will and the institutionalization of regulatory system. Its experience also shows that decentralization policy brings the government close to the people and increase quality and quantity of the service delivery. However the decentralization in Bhutan is fraught with challenges. This chapter draws a brief conclusion of the decentralization system in Bhutan focusing on the prior chapters and provides some appropriate recommendations to the conclusions drawn in the above chapters.

5.1 Conclusion:

The Royal Government of Bhutan's effort towards decentralization had been an impressive move. The process has been continuous, steady and gradual. Owing to good leadership, much of the legal framework and policy directions have been instituted to trigger decentralization efforts in the right direction. The way forward is clear and the government has been doing what it promised to the people in terms of gradual decentralization of tasks along with adequate power, resources, and authority to implement them. The royal government, in its hard attempt to keep its promises, has made real shifts in the political, administrative and fiscal power and authority.

Without these initiatives and efforts towards decentralization, the socioeconomic growth of the country would not have reached the current status. However the process is still confronted with a number of constraints and challenges: While there is adequate devolution of power from the centre to the local for identifying, formulating, and

prioritization of local development plans, the process had been constrained with limited or inadequate transfer of financial resources. Even if the equalization of the financial transfers were made by the centre government, at the moment, there is lack of required knowledge and skill of the local government functionaries to handle finances. Also given the small local tax base of the country, the financial decentralization in Bhutan must be pursued with care and caution. The local governments might be tempted to spend more than what they can mobilize through the local taxes and other levies. The local governments, when the tax base is small and not uniform across all the regions, the power given to them to spend the tax money on their maintenance of development infrastructure might lead to regional imbalance in development status because some blocks or districts are ideally situated in business or trade areas, and these blocks or districts will have more tax amounts mobilized. Bhutan is also faced with the capacity issue not only at the local level but also at the intermediary and central government level.

While Bhutan has come a long way in decentralization, it still has many miles to go in the future especially in the face of changing socioeconomic and political times and their associated challenges. The challenges come at various levels: capacity issues; sustainability issue; institutional; resource gap; coordination and interplay of the actors and stake holders and; Planning and implementation. Thus, these aspects needs to be addressed and some appropriate recommendations are discussed in the following section of this chapter.

5.2 Recommendations:

The attributes of an ideal decentralized system as cited by the Lawyers' Environmental Action Team (2009) in their Review of the decentralization process and its impact on Environmental and Natural Resource management in Tanzania are as follows:

- The local units of government are autonomous and clearly perceived as separate levels of government over which central authorities exercise little or no direct control;
- The local authorities have clear and legally recognized geographical boundaries within which they exercise authority and perform public functions;
- The local authorities have corporate status and the power to secure resources to perform the function.
- Devolution applies the need to develop local government as institutions in the sense that they are perceived by local citizens as organizations providing services; and
- Devolution is an arrangement in which reciprocal, mutually beneficial and coordinated relationships between central and local government exist.

This thesis concludes that all these requisites may not have been accomplished by Bhutan in its move through decentralization. It has accomplished these requisites to a certain level despite being fraught with challenges. Thus there is need to address the challenges and this thesis presents some recommendations focusing on the capacity

development, institutional, cooperation and coordination and roles of different actors to improve the performance of decentralization process in the future.

5.2.1 Capacity Development:

Decentralization intensifies the need for capable staff and increases the importance of capacity-building programs. All levels of government need a capable, motivated and efficient staff in order to deliver services to the citizens. An essential part of the national decentralization process in Bhutan is also the human capacity dealing and capacity constraints that had been identified at all level of government as discussed in the prior chapter. This calls for the need for a comprehensive capacity building strategy. The concerned agencies like the Local Governance Division and Royal Civil Service Commission should take the lead role to ensure a comprehensive strategy for human capacity building. The district and block level staff and the elected representatives could be most preferable target group of the strategy. A need based assessment should be carried out. It has to assess what has been done until now and prioritize as to who's capacity needs to be developed. The strategy has to decide on the most suitable capacity building methodology for different target groups and decide on the most appropriate timing of the training, taking into account the suitability of the training to the beneficiaries. Then a capacity building programme could be developed for each block or districts based on a cross-sectoral, integrated approach, with the specific needs in the Block/District taken into account.

The local authorities cannot implement all the development activities of the local nature on their own, thus when the local authorities face shortage of technical expertise and resources, the next immediate, higher or central government should assist the local

authority by providing subsidies both in terms of expertise and resources. Irrespective of the adequate clarity in the redistribution of powers and task between the centre and the local governments, care has to be given not to contradict the principle of subsidiarity where central government assumes excessive statist and paternalistic role creating innumerable intermediate layers of bureaucratic organizations and agencies which ultimately increases spending.

With regard to the continuity, lack of technical capacity and others, a appropriate solution could be to provide facilitation training to the sector staffs so that they can serve as the facilitating team to help blocks to conduct yearly sessions concerning planning, budgeting, implementation and monitoring of block development activities for all sectors. Thus, this will promote the district's support to the blocks as by then the district staffs will be fully aware of the challenges at the blocks. Another way to address the technical capacity problem could be dividing the responsibility of the technical people like the engineering staff according to the blocks rather than sector wise so that the technical staffs could concentrate on the geographical area rather than on their responsible sectors. But this solution will set back if there is no adequate technical staff at the local level and also it assumes that all the technical staffs like: e.g. Engineer has all the work knowledge of all the kind of projects to be implemented. Thus, the most ideal recommendation would be to ensure the availability of more technical staffs at the district level or to make it possible for the BDC to contract private technical experts to do the groundwork for them e.g. drawings, technical estimations etc.

A pivotal way to tackle the capacity issue can also be the decentralization of the capacity building and training efforts. This can be accomplished by developing the

capacity at the district level which in turn will develop capacity at the block level. Unlike the current emphasis on the trainers from the centre, training directly at the block should be emphasized. Training of the appropriate persons among the district staff should be carried out. Thus, those trained district staffs can be entrusted with the dual role of performing their specific sectoral functions as well as building capacity at the block level through on job trainings and special short term training session.

A very important and ultimate way to address the issue of the shortage of technical, qualified and competent staff at the local level would be the development of an attractive financial and promotion incentive to attract talented and competent staff to work at the districts and blocks. The capacity should be developed at all levels of the government in order to deliver high quality service conferred onto them by the decentralization system.

5.2.2 Institutional Recommendations:

Until the recent time, there was no key lead agency or the task force to take care of the decentralization in the country to a desirable degree. However in 2005, the Department of Local Governance was instituted under the Ministry of Home and Cultural Affairs and hence forth the decentralization process is spearheaded by the Department of Local Governance which was established with the roles to: coordinate and support administrative function of the districts; Monitor and coordinate the functioning of BDC and DDC; Facilitate and manage the existing Local Governance Programmes; and to serve as national focal agency for the coordination, management and prevention of disasters . Thus, the establishment of the DLG was a step forward in the government's effort and intention towards promoting decentralization policy in the development

planning. Since its establishment, the DLG has been playing an active role in the decentralization process and may play an exhaustive range of roles in the future. However as an institutional recommendation, decentralization task forces are recommended at both the districts and the blocks under its structural guidance which could help steer the decentralization policy with better outcomes.

The establishment of a National Decentralization Taskforce (NDTF hereafter) may be recommended. It could be structurally guided by the DLG. This taskforce should be multi-sectoral and must deal with policy matters. It could be specifically mandated to review, enforce, and monitor decentralization policies and plans. A mechanism should then be developed for this national taskforce to report its performance directly to the National Assembly. There should be strong government supports in order to achieve good output from the taskforce and thus the taskforce would go a long way in streamlining the overall decentralization process and be a strong link between policies and implementations with their strong linkage with another sub-level taskforce at the District level. This institution could serve as an apex functional body responsible for proper implementation of all decentralization policies and plans relating to development planning. This should also include exercising its mandatory monitoring powers especially in holding lower levels of the institutions accountable both to the taskforce and to the constituents. Thus, the immediate institution of the task force is recommended.

A district level task force is also recommended in addition to the national level task force. This could further develop the decentralization process. A taskforce each is recommendable in each district and these task forces should be vested with full legal powers to recommend, suggest changes and even amend legal provisions of regulatory or

legal instruments of decentralization like the DDC and BDC Acts. It should be specifically mandated to report its performance to the national task force. A foremost duty of the task force could be reviewing the implementation of decentralized plans of districts and blocks. It should also be made responsible for reviewing implementation of decentralized plans of the districts and blocks. There should be a mechanism developed to make it accountable to the regional and local population.

5.2.3 Co-operation and Coordination aspect:

For a successful decentralization, all the actors and stake holders must accept same values and pursue same objectives of decentralization. Also all the decentralized tasks, roles and functions of the actors must be brought into order to ensure proper coordination. Thus, to ensure proper cooperation and coordination from all the actors in the decentralization process, there should be increased awareness and improved information dissemination programs relating to decentralized tasks. Often there are overlapping of the tasks and funds as the local functionaries are not known about who finances which activity and they just try to fit in the shapes provided by the centre. Thus, the decentralization task forces through adequate interaction and coordination among themselves must ensure proper development planning.

Proper coordination between the various donors should also be strengthened in order to enhance the coherency, efficiency and effectiveness of external assistance in support of a specific RGoB policy objective. To achieve this, the donors must pool funds to coalesce around one common programme in support of decentralization. Each donor should assume a clearly demarcated and agreed role which would correspond to the respective financial and technical capacity of that donor. This requires a composite

design which would aim to optimize the synergies between the respective donors and maximize the comparative advantage of any one donor. Thus, the following steps are recommended to be taken by the decentralization task forces in order to ensure proper cooperation and coordination between various donors and stakeholders:

- a. Plan sensitization workshops on decentralization of development planning
- b. Arrange coordination meetings of the actors.
- c. Develop and clarify roles of individual actors, etc.

The funds and resources that are made available to the decentralization reforms need to be coordinated and maximized. Thus, the proper cooperation and coordination between various donors, government ministries, NGOs, other actors and stakeholders can avoid overlaps and help ensure a uniform basis for determining the sequence of development efforts. It can also reduce the number of personnel and of small isolated functions wherever possible, provide a foundation for consistent and comprehensive development and facilitate the continuation of both ongoing and post factum development efforts. It can avoid duplicative programs and defragmentation of limited resources and could ensure equitable distribution of funds and resources throughout the country.

5.2.4 Proper definition of the roles of actors: the central government, local actors, donors and media.

There are many actors involved in the decentralization process like the central government, sectoral ministries, NGOs, donor agencies, districts, blocks, media and etc and thus, for the effective implementation of decentralization, the clarification of the roles, functions and responsibilities of every actor is recommended.

In the decentralization process, the central government should not be completely withdrawn from the area of responsibility. For the effective implementation of the governmental task, it calls for the differentiated and meaningful cooperation between the various levels of governmental organization and the central government has a crucial role to play in the implementation of the decentralization policy. The role of central government becomes more definite when there is co-financing and co-decision making in the process of the decentralization of development plans. Given the current competency level at the local functionaries, the local governments and functionaries cannot implement all the development plans. The central government should assume only subsidiary role and should not directly subordinate the local governments in matters of development planning, however the central government has to be obligated to provide support in terms of expertise and resources to facilitate the local functionaries to perform their task. The drawing of national development planning guidelines or models for implementation has to be continued as the responsibility of the central government. In particular the central government should assume the role of:

- Implementation of the decentralization policy and monitoring in relation to development planning;
- Putting the national decentralization task forces into operation and guiding the same on all fronts of its legal duties and obligations.

In decentralization, local government will be where local actors retake the initiative to define the options of their development, and put them into effect. Their roles in the development effort have been increasing irrespective of the stage of economic growth in the country. The local actors need to be supported so that they can define goals

that mobilize them and based on which it would be possible to build new dynamics. The local government is not homogeneous, and thus as a result, it is necessary to take into consideration the multiple actors who are directly involved at the local level, or who take decisions having repercussion on local realities.

The existence of capable local actors to implement the development planning effectively is critical for success of the decentralization policy. The increased role of the local government does not mean that the central government no longer has important function to carry out. To have competent local functionaries, the central government has to support the local government by providing capacity training and knowledge on key aspects like planning and budgeting.

The key areas for capacity building like accounting, book keeping, office management, planning, budgeting, progress reporting, taxation etc should be identified and should develop institutions to transfer expertise from the centre to local governments and further clarify the roles and responsibilities of the various actors. Currently there is no proper institutional framework to guide the various actors in the decentralization process. Therefore, there is the need to clearly define the relationship between the various actors in the process to ensure harmony and synergy. There should be proper clarification of the roles and responsibilities between the elected representatives of the local government and the central government appointed civil servants who assist local governments in field of development planning.

The districts must march towards increasingly shifting their roles more as a facilitator than traditional administrator and interventionist in the implementation and delivery of decentralization tasks. The blocks should reassess their implementation

capacities and are recommended not to propose activities which are beyond the implementation capacity and thus come up with realistic and actionable plans. Intensive programs of capacity building may be focused on educating the local populace and their leaders with increasing number of them going for trainings. Higher education may be increasingly provided to the actors at the local level.

The government of Bhutan also attaches high priority to mobilization of assistance for decentralizes programmes. Thus, there are several development projects in support of decentralization, implemented by different sector ministries/agencies, supported by different donors. Donors bring in internal experience and expertise in development planning besides the budgetary support. These projects are likely to provide valuable inputs and lessons for development of public service provision in the blocks, the local decision making process and decentralization process at large. However, the donors, despite their role being pivotal in decentralization policy, they must focus on supplementing and supporting the RGoB's national policies of decentralization of development planning. The donors must lend their support not as mere donors but as development partners and put in their technical assistance and resources in collaborative manner with the national policy objectives. They should seek to:

- Channel support for decentralization process as it offers, among others, more flexibility, which is appropriate given the complexity of the process;
- Ensures that critical areas of decentralization that are left without resource support under the conventional approaches, receive adequate financial assistance;
- Provide opportunity for wide range stakeholder participation;

- Make it possible, a coordinated dialogue on policies and implementation progress between the royal government and the donor agencies; and
- Increase the efficiency and effectiveness of the aids.

Thus, there should be proper mechanism for coordination with different tiers of government and donors. They must complement with each other and avoid overlaps so that the outcomes of the macro-level policy liberalization reach the rural household level. This could result in cost effective implementation of rural projects and contribute to the prosperity of the rural poor. Thus, the donor community should extend cooperation to the DLG and NDTF while framing certain institutional aspects of public service delivery to target groups and should assist the RGoB in its policy implementation of decentralization and development and thus, establish good frame works for coordinated and clearly focused development projects.

The role of media has been increasing in Bhutan especially in the area of governance and thus recognizing the importance of the media in the decentralization process, the Media Act of Bhutan was passed in 2006. This was instituted with the expectation of bringing alive, the information and communication technology and media policy to help the people to make informed decisions and participate in the development of the country.

A free, fair and responsible media should be there for disseminating information, providing accountability and assisting parliament build a dialogue with the community. Media can make a significant contribution to the decentralization process by giving third party views as the policy makers will be informed on their policy intervention and will inform people, the decision made by the central and local governments. Media can affect

behavior by informing voters about a politician's views or actions, enlightening citizens to outcomes of public policy, or taking a stance on political, social or economic issues.

The media through the communication of the roles and responsibilities, progress updates, constraints faced and lessons learned, can contribute towards sharing experiences and minimization of duplication of development efforts. Media can be used as the platform for strengthening decentralization and help the development of local leadership. It can provide integrated information systems and a communications infrastructure as a backup for the decentralized governance and thus contribute towards delivering equitable development. Thus recognizing the stated abilities of a free and fair media, the Bhutanese media should take up following activities to make effective contribution towards the decentralization process:

- Covering events;
- Analytical reporting;
- Citizen education;
- Reporting best practices;
- Criticizing role;
- Advocacy roles at various levels;
- Grievance redressal columns;
- Information for transparency; and
- For reducing corruption and propagate new ideas.

The media should take up different roles such as educating and corrective roles and should help people and the local authorities in taking positions on various issues. However, in order to render these services by the media, it requires:

- Sensitizing of the media on decentralization;
- Develop expertise on decentralization in media;
- Critical collaboration between the various stakeholders of decentralization with the media; and
- Develop a forum of dialogue and resource network for media.

Regular public reasoning and debate on decentralization, both at the district as well as block level are recommended. Thus, the World Bank, 2008 states that the media should play a pivotal role in the promotion of transparent and accountable governance, in the empowerment of people to better exercise their rights and hold leaders to account; and in support of equitable development.

Conclusion of the chapter:

Thus the above recommendations of enhancing capacity development, institutional reforms, proper cooperation and coordination and proper definition of the roles of various actors are intended to provide further practical ideas for consolidating and strengthening the ongoing decentralization process in Bhutan and it is expected to lay a solid foundation for the further enhancement of the democratic local government in Bhutan.

APPENDIX I

Functions of Local Government:

Source: Article 26, the Local Governments' Act of Bhutan 2007.

1. The Local Government shall:
 - a. Provide democratic and accountable government for local communities;
 - b. Ensure the provision of such social and economic services for the general wellbeing of the residents of the communities in a sustainable and equitable manner;
 - c. Ensure that development occurs in a planned and harmonious manner;
 - d. Undertake any activity consistent with other relevant laws and policies of the country which may conserve and enhance the environment within the limits of the areas under its jurisdiction;
 - e. Encourage the involvement of communities and community organizations in matters of local governance; and
 - f. Discharge any other responsibilities as may be prescribed by Parliament.
2. Local Government shall be supported by the central government in the development of administrative, technical and managerial capacities and structures which are responsive, transparent and accountable.
3. Local Government shall be entitled to levy, collect and appropriate taxes, duties, tolls and fees in accordance with such procedure and subject to limitations as may be provided by law.
4. Local Government shall be allocated a proportion of the national revenue to promote self-reliant and self sustaining units or activities of local Self-Government.
5. Local Government shall be supported by the government to promote holistic and integrated area based development planning.
6. Local Government shall be entitled to own assets and incur liabilities by borrowing on their own account subject to such limitation as may be provided by law.

APPENDIX II

Appendix II: Financial Powers and Functions of DDC:

Source: Article 11, 2004 Manual for the Implementation of DDC Act, 2002.

1. Prioritization and allocation of resources to Block and District plan activities, upon confirmation of budgetary outlay by the Ministry of Finance.
2. Re-appropriation of the Block plan budget of a particular Block to other Block from activities which have no possibility to be implemented on time provided the recipient Block's activity is part of its Block plan.
3. Re-appropriation of District plan budget, as provided in rules.
4. Review and ratify the Blocks' accounts of rural tax and other collections and expenditures thereof.
5. Review and ratify the accounts of plan expenditures of the Block incurred under the authority of the BDC.
6. Review of accounts of District administration accounts.

APPENDIX III

Financial Powers of BDC:

Source: Article 10, 2004 Manual for the Implementation of BDC Act, 2002.

BDC shall be vested with adequate budgetary and financial powers to enable it to effectively carry out its roles and responsibilities under this Act, particularly the following:

1. Approval of the Block's annual budget;
2. Accordance of approval by BDC for works or activities costing above Nu. 50,000;
3. Accordance of other financial approvals as required under regulations;
4. Re-appropriation of Block plan budget, as provided in regulation;
5. Approval of the plan for maintenance of development infrastructures to be met from the retained rural taxes;
6. Approval of the plan for use of other funds raised by the BDC itself;
7. Approval of rates of local utilities like irrigation water, locally generated power and drinking water necessary for the upkeep of such utilities; and
8. Review of accounts of all expenditures of the Block and ratify, in accordance with the financial rules and regulations.

The Ministry of Finance shall from time to time review and frame rules and regulations on the financial powers and functions of the BDC that shall include but not limited to the above.

APPENDIX IV

Regulatory Powers and Functions of DDC:

Source: Article 9, 2004 Manual for the Implementation of DDC Act, 2002.

The following are the areas of powers and functions of DDC on which it can adopt and enforce regulations, applicable within the District:

1. Designation and protection of monuments and sites of cultural and historical interests;
2. Designation and protection of areas of special scenic beauty or biodiversity as District parks and sanctuaries;
3. Posting of billboards, roadside signs, posters, banners and other commercial advertisements;
4. Delineation and demarcation of boundaries between municipalities, towns and Blocks;
5. Protection of consumers from unfair prices and counterfeit goods as provided in law;
6. Commercial sale of distillery products, tobacco products, drugs and other harmful substances;
7. Prevention of gambling;
8. Control of noise pollution;
9. Content of broadcasting and telecasting within the District, to the extent it is not contrary to national law;
10. Co-ordination of efforts in the defense and security of Blocks and villages by villagers themselves;
11. Prevention of dangerous communicable diseases among livestock in accordance with Livestock Act, 2001;
12. Regulation of safety standards and prices of dairy and livestock products in accordance with the Livestock Act, 2001;
13. Establishment of quarries and mines in accordance with Mines and Mineral Management Act, 1995; and
14. Protection of public health as per prevailing national guidelines or acts.

APPENDIX V

Administrative Powers and Functions of DDC:

Source: Article 10, 2004 Manual for the Implementation of DDC Act, 2002.

The DDC shall have broad administrative powers and functions to give direction and approval on the following:

1. District's and Blocks' five year and annual plans in accordance with the national policies and plans;
2. Prioritization of development activities;
3. Middle secondary and higher secondary schools and non-formal education centers;
4. District hospitals;
5. Constructions of farm and feeder roads;
6. District agricultural and livestock farms and selection of crop varieties and breeds of livestock;
7. Strategies for marketing outlets for local agricultural produce;
8. Forest management plan including extraction, conservation and forest road construction in accordance with the Forest and Nature Conservation Act, 1995;
9. Rural electrification schemes in accordance with Electricity Act, 2001
10. Communication services;
11. Small and medium scale industries;
12. Urban (municipal and town) plans;
13. Appointment of three members of DDC including the Block head concerned, who shall not be civil servants, for a period of one year at a time, to serve on district administration tender committee, which shall further consist of officials in accordance with regulation;
14. Recommendation of credit programmes;
15. Co-operatives involving inter-block members, in accordance with the Co-operatives Act, 2001;
16. Monitoring and evaluation of all activities in the District, including Block plan activities;
17. Monitoring and review of shabto lemi contributions managed by BDC;
18. Mobilization of work force;
19. Protection of forests, tsamdro and all types of government and community lands from illegal house and similar constructions and other encroachments;
20. Control of construction of structures, whether on national, communal or private lands, within 50 feet of highways falling within the District, including enforcement of measures such as cessation of construction, and demolition of the structures;
21. Acquisition of land within the District for public use as provided in law
22. Choice of trekking routes and camps for tourists;

23. Construction and maintenance of dzongs, lhakhangs, goendeys, chheoten and other monuments and properties of the District, and custody and care of ku sung thug ten thereof;⁷
24. Management of shedra, drubdey, gomdey, tshechu, kuchhoe bumdey, and other community rites which transcend the scope and responsibility of one Block;
25. Formation and engagement of village volunteers to protect villages from threats to village security; and
26. Mobilization of voluntary actions in times of natural catastrophes and emergencies.

⁷ 23&24 are the religious monuments and cultural activities held in Bhutan

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