GRADUATE SCHOOL OF DEVELOPMENT STUDIES

DECENTRALISATION IN BHUTAN:
IS IT BORN AND NURTURED IN THE
"RIGHT CRADLE"

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Dedication

...to Bhutan's continued pursuit of decentralised governance for ‘Gross National Happiness’

...to NUFFIC for non-stop support for resource-poor development partners
Acknowledgements

Recipes for making up this paper have been many and it is beyond my cognizance to pin-point exactly which ingredient is more responsible for giving this paper its taste. I have only tried to remain a committed cook while the shape and flavour of the paper as it lay on its table today is largely attributed to many contributors, all of whom occupy equal share of space in the book of my indelible memories. Of course, I remain responsible for the shortfalls and mistakes.

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Tshering Chophel
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<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<tr>
<td>CG</td>
<td>Central Government</td>
</tr>
<tr>
<td>DYT</td>
<td>Dzongkhag Yargay Tshogchung</td>
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<tr>
<td>GYT</td>
<td>Gewog Yargay Tshogchung</td>
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<tr>
<td>LG</td>
<td>Local Government</td>
</tr>
<tr>
<td>NSB</td>
<td>National Statistics Bureau</td>
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<tr>
<td>Ng</td>
<td>Ngultrum</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
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<td>UNTAP</td>
<td>United Nations Technical Assistance Programme</td>
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<td>WB</td>
<td>World Bank</td>
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<td>WBDDTT</td>
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GLOSSARY

*Barmi*: Middleman or mediator

*Chimi*: Elected representative districts/people to the National Assembly

*Choesi*: The dual system of governance with religious and temporal leaders at the apex

*Drungpa*: Civil administrator of the sub-district

*Desi*: Temporal Chief looking after the secular affairs of the country

*Dzongdag*: Chief district administrative officer/chief executive of the district

*Dzongdog Wogma*: Dy. Chief district administrative officer

*Dzongkhag*: District

*Dzongkhag Yargay Tshogdu*: District Development Committee

*Dzongpon*: Literally, fort Governo. Functionally, district administrator

*Dzongrab*: Sr. District Administrative Officer

*Gewog*: Block/county, which is within the administrative scope of a Gup

*Gup*: Elected leader of the Gewog; chairperson of GYT

*Gewog Yargay Tshogchung*: Block Development Committee

*Jabmi*: Legal advocate

*Je Khempo*: Lord/Chief Abbot or the Head of Religious Affairs, also called as Dharma Raja

*Mangmi*: Elected representative of a Gewog and thus representatives of all villages

*Ngultrum (Nu.)*: Bhutanese currency

*Thrizeen*: DYT president/chairperson

*Penlop*: Regional or Provincial Governor

*Tshogdu*: National Assembly of Bhutan

*Tshogpa*: Representative of a village or cluster of villages appointed by GYT
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CHAPTER 1: RESEARCH SETTING

1.1 Research subject

Different countries varying greatly in historical terms and political contexts adopt different incarnations of decentralisation, with not only great diversity in degree but also great disparity in its measurement. There is no single ‘decentralisation model’ and, it is not a ‘one size fits all’ panacea to all development ailments (Sharma, 2005a: 39).

Owing to the impracticality of uniform replication of any ‘ideal type’ of decentralisation, the ongoing decentralisation studies highlight the importance of a ‘strictly contextual’ approach to decentralisation. The World Development Report (2000: 107) affirms that the issue today is not whether decentralisation is good or bad, but whether it is successful or not. This report, as Helmsing (1991a: 1) also argues, advocates that the success of decentralisation depends on the country-specific context, in the sense that it has to be responsive to the existing cultural, political and institutional arrangements within the given country (Work, 2002: 15). The study of context will indicate what forms of decentralisation is suitable under what conditions of given context, while also suggesting why certain countries have followed a specific design and trajectory of decentralisation.

While this understanding is the growing conviction in the recent decentralisation discourse, not many research and practical experimentation along this line has been carried out. This research is an attempt to experiment the issues of decentralisation in the specific context of Bhutan.

The process of decentralisation in Bhutan was started in 1981 with transfer of responsibilities and resources to the Dzongkhag Yargay Tshochungs (DYTs) or the district development committees, the representative local governments (LGs) at the district level. The overriding objective was to make local people in the districts play the central role as agents of planning and decision-making in the formulation of the national Five-Year Development Plans. The role of the bureaucracy was to gather ideas from the people and implement decisions fundamentally made by the local people (Ura, 2004a: 13).

The policy of decentralisation was continuously strengthened. In 1991, Gewog Yargay Tshogchungs (GYTs) or block development committees were instituted in all the Gewogs (Block/county) in order to take the planning and decision making process of development further down to the village level. Coinciding with the 9th Plan that began in 2002, the formulation of national development plan was decentralised to the Gewogs. The previous DYTs and GYT Acts were amended substantially providing LGs with unprecedented fiscal and political powers to ensure that they have adequate resources and authority to shoulder the new responsibilities of implementing the decentralised programmes.

However, despite more than two and half decades of decentralisation practice, the degree of implementation is limited. DYTs and GYTs have been described as forums for expressing people’s grievances instead of acting as catalytic agents of

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1 The planned economic development of the country began in 1961 with formulation of development programmes over a five-year period. The inception of decentralisation in 1981 coincided with the 5th Five-Year Plan (1981 – 1985).

2 Hereafter, Plan(s) would mean Five-Year Development Plans of the country.
local development. One of the recent studies (Kuensel, 2007) indicated the lack of financial autonomy as the main impediment to GYTs. Quite often, questions are raised, both formally and informally, as to whether decentralisation in the country was just for name and not substance. The following excerpt of a senior planner’s expression on difficulties of realising the recent decentralisation restructuring exercises introduced in the country reflects the challenges on the ground (electronic interview):

"Conceptually at the Geog level, the GYT was not prepared. It was very difficult for them to keep up the planning schedule. The government was keen in implementing the Geog-based Plan not realizing that the people in the field were not prepared. Our people took over the responsibility without assessing their own capabilities. Decentralisation of power, which came with massive responsibilities, was beyond what they could handle.

This study provides an insight into the country’s decentralisation processes as a whole and reflects on the current practice from the perspective of the feasibility of decentralisation in the country.

This research argues that the pre-decentralisation context, in terms of the country’s geographical, social, cultural, economic, political and ideological factors are detrimental to the degree of delivery by decentralisation. These factors are essential in determining the right approach of decentralisation and justify the kind of expenditure and revenue assignment, while also taking politics or other institutional arrangements of the ideal decentralisation into account. In this paper, we will describe this context as the ‘right cradle’ in which an appropriate kind of decentralisation can be nurtured.

1.2 Research objective(s)

The objective of this research is to assess the feasibility of specific forms of decentralisation in Bhutan from the perspective of the country’s specific context. It is aimed at studying ‘the cradle’ into which decentralisation is being implemented or nurtured, and then to reflect on the current mechanisms of practice to consider future policy options. The paper also looks into the historical origins, objectives and trajectory of decentralisation in Bhutan to examine the details of the rights and responsibilities devolved to the local governments. This naturally provide information on the factors influencing capability of the LGs to shoulder decentralised responsibilities, and provide insight for further consideration in pursuit of decentralisation policy in the country.

1.3 Research question(s)

This paper revolves around the following guiding question(s): To what extent is the decentralisation in Bhutan designed and implemented within the country’s socio-cultural, economic and political context? On what conditions and forces has the CG

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allowed what degree of decentralisation, and how much is accommodated by the LGs for decentralisation to be successful?

The degree of decentralisation, in context of this question, means the extent of transfer of responsibilities, resources and decision-making authority to the LGs. Similarly, accommodation by LGs is understood as the capacity/ability of LGs to shoulder the decentralised responsibilities within the resources and authority given to them.

1.4 Research methodology

This is largely a qualitative research with descriptive as well explorative approaches. Rather than following the commonly practiced method of analysing 'from the above' by looking at 'what the well-established theories say about how it should be done' and concluding with recommendations based on 'what has not been done within the ideal framework', this paper applies a 'bottom-up' approach by studying what is feasible within the context, and then make reflections on what is implemented.

The context in terms of the country's socio-cultural, economic and political setting is first studied and described to build the 'right cradle'. An interpretative analysis of findings of this study suggests what kind of decentralisation is feasible in the country. This is later juxtaposed and compared with practice and implementation of decentralisation policy. The findings of this comparative analysis naturally lead to critiques and contribution to the mechanism of implementation in the country and also to general debate on the decentralisation design and success. In this sense, this research is explorative.

The conceptual and analytical framework is constructed in the usual way by describing the main decentralisation concepts and relevant theories. However, the objective is not to have them as standard concepts for comparison but to use them in arguing the feasibility within the context studied.

In order to measure the degree, this paper adopts federal approach and uses the principles of fiscal federalism for analysis. Decentralisation is not an alternative of centralisation (Sharma, 2005b: 175), and thus it is not about less government or weakening the CG, but for a better government with LGs being more responsive to the local needs (Nikolov, 2006: 1; Helmsing, 1991: 1). The UNDP supports that decentralising governance is the restructuring of authority so that there is a system of co-responsibility between institutions of governance at the central and local levels, while increasing the authority and capabilities of LGs (Work, 2002: 5-6). In this context, federal approach balances the contrasting forces of centralisation and decentralisation and creates a system that is suitable in the context of global and local scenario (Sharma, 2005b: 169; 170). In other words, application of basic principles of fiscal federalism in decentralisation brings about centralisation-decentralisation equilibrium (centralisation-decentralisation is a continuum rather than a dichotomy) by ensuring the mutual integration and coexistence of centralised and decentralized levels of government (Sharma, 2005b: 178).

1.5 Data-gathering and source of information

This paper is based heavily on extensive readings of literature and secondary data. Secondary data included books of historical records of country's political accounts, policy papers, conference reports, donor project reports, legal instruments and guidelines, survey reports, consultative workshops, public speeches,
implementation manuals, minutes of meetings, and other government as well as non-government documents. A third person was engaged for collection of these documents and to conduct other interviews that were necessary. Telephonic interviews, where necessary, were done in order to qualify empirical observations used in the analysis. Online information from official websites and media articles were very resourceful.

1.6 Research limitation(s)

The inability to go to the field for limitation of both resources and time meant that the paper is constrained by primary data and abstained from indulgence into detailed examination. A third person was employed to compile and send what ever was not available readily. This implies that the research is also limited to a broad study of the country's overall context and decentralisation structure, and is not a practical case study based on empirical assessment in the field. As such, the findings are more of interpretative than realism.

Lack of adequate scholarly literature on decentralisation in Bhutan entailed detailed study of secondary reports which threatened the time limit, meaning that there was some measure of affect on professionalism. And, of course, the concept of decentralisation is not only broad but an ideological principle with diverse notions among institutions as well as countries. This haziness of decentralisation picture is even more blurred in Bhutan by the history of democratic decentralisation being pretty short. Inception of decentralisation in some degree of the true sense of its conception is practical only after the restructuring exercise undertaken in 2002. Nevertheless, considerable efforts have been put to not only ensure academic quality but also to serve as contribution and basis for future research on similar line.

Finally, fiscal federalism is used in its superficial understanding without much attention to the detail of critiques widely found in the literature. For the purpose of this paper, its basic principles have been reviewed briefly, and an attempt has been made to squeeze their understanding to the context of this paper. Nevertheless, this framework provides the setting for future study in detail.

1.7 Construction and organisation of the paper

This paper consists of five chapters. This chapter is the overall research framework and describes the research subject and the main contention on which the research is based. It explains the aims and objectives of the research, research questions asked, research methodology adopted, sources of information and the limitations.

Chapter two is a theoretical review that conceptualises, defines and characterises main concepts and theories used as analytical framework.

The third chapter is the study of the socio-cultural, economic and political setting of Bhutan aimed at building 'the cradle' and serves as the basis for analysis of implementation of decentralisation policy in the following chapter.

In chapter four, the origin, growth and practice of decentralisation in Bhutan is reviewed and analysed within the context described in chapter three.

The fifth chapter briefly summarises the findings of the analysis made in the previous chapters and makes a conclusion.
Chapter 2: CONCEPTUAL AND ANALYTICAL FRAMEWORK

For most countries implementing decentralisation, the goals and objectives are grounded in the theoretical beauty that lies in the decentralisation's principles of efficiency, accountability, manageability, transparency, autonomy and professionalism that go well with the widely claimed notions of good governance.

One of the dilemmas of decentralisation debate is the lack of consensus on the conception itself. It is essentially an ideological principle encompassing broad ideas of social, economic and political facets. Different institutions and countries interpret it in different ways resulting in implementation of various forms under different situations. There is a lack of clarity on the extent to which power, responsibilities and resources are transferred, and the amount of autonomy that must be given to decentralised organisations.

This chapter describes some of the general conceptions of decentralisation as found in the literature. The first section reviews different meanings of the concept in their administrative, fiscal, political and economic understanding, while also characterising them as per their classification. The next two sections briefly reflect on the understanding of local government, measurement of decentralisation, and various impetus and motives, as used in relation to decentralisation. Section four is a brief reflection on the principles of fiscal federalism. The last section is the synthesis of the key concepts discussed in this chapter and provides the basis of analysis in the subsequent chapters.

2.1 Definition, classification and characterisation of decentralisation

Decentralisation is defined in various ways as per the relevance of different methods of implementation in different countries under different contexts. Rondinelli and Cheema (1983: 18) define it as 'the transfer of planning, decision-making, or administrative authority from the central government to its field organisations, local administrative units, semi-autonomous and parastatal organisations, local governments or non-governmental organisations' (Brillantes & Cuachon, 2002: 2).

Falleti defines it as 'a process of state reform composed by a set of public policies that transfer responsibilities, resources or authority from higher to lower levels of government in the context of a specific type of state' (2005: 238).

Decentralisation, as defined by UNDP, is 'the transfer of authority on a geographical basis whether by deconcentration of administrative authority to field units of the same department or level of government or by the political devolution of authority to local government units or special statutory bodies' (Brillantes & Cuachon, 2002: 2).

Decentralisation is also considered as means to achieve good governance. UNDP, for instance, use 'decentralised governance' to mean that 'decentralisation of public sector, in itself, will not be effective unless support is also provided to strengthen local governance, involving the public, private and civil sectors (Ibid: 3). Decentralisation, for UNDP, is the 'logical application of the core characteristics of good governance at the sub-national and local level. In turn, good governance is one that ensures broad consensus of political, social and economic
priorities of society in which voices of the poorest and the most vulnerable are heard in decision-making over the allocation of development resources' (Ibid).

Given the diverse ways of interpretation and implementation, decentralisation literatures classify it broadly under administrative, fiscal, political and economic or market decentralisations. Depending on the degree of transfer of responsibility, resources and decision-making power, these broad classifications are further categorised into deconcentration, delegation, devolution and privatisation.

**Administrative decentralization**

Administrative decentralisation is the redistribution of administrative and public function responsibilities from central government (and its agencies) to subordinate field units, semi-autonomous public authorities or corporations, and area-wide, regional or functional authorities. It is manifested through deconcentration and delegation, and does not encompass substantial financial or decision-making power.

**Deconcentration**

Deconcentration refers to the transfer of responsibilities from one level of CG to another while maintaining the same hierarchical level of accountability from the decentralised local units to the CG ministries or agencies (Work, 2002: 6). It is merely dispersal, shifting or decongestion of workloads for certain services from the CG to its staff or branch offices outside of national capital (Sharma, 2006: 54; Brillantes & Cuachon, 2002: 5). Local public functions are performed by centrally appointed employees or those directly accountable to the CG agencies (Rondinelli & Cheema, 1983: 16).

Deconcentration is often implemented through field administration and local administration. In a system of field administration, local field staffs are given some form of discretion on planning, decision-making on routine responsibilities and adjusting the implementation of programmes to local conditions within guidelines set by the central ministry (Ibid: 18). The field staffs are the employees of a central ministry and thus responsible to the central agency's direction and control, even though they may be functionally placed within local jurisdictions that may some degree of autonomy or delegated powers (Ibid).

Local administration is a subordinate level of government which is an executive branch of the central authority. It is headed by a centrally appointed executive official who is responsible and accountable directly to a central government agency. All the local functions are performed under the technical supervision and control of central ministries or the chief executive of the local administration.

Some literature maintain that since deconcentration does not involve transfer of power and fiscal autonomy to plan, decide and implement programmes to individuals or organisations outside of the structure of the central government, it is not likely to lead to any potential benefits or pitfalls of decentralisation. Nevertheless, UNTAP argue that, through deconcentration, administration is brought closer to the people, whereby the citizens are given better understanding of the government plans and programmes. It enables people to 'adopt the new ideas and practices, use the services offered, contribute their own effort and resources to the programme, give vitality to new institutions and make constructive adjustments in their lives' (Ibid: 20).
Delegation
Delegation is a comparatively extensive form of decentralisation than administrative deconcentration. In this dimension, a sovereign authority (central government) transfer decision-making and managerial responsibility for specific public functions to organizations which are outside regular bureaucratic structure with great deal of decision-making authority (Rondinelli & Cheema, 1983: 20; Rondinelli, Nellis & Cheema, 1983: 19). Here, decentralised agencies are semi-autonomous, and are technically and administratively capable of carrying out the decentralised functions without direct supervision by a higher administrative unit. However, they are accountable to the sovereign authority which holds the ultimate authority of responsibility (Ibid). Delegation is normally represented in public corporations, regional development agencies, special function authorities, semiautonomous project units, and parastatal organisations.

Fiscal decentralisation
Fiscal decentralisation is the set of policies designed to allow fiscal autonomy of decentralised agencies by reallocating resources. In addition to intergovernmental transfer of funds and power on expenditure, LGs are given revenue-generating power to finance the expenditure responsibilities. According to Sharma (2005a: 38), fiscal component of decentralisation is the most significant of all other decentralisation ingredients. He premises this argument on the fact that it is the regulation of intergovernmental relationship in the fiscal arena that can strike a balance between other dimensions and objectives of decentralisation for successful design and delivery.

Political decentralization
Political decentralisation refers to the transfer of decision-making authority and political power to the LGs (Brillantes & Cuachon, 2002: 5), the activities of which are substantially outside the direct control of the CG. According to Falleti (2005: 329), it is ‘the set of constitutional amendments and electoral reforms designed to open new — or activate existing but dormant or ineffective — spaces for the representation of subnational polities’. They are designed to devolve political authority or electoral capacities to subnational actors (Ibid), and are manifested through devolution.

Devolution
Devolution involves relinquishment of authority for decision-making, management, and resources including revenue generation authority to quasi-autonomous units or LG with corporate status (World Bank in Brillantes & Cuachon, 2002: 5; Work, 2002: 6). It is a ‘democratic decentralisation’ (Manor, 2000; Crook & Manor, 1998) and assumes that representatives selected from local electoral jurisdictions would enable citizens to understand their political representatives better who in turn will be better informed about preferences of local citizens and exhibit greater responses to heterogeneous needs (Bardhan & Mookherjee, 2006: 7). As such, it 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 (Ibid).
Economic or market decentralisation

Economic or market decentralisation is the most complete form of decentralisation and involves passing over of functions which were exclusively performed by the government to the organisations outside the purview of government (Brillantes & Cuachon, 2002: 6). This form of decentralisation is implemented through privatisation and deregulation.

2.2 Local Government (LG) and autonomy

Local government is an administrative office or government of a specific local area constituting a subdivision of a major political unit of a nation or state, whereby the "legislative and executive powers are exercised by locally elected representatives" (Helmsing, 1991a: 98). According to Shah (2006: 1), it could be created by national/state constitutions, by ordinary legislation of a higher level of central government, by provincial/state legislation, or simply by executive order. They vary enormously in size both between and within countries from a few thousand people to tens of millions; they can be single-tier or multiple-tier; and, their responsibilities may range from a large number of important functions to a few minor functions (Turner & Hulme, 1997: 160).

Mawhood (1987) cited in Turner & Hulme, 1997: 160 and Rondinelli & Cheema (1983) maintain that it should be an autonomous local body that is constitutionally independent with little or no direct control of the central government. It should have clear and legally recognised geographical demarcation within which they exercise authority in its responsibility for a range of significant local services. It has a corporate status with its own treasury, budget and accounts along with substantial authority to raise its own revenue. It should employ its own competent staff who it can hire, fire and promote.

Helmsing (1991a: 98) clarifies that it is, however, not independent from central government in the sense that it operates within the legal framework issued by CG which also monitors its operations constantly and intervenes when called for. Moreover, LGs often represent CG and the functions are carried out either jointly with or on behalf of the CG. More essentially, a considerable part of local expenditure is transferred from CG and, therefore, it is essentially a part of the government system.

Nonetheless, they are different from local field administrations of the central government ministries that exist alongside the local authorities in a district in varying degrees (Ibid). The field administration offices are the central ministries’ "eyes, ears and arms" that function entirely upon the direction of headquarters and normally do not have managerial decision-making authority.

The LG autonomy is defined as the capacity of LGs to make binding decisions with the administrative, fiscal and political powers that it has or should have, to perform the prescribed local functions. According to Mequanent and Taylor (2001) local autonomy is an organizational process from within, which works towards creating the capacity of society (local area) for self-direction and management of change. Local autonomy is characterised in three ways: freedom from direct central interference; freedom to effect particular outcomes; and, reflection of local identity. The degree of local autonomy depends on the extent of the existence of characteristics of LG described above.
2.3 Degree of decentralisation and measurement

Considering different ways of implementation with different objectives and motivations, there is no single quantifiable index of measuring decentralisation. In this context, the degree of decentralisation simply means the extent of achievement in terms of the economic, political, administrative and fiscal effectiveness brought about as a result of an increased LG capacity for planning, resource mobilisation, and implementation of local public functions.

Recent literatures agree on measuring it as the ratio of the share of LG revenues and expenditures to total government spending and receipts over a certain period of time. Sharma (2006: 52) maintains that it is the basic structure of intergovernmental fiscal relations and more specifically how subnational levels are financed (revenue sharing or independent local taxation) that is the real measure of the quality of decentralisation.

Rondinelli, Nellis and Cheema (1983), in their studies of degree of devolution, have found significant correlation to five factors: (i) the age of the nation — the older and well established national governments have a higher degree of devolution than newer ones; (ii) the size of gross national product — those countries with high levels of GNP tend to have higher degrees of devolution than poorer countries (also, Work, 2002: 10); (iii) the level of development of the mass media — those countries with a more independent media are more decentralised than those with incipient or weak system; (iv) the level of industrialisation — industrialised countries tend to be more decentralised than those with agricultural economies; and (iv) number of LGs.

The degree of decentralisation may also be determined by the impetus and different motives. Impetus may be both exogenous and endogenous forces of social, economic and political factors that induce the country to go for a change. Motives refer to different goals and objectives (including hidden economic and political agenda) of the principle actors involved in the initiation, design and implementation of decentralisation.

Depending on specific circumstances, the impetus for some countries come principally from the CG’s prerogative, while for others it was triggered by the clamour from sub-national, civic, and business groups for democratic reforms (Brillantes & Cuachon, 2002:1). Bardhan and Mookherjee (2006: 14-15), based on their comparative study on regional decentralisation practices, broadly categorises the forces pushing a country for decentralisation into four factors:

- **Political pressure:** Parties or politicians or dictators at the national level face threats to their own authority (competition either from other centralised parties or from rising regional parties) or seek to pre-empt future threats by enhancing their own legitimacy by widening political participation of citizens and improving social service delivery;

- **External shocks or crises:** Some shocks force drastic changes in policy-making institutions (including pressures from multilateral institutions as loan conditionality);

- **Ideology:** Various groups can be disillusioned with previous centralised agencies, policy makers, social scientists, or popular opinion in favour of decentralisation and local decision making. A new party or candidate might emerge at the national or provincial level with an ideology predisposed in favour or redistribution or local democracy; and,
2 Other hidden agendas: Other hidden agendas such as a conservative agenda or reducing social spending by devolving responsibilities for social-sector-spending to LGs while not raising their fiscal base.

2.4 Fiscal Federalism

Fiscal federalism is a framework for assigning three economic functions of the government of resource allocation, (re)distribution of income and wealth, and macro-economic stabilisation to different levels of government through appropriate fiscal instruments and regulatory measures (Sharma, 2005b: 177-178; Ozo-Eson, 2005).

Helmsing (1997: 9), drawing on the work of Musgrave and Musgrave (1984), describes the three functions: (a) Allocation function: concerns the process by which total resource use in an economy is divided between private and public goods, and by which the mix of public goods is chosen not only sectorally but also socially and even spatially; (b) Income and wealth distribution function: is the redistribution of income and wealth (which may be unevenly distributed because of accidental or historical factors) by government through regulatory policies and measures (taxation and expenditures) in order to be in conformity with what society may consider 'just' and 'fair'; (c) Macro economic-stabilisation function: concerns measure to be taken by government to maintain a high rate of economic growth and to address major economic imbalance.

While the stabilisation and distribution are considered as functions of the CG, for they concern the provision of public goods and services that are national in character, allocation is the responsibility of all levels of government. In fiscal federalism framework the allocative public function is assigned to various levels of government as Expenditure assignment and Revenue assignment.

Expenditure assignment

Expenditure responsibilities are assigned on the basis of the principle of 'spatial limitation of benefit incidence' (Chanie, 2007: 35). As Musgrave explains, LGs are responsible for provision of goods with local benefits or those preferred, consumed and paid within their jurisdiction, but public goods with spill over effects are avoided (ibid). Oates argues that, public service can be provided most efficiently “by the jurisdiction having control over the minimum geographic area that would internalise benefits and costs of such provision” (Shah, 1994: 10).

Since LGs in a unitary state act on behalf of the central government, policy development, standards of service and performance, and implementation oversight is determined at the state level, based on which LG provides services. Local public services are those for which economies of scale are not considered, political proximity is essential, where there is no cost/benefit spillovers, and distributional considerations are unimportant (Shah, 1994: 14). Such services may include fire and police protection, sewers or street lights, primary education, refuse collection, recreational activities at the vicinity, street maintenance, traffic management, local bylaws enforcement, etc.
Those public goods and services that are national in character and non-excludable or non-rival are provided by the central government. Examples are defence and security, foreign relations, monetary policy, preservation of internal common market, correcting fiscal inefficiencies, equalising regional inequalities, etc. However, Helmsing (1991b: 103) notes that 'a mixed or joint responsibility' is appropriate with central and local government having their own roles. He maintains that CG’s involvement is necessary for ensuring a minimum standard of service provision throughout the districts, compensation of fiscal disparities, monitoring compliance by LGs to service standards, and provision of required inputs where necessary for LGs. At the same time, he argues, CG, however, needs to allow LGs 'the necessary powers to finance the services they provide from local sources and leave them the discretion to respond to local specific needs, and room for manoeuvre for local expenditures and for localised collective action.'

Revenue assignment

Revenue assignment concerns the division of revenue sources through a mechanism of taxation to match the expenditure needs of different levels of government. It is based on the principle of benefit so that people have the option “to ‘buy’ and enjoy such levels and mixes of public services that suit their preferences” (Chanie, 2007: 36). The CG exercises area-wide (national) tax for serving area-wide services since people benefit and hence should contribute; LGs use local taxes to finance services provided to local communities (Ibid). As such, in fiscal federalism framework, benefit taxes (mainly used for carrying out the allocation functions) are assigned to LGs, whereas ability-to-pay or non-benefit taxes (primarily used for stabilisation and distributive functions) are assigned to CG (Ibid). In this understanding, progressive income tax, for example, is assigned to the CG, while property taxes and user fees are considered appropriate to be assigned to LGs.

For financing local public goods and services, there are three sources: service charges; user taxes; and, general taxes (Helmsing, 1991b: 104). The amount charged differs according to the extent of benefit availed by users, because local beneficiaries are charged on the basis of the extent to which they are benefited from the services. This implies that LGs have some kind of control such as setting the rate and to determine base. In the absence of any expenditure criteria on which the distribution of the cost is based, only general principles of taxation (financial yield and elasticity, economic incidence, administrative capacity, political acceptability and sanction) can be invoked (Ibid).

Central government (inter-governmental transfer) transfers

In addition to expenditure and revenue assignment, local public services are financed through funds that are directly transferred from the CG budget. They are the lump-sum funds transferred mainly for fiscal equalisation, since the assignment of revenue and expenditure cannot always ensure efficient resource use.

4 See Helmsing (1991b: 99) and Helmsing (1997) for illustration on public and private goods, rival and non-rival goods, excludable and non-excludable goods, voluntary and involuntary goods, pure and impure public goods, etc.
The inter-governmental transfer of funds takes place in two forms: grants and tax/revenue sharing (Helmsing, 1991b: 105). Helmsing (Ibid) describes the various purposes of grants: first, through grants, CG can exercise expenditure control over LGs; second, CGs can have policy influence on steering LG expenditure into priority policy areas (also maintain equity by favouring poor local areas); third, grants can foster accountability; fourth, via grants-in-aid, CG can better assess spending decisions of LGs; fifth, the dependence of LGs on CG grants can enhance national unity. Oates and Musgrave maintain that CG grant, by the way, should not compromise the decision-making power or autonomy of LG in provision of preferences of the local public service beneficiaries (Chanie, 2007: 38).

The second form of transfer, i.e tax/revenue sharing, is the transfer “where a certain proportion of a nationally collected tax is reserved for use by LGs” (Helmsing, 1991b: 105). Here, the CG administers and collects taxes and then the revenue generated is distributed to LGs in accordance to the geographic or administrative jurisdictions. This means that tax sharing may take the form of a surcharge to the tax payer in a specific area. Helmsing (Ibid) maintains that alternatively, tax sharing is based on the principle of tax-in-aid, whereby resources collected are pooled and redistributed in accordance to specific needs of LGs.

Central governmental grants are further divided into non-matching and selective matching transfers (Shah, 1994: 25-26). Non-matching transfer may be selective (conditional) or general (unconditional), and are used for subsidising activities which CG accords high priority but are of low priority to LGs. Selective matching transfers require funds to be spent on some specific purposes and that the recipients match the funds to some degree (Ibid: 26).

2.5 Synthesis of key concepts and terms for analysis

Decentralisation, as the concept itself, is surrounded by ambiguity. The various definitions, meanings and dimensions explored in this chapter carry wide connotations. What is decentralisation to some doesn’t imply the same thing for others. This section provides a summary of the key concepts as understood and applied in this research, and issues that need to be addressed in context f this research.

For derivation of a precise definition for this paper, we refer to Turner and Hume’s (1997: 152) separation of decentralisation into ‘territorial’ and ‘functional’. Territorial decentralisation is the transfer of authority (and resources) to perform some public service delivery from an individual or agency in CG to some other individuals or agencies which is ‘closer’ to the people to be served. Such dimension of decentralisation is ‘grounded in the desire to place authority at a lower level in a territorial hierarchy and thus geographically closer to service providers and clients’ (Ibid). On the other hand, functional decentralisation is the transfer of authority to an agency that is functionally specialised, and is carried out in three ways: delegation of authority within formal political structures; transfer of authority within public administrative or parastatal structures; and transfer from an institution of the state to a non-state agency.

Given the objective and principal questions proposed in this paper, we will consider the territorial-based classification. In this regard, we combine the views of UNDP and Falleti (described above) to build our definition of decentralisation as the ‘transfer of responsibilities, resources and authority from higher to lower levels of government on a geographical basis in the context of a specific type of state’.

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Though, decentralisation 'purists' like Mawhood and Alderfer consider only devolution as the authentic form of decentralisation (Turner & Hulme, 1997: 154), a larger group of writers understand decentralisation as referring to both deconcentration and devolution. They characteristically define it as 'transfer of power to lower levels of government in a territorial hierarchy' (Ibid).

Since delegation and privatisation (economic decentralisation) are categorically functional in our consideration, only deconcentration and devolution are used for analysis in this paper, under the administrative and political decentralisation respectively. While discussing deconcentration, we will consider local administration instead of field administration, while the characteristics of local government remain same as we have discussed earlier, for discussing political decentralisation or devolution.

We will maintain the fiscal decentralisation, impetus and principles of fiscal federalism as they are described.

Having said these, the next important thing to consider for analysis in this paper is the context. We refer to it as enabling environment conducive for decentralisation in terms of socio-cultural, geographical, economic, political and ideological conditions of the country. These are the specific and complex structure from where policies emerge. The context not only shapes the ingredients of policies but also affects the patterns of inter-organisational relationships and characteristics of implementing agencies, while determining the amounts and types of resources available for implementing those policies. As Rondinelli and Cheema (1983) maintain, an understanding of the contextual setting from which policies emerge or to which they are imposed is crucial to understanding the constraints on and opportunities for implementing organisations to translate policies into action. These environmental conditions are crucial factors both in initiating decentralisation and in constructing its successful implementation (Ibid).

This invites questions as to whether the social, cultural and historical terms, and political context of a particular country is conducive to requirements of decentralisation. While the degree of decentralisation is dependent on the country-specific context, the perquisites or characteristics of decentralisation we have considered do not define the type of context required.

According to Ura (2004a: 2), ahistorical arguments for decentralisation are usually a type of universalistic discourse relating to something as relevant everywhere at all times. He maintains that, 'when the theoretical structure of decentralisation arguments are strongly and exclusively based on frameworks written and espoused by international development institutions, such ahistorical justifications fail to relate to contingent and local thinking in which history, albeit selective consciousness of historical events, still guides imaginative possibilities of the future.'

So what kind of context will support which forms of decentralisation with what degree of measurement? The next chapter studies the context and builds the 'cradle' of our area of research.
CHAPTER 3. THE CONTEXT IN BHUTAN: BUILDING THE ‘RIGHT CRADLE’

This chapter presents the geographical, socio-cultural, economic and political setting of Bhutan in order to study the context into which decentralisation is put to practice. We shall not necessarily base our argument on primitive settings, for the modern obviously is totally a new version of the ancient Bhutan and the olds have become obsolete. However, while studying the context of the present, we automatically refer to their historical origin and trajectory in a ‘flash-back’ that dates back to the pre-decentralisation Bhutan. The primary purpose of this chapter is to indicate that the modern Bhutan still lives on social, economic, political and cultural systems that are rooted in the traditional practices. The reason for this is not only because of the low status of economic development, but perhaps more because of the country’s policy of strengthening sovereignty and identity through preservation of its age-old tradition, culture and environment. This would provide an interpretative analysis on the extent to which principles of decentralisation could be adopted. We do not mean to state that the social, cultural and political structures of Bhutan are impediments to decentralisation and, therefore, they must be changed. On the other hand, we are looking at ways of internalising decentralisation in a manner that is suitable to such structure.

To begin with, we provide a brief overview of the country in the first section to get a first insight into the country’s structure. Section two is a reflection on the basis of administrative and governance system. Section three gives a picture of peasantry and traditional local governance, while section four is an overview of the social and cultural aspects of centre-local relationship. Section five tells us about the institutional reforms and lawmaking processes after centralisation of the country under monarchy. Section six reviews the trajectory of economic development, and the last section is a summary of the chapter that builds a basis of analysis in chapter four.

3.1 General overview of Bhutan

Bhutan, with the total area of 38,394 sq. kilometers (NSB, 2006) is a landlocked and mountainous country bounded on the north-west and north by the Tibetan region of China, and India surrounding the rest. The country stretches from east to west with 300 kilometers and 170 kilometers at its north-south dimension. The country has one of the world’s most formidable mountainous terrains that stretch from 100 metres to 7,500 metres above the sea level. The mountainous nature of the country is detrimental for varying climatic conditions characterized by monsoon rain in summer and a relatively dry winter.

One of the important assets of the country is its 72% forest cover (Planning Commission, 2001) of temperate and sub-tropical species. The country’s river system has an estimated potential of generating 30,000 MW (Ibid) of hydroelectricity, which is the main source of revenue for the country today. The average annual GDP growth rate in the past two decades was 6 percent, with the...
Gross National Income per capita in 2005 being US $ 1,245 (NSB, 2006). The major exports include electricity, timber, cement, agricultural products, handicrafts, etc, but on a small measure.

The difficult geographical terrain and the young mountain system, which have protected the country from outside influences in ancient times, now make the country to be ecologically very fragile. The country’s 634,982 people (NSB, 2006) remain scattered and separated from each other by high mountain ridges, with almost 80% of which live in rural areas with subsistence farming. Provision of adequate transportation and communications infrastructure is severely challenged both by the difficult terrain as well as limited resources or technological know-how. Only about 16% of the land area is cultivable, which itself is a big challenge to agricultural production (Planning Commission, 2001). The low economic base for capital expenditure and weak source of taxation make the country’s economic development heavily dependent on external donor assistance.

3.2 Foundation of administration and governance system

The country is a hereditary monarchy with no written constitution. The origin of modern administration and governance in Bhutan was effective from 1907 when the country emerged as a modern nation state under the unified power of the first hereditary monarchy. However, many social, economic and political features of the contemporary Bhutan are rooted in the systems that were introduced in the 17th century, by the politically and religiously charismatic Ngawang Namgyal, commonly known as the Zhabdrung.

The Zhabdrung’s advent and unification of the country was prophesied by Padmasambhava, popularly known as Guru Rimpoche, meaning ‘the precious master or teacher’. Guru Rimpoche had propagated and established the strong foundation of Buddhist tradition all over the country as early as the 8th century. He had also left prophecies of predictions on the future of the country, of which the coming and rule of the country by the Zhabdrung was one of them. Many social, cultural, political and ideological values of today have relevance to this early history.

Theocracy was the system of governance under the Zhabdrung’s rule. While the Zhabdrung himself represented on personal union the spiritual and worldly power of the state and thus maintained the ultimate central authority, the daily administration was left to the religious leader called the Je Khempo (the Lord abbot or Dharma Raja) looking after the religious affairs of the state clergy and the temporal chief called the Desi who looked after the secular matters of the theocracy administered also by the monks (Pommaret, 1994: 61; WB, 1983: 7). The characteristic of theocracy and dual system of governance is still found in today’s system of two apex rulers of King and Je Khempo who are respectively temporal and religious leaders of the country sharing equal status and power. Today’s National Assembly comprises of ten representatives of the clergy elected by the

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6 For his heroic deeds in promotion of Buddhism and protection of the country from enemies, Ngawang Namgyal has gained this honorary title meaning ‘at whose feet one submits’.

7 Buddhist saint, converter and messenger, believed as the reincarnation of Lord Buddha and therefore revered as the second Buddha.
Zhung Dratshang (Central Monk Body) and the concerned Rabdeys (District Monk Bodies) of the country (National Assembly of Bhutan).

The administrative responsibilities outside the central government were entrusted to the Penlops (regional or provincial governors) of Dagana, Paro and Trongsa, the three main provinces the country was divided into. The Dzongs or forts were the administrative headquarters of the petty regions or districts within each province, headed by fort-governors called the Dzongpons. Subordinates of various tasks under the Dzongpons were appointed. A State Council comprised primarily of monastic officials assisted the election of these officials (WB, 1983: 7). However, the political accountability was not defined strictly on top-down hierarchy since various posts of these officials were filled locally. Each Penlop or Dzongpon governed their jurisdictions with substantial power of their own with central government intervening only in times of serious strife between these political factions.

The Zhabdrung also gave the country a legal system based on Buddhist moral principles and customary rules at that time (Pommaret, 1994: 61). The position of the Zhabdrung was either hereditary, or filled through reincarnation, with Je Khempo acting as the regents during periods of minority. This dual system of governance (with religious and temporal leaders at the apex of Government) called Choesi is practised in the country even today whereby the King and Je Khempo with equal rights and powers are responsible respectively for temporal and religious affairs.

The long regencies (after the Zhabdrung’s demise) entailed in filling the position of Zhabdrung through reincarnation afterwards allowed officials who governed on behalf of the Zhabdrung to build up considerable power of their own (WB, 1983: 7; Sinha, 2001: 63; Pommaret, 1994: 61). The history on power struggles and internal disputes between various Desis, Penlops, Dzongpons and other senior state officials that went on till 1907 (when the first King was installed and hereditary monarchy was found) is, however, beyond the scope and objectives of this paper. This section concludes with the emphasis on foundation of a government that was based on the Buddhist ideology of “religion and religiously-inspired secular powers” (Ura, 1994: 26), based on the Zhabdrung’s theocracy.

3.3 Peasantry and traditional local governance

Alongside strife towards independence and development of national identity, the society and peasantry was, to a great extent, decentralised. The difficult geographical terrain with limited transportation and communication facilities made the country a pedestrian society. The cost incurred beyond the state’s capacity, in the requirement for central authorities to walk on foot to the far off communities that remained trapped in the mountain fastness from where it was difficult to break out, constrained the frequency and extent for interaction between the central

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9 The Zhabdrung had built these chains of forts in strategic locations for administration and defense. They still house the administrative headquarters of the districts.
10 The Zhabdrung had only one son who, somehow, was incapacitated to be the successor. Since then, the Zhabdrung’s position used to be taken by his reincarnates, the identification of which took several years.
government and communities (Ura, 2004a: 6). The intense central control and regulation of communities by the state was infeasible, which enabled to have a substantial degree of de facto decentralisation and community autonomy founded on the locally engendered customary law (Ibid: 7). The un-colonisation of the country also provide an enabling environment for the local community to maintain stability and emergence of localised institutions and a strong knowledge base in the form of local innovations.

The Gewog was the main identifiable local polity and had clear customary relationship between the individual, polity and resources. The members of a Gewog had certain rights and obligations defined within the context of a Gewog in cultural and economic spheres. A community was where individuals developed as a relational entity. There was no external-intervention for the development of a community, which is one of the main goals of decentralization today.

The challenge posed by geographical barrier and disorganised centre-local relationship also entailed the local to be the focus of political governance. The hierarchical progression of state officials to the central posts of Dzongpons and Penlops were bottom-up in the sense that they were raised from geographically peripherals posts. As Ura (2004a: 8) notes, there was even a legal dimension of membership to community whereby cases were settled by local notables without referring to any national legal procedures or standards. The respected people with ability to listen to others and understand the issues facing the local society acted as barmi (mediator) or jabmi (advocate) who articulated the notion of what is a fair decision between the litigants (Ibid). The local identity of citizenship of households or individuals was based on the criteria of participation in the civic activities of a community.

Given the constraints of poor internal communications and isolation from rest of the world in terms of international trade, the economy was non-market organisation and remained self-subsistent. The various climatic conditions entailed valley communities for diversification of agro-pastoral activities within what the natural resource could offer. A household kept a number of different livestock and species of animals. For goods of high-value and absolute necessities, trans-Himalayan and Indo-Bhutanese trade took place by caravan (Ura, 1994: 27).

The economy was non-monetised and exchange of goods and services among the valley communities was mainly done through barter system. The state was assisted for its public functions with resources collected from the peasantry in the form of offerings, contributions and taxes in kinds. The taxes included every conceivable kind ranging from "bundles of hay and fodder for official stables; raw materials such as ash and bark for the production of bark papers; clothes and textiles; baskets and crafts, butter, cereals and so forth" (Ura, 1994: 29). The remnants of these taxes in kinds after distribution for entitled government officials were channelled into areas of localised famine.

Apart from contributions and taxes in-kind, involvement of the peasantry in terms of what is today called as citizen or community participation existed in the form of labour contribution from each household. As we understand, this was needed for transportation, by human and pack animals for more than a week, of a large proportion of materials collected in the villages to the far-off Dzongs. Community participation and labour contribution were also necessary for other public services such as maintenance and construction of Dzongs, state monasteries, construction of mule tracks, bridges, etc.
3.4 The social and cultural aspects of the centre-local relationship

Since the whole process of unification, expansion and consolidation of the state was carried out in the name of a religious order (Ura, 1994: 26), the society as a whole was greatly inclined towards pursuit of religiously motivated activities, which is the dominant feature of common people even today. As Ura (Ibid) notes, the state was the main organ of the principal Buddhist preceptors like Zhabdrung's incarnations, successive Je Khempas and high state lamas. In the Buddhist tradition, they are the divine Bodhisattvas in the human form, and therefore, accorded high status in the society. The religious institutions that also served as political centres were more concerned to promote humanitarian morality among the peasants, and most of the resources were directed for this purpose. The monks and yogis are considered to be beyond society and disassociated from material wants and possessions, so material support for the religious order was necessary. On the other hand, aristocracy, officials and monks subsisting on peasantry support were regarded as exemplars of moral conduct that brought merit to the sponsor as well as to the society as a whole (Ibid).

One of the driving notions in the people's mindset in such a predominantly Buddhist domain is the finding of truth in religious evocation of prophetic revelations such as role of fate, predestination, rule for general benefits, taming of impious minds, etc. As mentioned earlier, the unification and establishment of the state by the Zhabdrung was itself a fulfilment of a higher prophecy of Guru Rimpoch (Ura, 2004a: 2; Ardussi, 2000: 7). As Ura interprets, the establishment and unification of Bhutan under central power of the Zhabdrung was an undertaking of integration of the country into "a scheme of training to control the unruliness of human mind that generates suffering and conflict.

Various prophesy as well as rational arguments are also invoked for establishment and centralization of power by hereditary kingship. For instance, the oath of allegiance signed during election of the first King on 17th December 1907 refers to the newly elected King as lugs gnyis khrims bdag¹¹, which means 'the indomitable custodian or lord of laws of the two system of governance'. In a broader understanding of its meaning, "the holder of power is the source of law and social justice" meaning that investment of power in the absolute monarch is a necessity to control social conflict and violence generating trouble and hardship for the Bhutanese people (Ura, 2004a: 3).

Bhutan didn't have any constitutional arrangement of the liberal political system where the concept of tripartite separation of power and federalism provided check and balance in order to prevent centralization of power in a single locus. However, a well-rooted local concept found in realization of the combination of three capacities of Khenpay Yashay (wisdom and compassion), tse wai thugje (immeasurable loving kindness), and muepe tob (power of strength) within individual leaders provided a basis of evasion of tyranny and despotism in the country (Ura, 2004a: 4). This concept of the triad of knowledge, loving kindness and power that has been internalized by national leaderships rising mainly out of the monastic ranks is a classical Buddhist qualities perceived as implicitly

¹¹ **lugs** = system; **gnyis** = two; **khrims** = laws; **bdag** = custodian or lord. Ardussi (2000) refers **lugs gnyis** (the two laws) to the 'royal laws' (rgyal khrims) and 'religious laws' (chos khrims), referring respectively to the secular and religious powers introduced by Zhabdrung.
contained in any leader. Both belief across the societies and pragmatic demonstration by successive leaders have contributed to foundation of civilized rules that circumstantially harmonised or united religious and political views in the country’s governance. The strong belief and support in hereditary kingship is found in the view that unless the individuals within the leadership strata acquire these three invaluable values, no external entity or agency can enforce balance and equilibrium in a society. With this goes a belief that the heir to the throne is a reincarnate of a leader possessing these three internal characteristics of a leader.

The predominance (about 80%) of society by Buddhist faith, practices and ideology also defines the way in which an individual looks at himself or herself and the world around him. Though, not so intensive, such ideologies continue to influence individual’s daily conduct and way of life. Ura (1994: 27) explains:

The place of the individual, the way in which he looks at himself and the world around him, in the economy and ideology of such a state, is coloured by Buddhist ideology. Rebirth in the human realm is considered the best opportunity to gain rebirth in an upper realm; and within the political, social and economic context that an individual was born into, he or she had to bear this central goal in mind. While the highest aim in life, according to philosophers, theologians and mystics, is to seek salvation, the bulk of the peasants in their mundane existence could not hope to attain it within a single lifetime. So their aim was merely incremental: to amass virtue through holy, generous and compassionate deeds. The individual in... Bhutan, as seen through a Buddhist ideological construction, was a virtue maximiser to work out the karmic chain.

Bista (1994: 4) notes that in such a social and cultural domain, the absolute belief in fatalism dominates, that is, the notion that one has no personal control over one’s life circumstances but is determined through a divine or powerful external agency. He further argues that dependency, in such a setting, is a ‘mature form of harmonious co-operative behaviour within indigenous groups’. Such beliefs obviously have an adverse impact on the work ethics and development orientation of the people.

3.5 Processes of institutional reforms and law-making

The country was both economically and politically shaky even after the establishment of hereditary monarchy in 1907. Therefore, the first two Kings (1907 – 1951) focussed primarily on “centralising the power of the monarchy and integrating the various factions and regions into the stable political entity that characterises Bhutan today” (WB, 1983: 9). The country also continued to adopt a self-imposed policy of isolation from the outside world, which gave the country a unique customs, traditions and practices that are strongly preserved today.

In the mean while, processes of institutional and political reforms of rapid succession and codification of laws took place to the effect of both strengthening the state as well as increasing the political participation of people. The in-kind taxation system was restructured by flattening the administrative hierarchies by the end of the second King’s reign. The appointment of district administrators as the administrative chief of districts replaced the system of Penlops. The in-kind tax was commuted into cash taxes in 1954 by the third King. The Tshogdu (National Assembly) was established in 1953 by the third King (r. 1952–1972) with the aim of basing the citizenship on national laws. The members of the Tshogdu is comprised of ‘elders’ from each village which are divided into bigger groups of villages who in turn nominate their most capable delegate, as it used to be practiced in the past.
In order to have a legal and political structure based on aboriginal rights of the people, the Thrimzhung Chenmo (the supreme law of the country resembling western constitution), as proposed by the King himself, was enacted in one of the first sessions of this newly created parliament (Planning Commission, 1999: 81). This supreme Act of the country was the foundation and source of several other laws that came into force later. Some of the immediate benefits were institution of the new concept of state ownership of public property, equality among peasantry through fixation of ceilings on land holdings and, relieving of tenants and compulsory labour through privatisation of land owned by public organisations which also meant easy availability of land for landless people (Ura, 2004a: 12).

In 1968, the King renounced his right of veto, which he never used in practice though (Ramphel, 2000: 33). The Tshogdu was given full sovereignty in the following year when the King proposed that the King should be dismissed in the event of his any act against the welfare of the people and the country. The Kuensel (official bulletin of the country), observing the discussion of the 1969 Tshogdu session, described the processes towards constitutional monarchy:

Although Bhutan has so far achieved stability and prosperity under a system of hereditary monarchy vested with absolute powers, the present ruler felt that in keeping with the changed circumstances prevailing in the world at present, a system of constitutional monarchy would be the most desirable form of Government for the country. It was suggested to the Tshogdu by the present ruler that we should develop a system of Government in which the King would continue to rule only as long as he enjoyed popular support. His Majesty the King, therefore, proposed that if the people did not want a particular ruler, he could be removed by a two-third majority vote of the Tshogdu members. The throne would then be passed on to the next in order of succession. (Ramphel, 2000: 33)

In addition to the right of the Tshogdu to order resignation of the King or any public official on a vote of no-confidence in any session of the Tshogdu, the vote of confidence on the continuance of the ruler was exercised on a secret ballot every three years, on the King’s insistence (Ibid).

The Lodroey Tshogdey (Royal Advisory Council) was established in 1965 to advise the King on all matters of national concern, and is the highest body for arbitration of disputes. It consists of six elected representatives of people, two representatives of the clergy and two government representatives appointed by the King. In 1984, the number of government representatives was reduced to one by the fourth King and empowered the Council, with addition of a special cause, to report against the King to the National Assembly if the King does anything harmful to the country (Ura, 2004b: 131). In 1968, the Lhengye Zhungtshog (Cabinet) composed by council of ministers and members of the Royal Advisory Council was established, which, today, is the highest executive body in the country. The establishment of Thirimkhang Gongma (Highcourt) in 1968 followed by institution of district courts completely separated judicial system from executive and legislative branches (Planning Commission, 1999: 81).

3.6 Trajectory of economic development and role of the central government

It was not until the last quarter of the 20th century that the country came out of its self-imposed policy of isolation and began to embark on the processes of modernisation and economic development.
The planned economic development began with initiation of the five-yearly development plan in 1961. Owing to the challenge posed by the physical barrier in taking up economic development activities, the first four Plans (1961-1986) were focussed more in infrastructure development such as the lateral North-South and East-West road network, and other service facilities. In terms of financing, the first Plan of the total outlay of Nu. 107.2 million was implemented with full sponsorship of India. In the second Plan, 99 percent of the total outlay of 202.22 million was grant from India, while the internal resources amounted only to one percent. In the third Plan, 90 percent of the total outlay of 475.2 million was still sponsored by India and three percent was contributed from internal resources. The UN system was involved for the first time and contributed the remaining seven percent. In the fourth Plan, the total outlay of expenditure increased to 1106.2 million, which was implemented with 77 percent of Indian grant and 17.5 percent from the UN system. The internal resources only amounted to the remaining 5.5 percent.

Not only financial assistance but human resources of both skilled and unskilled were also largely supplemented by huge number of people on deputation from India. The system of public finance in the social and economic development sector was non-existent until the 1970s. It was only in the early 1980s the system of preparing national budgets and mobilisation of domestic revenues began. Whatever revenues government could generate out of its narrow base were deposited into a single central revenue account and, similarly, all expenditure were channelled through a single budget account (WB, 1983: 26). Moreover, all the domestic revenues were used up for the civil expenditures, "leaving foreign aid to finance almost all development-related expenditures (Ibid). No separate district Plans were made, and all the development programmes were planned and implemented by the central government under an integrated national plan.

In the fourth Plan, an attempt of involving people in the development process has been made by creating DYTs in each district. This body involved representatives of the people to the Tshogdu and Gups, and served as a forum to discuss development programmes. It was aimed at enabling the people's representatives to meet with public officials so that local development priorities are taken into consideration. However, this was constrained by insufficient staff in the district administrations for supervision as well as the conflicting line of authority for technical staff. Besides illiteracy of the local people and their backward mindset development, the few technical people involved were more responsible to their central departments in the capital (WE, 1983: 100).

Although four Plans have been completed, modern public administration and development thinking were at early stages. This resulted not only in unevenness of Plan implementations, but it was also largely constrained by lack of manpower as well as materials. Development priorities themselves were subject to continuous review and change, resulting in wide differences in the overall as well as the composition of actual expenditure (WB, 1983: 97). Most of the programmes were ad hoc in nature and implemented as and when resources are available.

3.7 Conclusion of the chapter

This chapter has endeavoured to highlight the settings of the state, society and government existing in the pre-decentralisation Bhutan and their impact.

On one hand, we have noted that the difficult geographical terrain has scattered the mountain valleys to the extent that the daily conduct of the society
was self regulatory or what we may call, in modern term, a highly decentralised structure (though it was a circumstantially-forced decentralisation and not the one driven by political consciousness or economic efficiency motivations of the people). Everything took place within the indigenous framework developed out of natural process. This is an enabling environment for introduction of decentralisation, for people are equipped to be more aware and responsible for their needs.

On the other hand, we have also seen that the country was formed and shaped around religious motivations under the stewardship of religious figures, which has high influence in the current scenario. The society was largely rural and economy was non-market organisation. The people, including the local leaders, are illiterate who are not only backward in modern development thinking but also almost pessimistic towards material development. Maintenance of high social values is seen in the form of respect for each other, elders and rulers.

The traditional structures that were based on customary practices and ethics have been, to some extent, formalised and brought to a more systematic structure of governance by the circumstantial unification of the country. It was reinforced through institutional reforms and codification of laws. The communities came to be regulated within the centrally constructed governance framework and strengthened the informal structures that existed traditionally. However, the governance under a centralised power was not necessarily meant for stringent monitoring of people. The institutional reforms were carried out on the basis of old structure of communities like Gewogs aimed towards institutionalisation of a more formal political participation of people.

Nevertheless, the economic development still remains at an early stage. Due to limited resources of internal revenue, low technical advancement as well as weak capacity of both the central and local bodies, development Plans are highly dependent on foreign aids for both financial as well as technical human resources. The economic activities are limited to few urban areas and the taxation base is very weak. The role of the central government is still recognised to strengthen modern economy through a central policy of education, health services and training. The agriculture, forestry and livestock were the backbone of the economy but the mountainous terrain was impediment to application of large mechanised farming or livestock rising. The livelihood of almost the whole of the country’s population remained with subsistence farming from hand to mouth. Other sources of revenues such as manufacturing, construction and private enterprises were almost non-existent. The only mechanism for the country to check further widening of huge deficit in the current budget was sustainable exploitation of its forest cover for its potential of hydro power and few mineral-based industries.

Thus, decentralisation of development activities to local communities in such an environment would result in ‘leaving communities on their own’. It is essential for the central government to not only intervene occasionally but continue to be the protagonist in long-term management of scarce resources and capacity development of communities. As a starter and beginner into the journey of modernisation, it was inevitable for the central government to play the role of a leader, investor and regulator of development.

The implication of all these processes is that people have become ‘net recipients of resources from the state instead of being net payers to the state’ (Ura, 2004a: 12). As we mentioned above, beginning the inception of planned economic development, the country also began to mobilise development funds from external donor organisations to increase its weak material capacity that depended on poor
internal revenues from feeble taxation base. As such, it was natural for the center as a resource transferor and giver to condition the form and content of its usage (Ibid: 3). This was necessary from the perspective of macro-economic development policy of the country until the infant society which was only beginning to germinate on the bed of modernisation stabilised their roots.

However, we have also noted that there is a strong political will of the Kings to push the country towards people-centred development which can be achieved by rendering people responsible for their own livelihoods. In the next chapter, we will see how the processes of change towards decentralisation have been initiated by the Government and their impact on the society.
CHAPTER 4: BIRTH, GROWTH AND PRACTICE OF DECENTRALISATION IN BHUTAN

In this chapter, we will analyse the processes of decentralisation reforms initiated in the country and see the results of their implementation in the context we have reviewed in chapter three.

The chapter is divided into two main sections. The first section reviews the inception of decentralisation policy, analyses its objectives and explore the endogenous and exogenous factors that have influenced the country to go for decentralisation. The form of decentralisation that is suitable for the prevailing context and their challenges is briefly reviewed. The second section is the description and analysis of decentralisation after the major political restructuring exercise of 2002. We will recall our mention elsewhere in previous chapters that decentralisation in Bhutan has been deepened after this historical event and devolution in its true sense of decentralisation was introduced. However, the degree of decentralisation, when measured within the framework we have developed in chapter two, is limited by lack, in the context, of certain enabling characteristics inherent in devolution. The chapter discusses and reflects on the challenges of practical implementation of devolution and concludes that instead of decentralisation policy being formulated to the tune of the context, the context is being restructured to suit the features of devolution. This has resulted in some confusion in implementation. Nevertheless, the analysis indicate that though economic efficiency of decentralisation is not substantial, other benefits of devolution such as political consciousness, sense of responsibility and, notions of democratisation and local governance has been inculcated in the local people.

4.1 Origin and growth of decentralisation in Bhutan

As we have mentioned earlier, decentralisation process in Bhutan began in 1981, coinciding with the fifth Plan, with transfer of responsibilities and resources to DYT's. The analysis of development trajectory of the country suggests that decentralisation was initiated as a corollary of the successive stage of the country's economic development. By the end of the fourth Plan, the country has been fairly successful in building basic road network and other social service infrastructure in major economic areas of the country. The construction of mountain roads have reduced the country's physical isolation and enhanced internal communications. The advent of motor roads has also stimulated modern development activities and strengthened the sense of national integration among people who previously lived with a strong orientation to their hidden valley communities in orthodox structure. The overcome of the inaccessibility has also improved the effectiveness of delivery of social services within the country and made the country's beginner-trade more feasible facilitating the economy to operate on a more specialised production.

With these basic infrastructure and social service facilities put in place, the focus of the subsequent Plan began to shift to development activities which affected more directly the livelihoods of the general population. The mastermind for all development policies, however, was still the King. As the development efforts got more emphasised on production-oriented programmes, the King became 'increasingly concerned that development priorities were being set at the top and hence were not necessarily consistent with the popular desires' (WB, 1983: 99). This has instigated the notion of involving people in implementation of
development programmes in order for the development to be in tune with the needs and aspirations of the people, thereby achieving ‘a higher level of investment and a greater overall development impact’ (Ibid). Therefore, decentralisation was aimed at formulation of development plans and programmes in a manner that the felt needs of individual districts are reflected in the national development Plans.

The other objective for decentralisation was the need for the country to be economically self-reliant, which was also the main objective of the fifth Plan. In the past, almost all the needs of the country had been met from within but since inception of development, this independence was compromised. Ever since the county became the net recipient of the capital both in terms of budgetary support and technical assistance at an increasing rate (Ura, 2004a: 13), the government began to assess the development needs and thereby increased commitments in order to maintain the assets created. However, given the large parts of the country being rural and self-subsistent societies, there was no matching expansion of the taxation base for domestic revenues. This had resulted in the huge imbalance between the domestic revenue and government expenditure making the country highly dependent on the external aid. Therefore, it was expected that the domestic revenue could be increased by decentralising some of the allocative functions and contribute towards increasing the level of internal revenue generation to cover the normal maintenance expenditure of Government. The King’s desire was to make districts play a central role as principal units of planning and to institute political participation of the local people in formulation of development activities. Accordingly, all activities which are directly related to rural development and which are self-contained within a Dzongkhag have been decentralised to the DYTs.

The third objective of decentralisation was to involve the people themselves in implementing the planned programmes. All the development activities in the previous years were implemented exclusively by the government, without much involvement of the people. With onset of time, the King expressed his concern that the people were relying too heavily upon the government’s initiative. The people at large are possessed with the feeling that Government alone is solely responsible for their livelihoods, and their development expectations are simply translated into demands from the Government. Therefore, decentralisation was aimed at involving the people by giving the responsibility of planning and execution of their development priorities within their own capabilities, while being responsible for monitoring the progress at the same time. The Government would only give the overall direction, and necessary resources or technical inputs that are beyond the capacity of the people. This will ensure increased distributional equity whereby all sections of the population would be benefited.

4.2 The growth and strengthening of decentralisation

The process of political decentralisation was strengthened when the King created GYTIs in 1991 in all the Gewogs with the aim of taking decision-making process further to the village level and to develop greater political consciousness among the people. The creation of GYTIs was also meant to revive and regenerate the sense of control, ownership and responsibility for the maintenance of collective local resources that had declined with a concomitant rise in bureaucratic power (Ura, 2004b: 146; UNDPa, 2002: 1). Moreover it was implemented as a strategy for instituting a more localised channel and platform for manifestation of interests of small scale communities of Gewogs in development of the nation. Viewed from the perspective of Gewogs, a district is too large a unit for comprehending their place and their allocations, let alone a national sectoral plan. For the people to
comprehend and execute plans as their own, break down of development activities and their budgetary provisions needed to be projected at the gewog level, which is the lowest hierarchy of territorially divided administrative unit (Ura, 2004a: 14). It was a reinforcement of the traditional structure of having the Geowgs as the coordinating and implementing units of development plans.

The deepening of the democratic decentralisation in the country took place from 2002. Following his voluntary devolution of the executive powers to the council of ministers in June 1998, the King proposed that all the 201 Gewogs should have their own five year development plans. Accordingly, coinciding with the commencement of 9th Five-Year Plan in 2002, the national development plans were formulated based on development priorities of people at the level of Geowgs (Ministry of Home and Cultural Affairs, 2004a: 1). The major change of this historic restructuring exercise was the amendment of the old DYT and GYT Acts. Substantial power to "decide, implement and maintain development activities" was devolved to LGs, with "the authority to retain and use revenue from local taxes and levies from local utilities" (Planning Commission, 2001: 23) which previously was controlled by CG. As per the royal decree, the Gups were elected through adult franchise universal suffrage (Ura, 2004c; Ura, 2004b: 161). The chairmanship of the DYTs were changed from government-appointed Dzongdags to the Thrizeens (DYT President or chairman), elected form among DYT members. All the district administration officials are given the observer status and do not interfere in the decision of DYTs and GYTs. The idea behind this was to have the actual decentralisation process in place by restraining central government sectors from standardising and normalising development plans that are not within the interests of the decentralised executing agencies (Ura, 2004a: 14).

For the convenience of analysis, the post-decentralisation process has been dealt separately in the second section of the chapter. The following sub-sections deal respectively with the impetus and description of the implementation of pre-2002 decentralisation and analyses it within the 'context' while pointing the drawbacks from the administrative, fiscal and political point of view.

4.3 The Impetus: who pushed for the change?

Endogenous factors

As we can understand from the discussion so far, the impetus for decentralisation in Bhutan was generated from within, motivated by personal initiative of the King. In Ura’s (2004b: 130) assessment, ‘there was no domestic or external political compulsion or pressure for reforms. The impulse for reform originated in the monarchy itself.’ The King’s enlightened notion that it is perilous for the security and welfare of small nation to depend on one individual is the driving force behind the unwavering commitment to devolution and decentralization (Ibid: 154). Therefore, the primary force for transition to decentralisation was the King’s desire to design the development programmes along the popular desires, achievement of economic self-reliance and involvement of people in sharing of development responsibilities by involving them in implementation.

The natural push for decentralised governance is also attributed to the country’s guiding development concept of Gross National Happiness (GNH). The GNH as the foundation of the country’s development approach was formally pronounced by the King in the early 1980s (Planning Commission, 1999: 45), when decentralisation was also introduced and adopted in the country. According to this concept, preconditions of human happiness are the capacity and the space
for individuals to make choices through institutions and procedures that they
collectively make and to pursue development at a pace they want (Ura, 2004b:
155). The closer decision-making process is taken to the communities, the more
operational the philosophy of GNH gets, making decentralization central to the
vision of GNH (Ibid). Towards fulfilling this vision, over time, more powers and
authority have been vested in the GYT's and DYT's to enable them to become the
main institutions for local decision-making. The powers and capacities of these
local participatory institutions, and the individuals they represent, are being
strengthened so that they can define and pursue their collective welfare and can
take greater responsibility for the development of their constituencies.

Exogenous factors

The exogenous factors that pushed Bhutan for decentralisation are limited. Given
the non-existence of political parties in the country, political threats or pressure is
unreasonable. Furthermore, the political consciousness of people as a result of
globalisation is minimal since the impact of globalisation is very low.

The only exogenous factor that we could relate to for decentralisation in
Bhutan is the flow of international assistance. The start of planned economic
development in 1961 was also the start of the country’s material capacity being
increased by international flow of assistance and the state became a net recipient of
the capital in terms of international aid and foreign loans (Ura, 2004a: 13). The
economic development of the country has been since then highly dependent on
bilateral cooperation with neighbouring countries and technical assistance from
donor agencies (Planning Commission, 1999: 38). The ‘narrow and inelastic’ (Ibid:
40; 85) revenue base of the country has left the country dependent on external
assistance. Still today, more than half of the country’s financial resources for
development Plans is still dependent on the long-term support of donors (Ura,
2004b: 283) and it will continue through the next century (Planning Commission,
1999: 85). While the commitments of the government for rapid economic
development increased substantially, the internal revenue base didn’t grow at the
same pace. This was coincided with availability of good support from donor
agencies which is still continuing today. It is important for the country to take
advantage of these funds and devise development programmes in the tune of donor
strategies such as growth-with-equity and localised development.

The conclusion that we can make is that, the need for reliance on external
development assistance because of poor internal revenue source, donors’ insistence
on growth-with-equity or principle of subsidiarity and Bhutan’s guiding
development philosophy of Gross National Happiness (GNH) are complementary
elements that that go together.

4.4 The implementation: political, administrative and fiscal
dimension of pre-2002 decentralisation in Bhutan

The implementation of pre-2002 decentralisation in Bhutan can be straightaway be
labelled as deconcentration. The DYT’s and GYT’s were just the administrative
space of more responsibilities to the people than the power. Though, some sense of
political consciousness has been instilled among the people, the actual economic
efficiency of service delivery was greatly limited by the lack of essential factors
inherent in decentralisation.

Firstly, given the context, establishment of pure local government was
infeasible. The lack of qualified administrative and technical staff in the rural
districts has resulted in implementation of the decentralised programmes through a local administration. Large numbers of central government staffs were transferred for planning as well as supervision of development projects. The DYT, for instance, were chaired by the *Dzongdag* (Chief District Administrative Officer), assisted by *Dzongdag Wogma* (Dy. Chief District Administrative Officer) and *Dzongrap* (Sr. District Administrative Officer) all of whom are the government appointed civil servants accountable to the King and Ministry of Home Affairs (Ura, 1994: 41). Almost about half of the other DYT members were composed of district sector heads who are custodians of district branch offices of various central government ministries. Their powers to act independently on behalf of the local people were constrained, for they are paid by and accountable to the central ministries in the capital. The only members of DYT who represented the people were *Gups* and *Chimis* (elected representatives of people to the National Assembly members), who, obviously, were dictated for their poor innovative capacity and managerial skills in development. The GYT were merely another layer of nodal agencies of the central government who implemented functional responsibilities dictated by the central government and the district executive.

Secondly, fiscal decentralisation was not applicable since the whole of the expenditure resources were directly transferred and implemented through a national budget. The revenue generated from the rural taxes constituted only a minuscule portion (as we will see later) which was also collected and deposited to the central government account. Due to lack of any other opportunities to expand their tax base, the financial capacity of the districts is limited to the budget allocated by the central government. Therefore, while people were given the opportunity to make decisions on their development priorities, many of their expressed needs were beyond the capacity of allocated budget and therefore were left out of the Plans, compromising their decision-making authority. For the same reason, the actual participation of the people in the execution of the projected plans was very limited. Their main role, at the most, was to express the needs in the beginning of the formulation of the plans. Whether the expressed needs would be materialised or not was largely determined by the budget made available by the central government. *Gups and Chimis* were directly responsible to the *Dzongdags* who implemented programmes within his functional mandate directed by the central government. Thus, DYT landed up drawing up their wish-lists of activities that could never materialise. The government did not make any attempt to give the district administrations any revenue-raising powers to their own (WB, 1983: 101), for reasons of negative impact it could have on the technically-poor local leaders.

Thirdly, people’s contributions were available only in terms of voluntary manual labour. Development priorities desired by the people were included in the Plan only if voluntary labour was available and assurance to maintain them later (WB, 1983: 100). Therefore, reduction in the cost of labour (for labour was contributed by people) was the only way of saving some central government budget. However, due to the difficult geographical terrain and small size of people, the physical labour fell on the same group of people repeatedly which had its own repercussions such as rural-urban migration (to avoid contribution of labour).

As we see, both expenditure and revenue assignment were directly handled by the central government, and thus the degree of decentralisation was very limited.

4.5 The Post-2002 decentralisation structure and implementation

As explained earlier, democratic decentralisation in Bhutan took place from 2002. The DYT and GYT have been devolved with substantial responsibilities,
resources and power. The revised DYT and GYT Acts of 2002 stipulate and legalise the functional responsibilities and institutional powers of the local governments, which are divided as regulatory, administrative and financial powers as given in Annexure 1. However, the degree of impact is still limited and constrained by some disenabling characteristics of the context. This section analyses the extent of administrative, political and fiscal decentralisation under the sub-sections of institutional structure, expenditure responsibilities, revenue sources, human resources and other general policy issues.

**Institutional structure**

At the district level, the previously combined district administration is separated from DYT whereby the former is the branch office or agency of the CG (Ministry of Home and Cultural Affairs) and the later is the LG. However, at the Gewog level, GYT serves as both political and administrative structures as the two functions are fused within a GYT. The size of the DYT and GYT memberships differs according to the size of the district or Gewog.

The voting members of DYT consists of the Thrizeen (the chairperson), Chimis of the districts (ex-officio voting member), the Gups or GYT chairpersons within the district (ex-officio voting members), the Mangmis (elected representatives of people of the Gewogs within the district as ex-officio voting member) and other elected representatives of municipalities and towns. The Dzongrap (or in his absence, the district administrative officer) and Dungpas (administrative officer in charge of the sub-district, if any) are the ex-officio non-voting members. The Dzongdag and other sectoral representatives of the district administration, municipalities and towns, who used to be full-fledged members, attend as observers. The chairman of DYT is elected by secret ballot from amongst the members of DYT.

The GYT is chaired by the Gup, who is an elected in a Gewog-wide general election for three-year term. The mangmi, who is also elected through a universal adult franchise, function as the deputy chairman. Other members are composed of Tshogpas who are the representatives of clusters of villages within a Gewog appointed by GYT for a one-year term. While the Gup, mangmi, and the member secretary (elected from among the members) are given a fixed monthly salary, the tshogpas are paid sitting fees and travelling allowances of attendance in the GYT meetings. The chimis, Gewog clerk and other sectoral representatives are observers.

The DYT and GYT Acts also describe a code of practice for the members and office bearers, and penalties for violations of the code of practice, including provisions of hiring and firing the officials. Similarly, a separate provision on the functional responsibilities and powers of the Dzongdag and district administration are clearly mentioned. While the geographical boundaries of the Dzongkhags are set by the CG, boundaries and number of Gewogs can be set by the DYT and district administration.

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12 Some larger districts are sub-divided into Dungkhags and are headed by the Dungpas. They are not a separate local government but administratively under the district. He functions under the command of the Dzongdag of the district.
Functionally and representatively, the boundary between the district administration and DYT is blurred. District administration is composed of centrally appointed, promoted, paid and supervised civil servants and the DYT is a mixed unit of a deconcentrated CG unit and devolved local officials. Due to low educational qualification of the LG officials, all the technical assistance is provided by the district administration officials for implementation of the programmed officials.

**Expenditure assignment (Administrative and regulatory powers) of GYTs and DYT s**

The regulatory and administrative powers of LGs are specified by GYT and DYT Acts of 2002 (Annexure 1: B & C). This is a substantial devolution when compared to the pre-2002 decentralisation structure. LGs are provided with the power to adopt and enforce individual regulations based on their need. The DYT reserve the authority to frame regulations where they are needed to be consistent on a district-wise basis but within the framework of the pertinent national laws. The most important powers of LGs pertain to administrative direction and approval on formulation, implementation and monitoring of Plan activities; looking after communal lands or community forests; protection of water and other natural resources benefiting the constituencies; setting up micro-business enterprises or NGOs; identification of cultural sites; and nominations and representations in the respective tender committees.

However, as we understand, most of these assignment are functional responsibilities and do not involve heavy cost. This is also because there are not much of economic activities where expenditure are incurred. Most of the needs are self-provided since the communities are still rural-based. Moreover, most of these responsibilities are not applicable or non-existent in the rural Gewogs, and they remain as legal responsibilities which are not carried out in reality. Those responsibilities requiring higher expenditure such as fire protection, even if they are for the benefits of the respective local jurisdictions, are still provided by CG for lack of adequate revenue (as we will see below) and the technical capacity of the LGs.

**Revenue assignment (financial powers) of DYT s and GYT s**

Articles 11 of DYT Act 2002 and Article 10 of GYT Act 2002 respectively stipulate the budgetary and financial powers of DYT s and GYT s (Annexure 1: D) in order to enable them to effectively carry out their increased roles and responsibilities.

In terms of revenue assignment, a DYT cannot be taken separately from the functions of GYTs, since DYT s “are the derived bodies composed by the ensemble of top GYT members” (Ura, 2004c: 7). Functionally, a DYT is a counterpart body to a district administration, and their powers and responsibilities are of a coordinating, reviewing and clearing house when issues of intra-Gewog or overall nature crops up” (Ibid). In this regard, the general financing mechanism of a DYT is inherent in that of a GYT.

The financing mechanism and delegation of powers of GYT is based on the revised financial rules amended to the effect of restructuring of decentralisation in 2002 (Ministry of Finance, 2002a; 2002b). This rule, based on the GYT Act,
provides authority to finance local activities at the Gewog (GYT) level in two modes of financial resources (Ministry of Finance, 2002b: 2-3):

1. **Rural taxes and locally mobilised funds**

The rural taxes comprise of land tax including grazing tax, house tax, and cattle and livestock tax. Locally mobilised funds are periodic and minimal, since local contributions are made only in times of need for specific social purposes and quite often paid in kind. In the tables below, the existing rural taxes levied to the people on annual basis are stated (Ministry of Finance, 1996):

**Table 1: Land Tax**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Type of Land</th>
<th>Annual Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Wet Land (paddy)</td>
<td>Nu. 24/ acre</td>
</tr>
<tr>
<td>2</td>
<td>Dry Land</td>
<td>Nu. 12/acre</td>
</tr>
<tr>
<td>3</td>
<td>Orchards (apples, orange, cardamom, arecanut, lemon)</td>
<td>Nu. 12/acre</td>
</tr>
<tr>
<td>4</td>
<td>Undeveloped shifting cultivation land</td>
<td>Nu. 10/acre</td>
</tr>
<tr>
<td>5</td>
<td>Bamboo and khar field *</td>
<td>Nu. 1/acre</td>
</tr>
</tbody>
</table>

*This is the land used for growing special kind of bamboo which is sued for special purposes.

**Table 2: House Tax**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Type of House</th>
<th>Annual Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Permanent House (house constructed with rammed mud, stones or bricks)</td>
<td>Nu. 20</td>
</tr>
<tr>
<td>2</td>
<td>Semi-permanent House (hut, thatched house)</td>
<td>Nu. 10</td>
</tr>
</tbody>
</table>

**Table 3: Cattle and Livestock Tax**

<table>
<thead>
<tr>
<th>SL.No.</th>
<th>Types of Cattle/Livestock and numbers</th>
<th>Annual Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Up to 10 numbers of each type, whether mithun* cow, yak, buffalo, horse, mule, donkey and goat.</td>
<td>Nu. 1 per head</td>
</tr>
<tr>
<td>2</td>
<td>11 and above of each type</td>
<td>Nu. 5 per head</td>
</tr>
<tr>
<td>3</td>
<td>Sheep (any number)</td>
<td>Nu. 1 per head</td>
</tr>
</tbody>
</table>

* Hybrid of local cow and wild gaur

**Table 4: Grazing Licence Fee**

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Types of Grazing Licence</th>
<th>Annual Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Developed Pasture</td>
<td>Nu. 5</td>
</tr>
<tr>
<td>2</td>
<td>Undeveloped Pasture (tsamdo)</td>
<td>Nu. 100</td>
</tr>
</tbody>
</table>

The rural taxes rates are deliberately kept low to “lighten the burden of rural Bhutanese who are emerging from the barter system of trade to a monetised economy” (UNDP, 2002b: 2). For instance, taxes for rural houses ranges between Nu. 300,000 to Nu. 1,000,000 depending on the type of houses. UNDP, when
calculated by taking the lowest value, the tax rate on rural housing, has founded that it is only 1/100th of one percent of the value of the property (Valancecourt, 2004: 9). Rural tax revenues have remained steady in nominal terms in recent years, while declining as a share of total national revenues from 0.35 percent to 0.19 percent (Ibid). Taxes in a subsistent economy has adverse impact, for instance, increase in land or livestock taxes exceeding certain limit would deter farmers from farming or raising unproductive animals and be forced to migrate to urban areas.

Low monetary local taxes are also because people are also contributing manual labour for community projects which are not translated into monetary value. Labour contribution is set at one person per household for a given project, while the average number required for a household is not known (Ibid).

Introduction of any new taxes including the rural taxes, and revision of tax rates is the prerogative of the Ministry of Finance, and the local governments are not authorised to exercise these responsibilities (UNDP, 2002b: 2; Ministry of Finance, 2002b: 2). This is being practised as a safety mechanism of misuse of funds by local leaders who are dealing with such responsibilities for the first time only from recently (from 2002), and who also do not have adequate educational qualification to assess such financial implications. User fees or other service charges are not applicable because of non-existence of economic activities. LGs cannot borrow from other sources on their own, and the Acts are silent of this aspect.

2. Central governmental transfer
The centrally allocated funds pertain to expenditure executed as part of the Gewog’s Plan activities involving higher financial outlays. This fund, however, are not fixed, and depends on the size and capacity of the national budget. The Department of Budgets and Accounts of the Ministry of Finance reviews the broad list of activities proposed by GYT and sanctions budget for those activities that could be implemented within the budget available for a particular Gewog. The approved budget is released directly to the Gewog’s ‘Letter of Credit’ account, within the limitation of which GYT then finalises the list of development activities to be implemented for a particular Plan. The size of funds allocated to various DYT or GYT vary according to the size and needs of different areas.

4.6 Degree of decentralisation
The degree of decentralisation in Bhutan, when measured in ratio of share of LG revenue and expenditure to total government spending and receipts, is very low. This is attributed to the low LG revenue and dependence on central government expenditure for local public service expenditure, for various reasons stated above. In the tables below, we see that district expenditure for the four Plans before 2002 is in fact decreasing. Even in the post-2002 decentralisation (9th Plan), the total cost of expenditure for districts is 21.3 percent, and for the Gewogs is merely 3.2 percent. Most of the funding to implement the capital investment components are provided by donors and, therefore, subject to the priorities of the donors’ modalities.
Table 5: District expenditure for 5th, 6th, 7th & 8th Plan (1981/82 – 2001/02)

<table>
<thead>
<tr>
<th></th>
<th>5th Plan</th>
<th>6th Plan</th>
<th>7th Plan</th>
<th>8th Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Outlay</td>
<td>4,338</td>
<td>9,559.2</td>
<td>15,590</td>
<td>39,524</td>
</tr>
<tr>
<td>District Expenditure</td>
<td>1,088.7</td>
<td>238.5</td>
<td>NA</td>
<td>500</td>
</tr>
<tr>
<td>%</td>
<td>25.1</td>
<td>24.3</td>
<td>-</td>
<td>1.27</td>
</tr>
</tbody>
</table>

Source: Self-analysis based on respective Plan documents

Table 6: Outlay for all districts in the 9th Plan

<table>
<thead>
<tr>
<th>Sector</th>
<th>Current</th>
<th>Capital</th>
<th>Total (Nu. Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Agriculture</td>
<td>423.635</td>
<td>248.175</td>
<td>671.810</td>
</tr>
<tr>
<td>2. Livestock</td>
<td>409.914</td>
<td>256.523</td>
<td>666.437</td>
</tr>
<tr>
<td>3. Forest</td>
<td>120.066</td>
<td>103.102</td>
<td>223.168</td>
</tr>
<tr>
<td>4. Education</td>
<td>3,748.513</td>
<td>3,515.653</td>
<td>7,264.166</td>
</tr>
<tr>
<td>5. Health</td>
<td>1,131.365</td>
<td>551.028</td>
<td>1,682.393</td>
</tr>
<tr>
<td>6. Roads</td>
<td>132.655</td>
<td>2.995</td>
<td>135.650</td>
</tr>
<tr>
<td>7. Power</td>
<td>139.435</td>
<td>2.500</td>
<td>141.935</td>
</tr>
<tr>
<td>8. Trade and Industry</td>
<td>3,500</td>
<td>53.600</td>
<td>57.100</td>
</tr>
<tr>
<td>9. UDHS</td>
<td>132.861</td>
<td>1,359.411</td>
<td>1,492.272</td>
</tr>
<tr>
<td>10. Dzongkhag Administration</td>
<td>1,413.337</td>
<td>1,131.747</td>
<td>2,545.084</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>7,655.281</td>
<td>7,224.734</td>
<td>14,880.015</td>
</tr>
</tbody>
</table>

Source: (Planning Commission, 2001: 63-64)

Table 7: Outlay for All Gewogs in the 9th Plan

<table>
<thead>
<tr>
<th>Sector</th>
<th>Current</th>
<th>Capital</th>
<th>Total (Nu. Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Agriculture</td>
<td>3,653</td>
<td>854.213</td>
<td>857.866</td>
</tr>
<tr>
<td>2. Livestock</td>
<td>0.216</td>
<td>102.271</td>
<td>102.487</td>
</tr>
<tr>
<td>3. Forest</td>
<td>3.015</td>
<td>81.547</td>
<td>84.562</td>
</tr>
<tr>
<td>4. Education</td>
<td>4.410</td>
<td>343.867</td>
<td>348.277</td>
</tr>
<tr>
<td>5. Health</td>
<td>-</td>
<td>229.846</td>
<td>229.846</td>
</tr>
<tr>
<td>6. Suspension bridges + Mule Tracks</td>
<td>-</td>
<td>204.347</td>
<td>204.347</td>
</tr>
<tr>
<td>7. Geog Administration</td>
<td>135.888</td>
<td>277.496</td>
<td>413.384</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>147.183</td>
<td>2,093.587</td>
<td>2,240.770</td>
</tr>
</tbody>
</table>

Source: (Planning Commission, 2001: 64)
CHAPTER 5: SUMMARY OF FINDINGS AND CONCLUSION

In this paper, we have tried to assess the decentralisation policy and practice in Bhutan in relation to the context of the country. From the previous chapters, we have found out that the country has some enabling environment such as traditional decentralised structure and strong political will of the central government. Furthermore, the governance of the country, despite being a non-democracy country, has been democratic from even before the implementation of decentralisation policy. However, outcome of the actual implementation of decentralisation is not so encouraging for various reasons. This chapter summarizes the main findings based on the analysis while also reflecting at the same time on the research objectives, questions and key concepts proposed for the research. Where relevant, we would also provide recommendations based on our reflections on the current implementation and policy instruments.

As we have begun, we will reflect on the outcome of our assessment under specific category of political, administrative and fiscal decentralisation. However, the degree of decentralisation in Bhutan has been found to be severely constrained by the four factors of low economic development, lack of social service infrastructure, lack of economic activities, and low capacity of the local governments which are limitations to all forms of decentralisation in Bhutan. Besides, the difficult geographical terrain of the country still puts weight to successful implementation of decentralisation.

Political decentralisation is found to be feasible in the country in terms of the traditional decentralised structure of localised governance, the practice of elections of local leaders and strong political will of the central government. However, the full implementation is hindered by the overall condition of the country being still a rural society and there is not much of infrastructure in social service sector. The difficult geographical terrain of the country also put some weight in terms of limited source of revenue generation and further opportunity to increase economic activities. Moreover, low economic base of the country hinders devolution of full autonomy to local government for self-reliant management. Given the concept of democratic governance being new concept to the country, even the local leaders are unaware of the potential benefits of decentralisation, resulting in their continued dependence on the central government. The DYT’s are still struggling to evolve as political bodies. In practice, they still continue to seek advice from the district administration. Further, the country has a strong legacy of centralisation with characteristics of paternalistic society. In these view, full devolution would take some time take off.

The main change in administrative decentralisation is a shift from the deconcentrated to decentralisation unit of government. The district administration now is held responsible to an elected DYT. However, owing to the lack of technical capacity with local governments, district administration is still heavily involved in implementation of local development activities dominating the decision-making authority of the local governments. Nevertheless, the Dzongkhags now are given more autonomy over the district management. In the absence of a comprehensive human resource development policy that is in line with the decentralisation policy, the staffs in the Dzongkhag are transferred in ad hoc basis depending on the needs and demands. Though there is awareness on the respective powers of the DYT and GYT, there is no clear specification from the central government on the nature and extent of powers devolved. Similarly, other sector
heads are unclear on the precise nature, and modalities. For these reasons, most administrative and regulatory powers are not exercised.

It goes without mentioning that there is no fiscal autonomy of the local governments. Besides limited domestic revenue generation from low base of rural taxes, LGs are heavily dependent on the central government transfer. The funds transferred from the national budget are also limited for use depending on the limit of central government budget. The capital expenditure of local activities are often higher than the centrally transferred funds, which results in leaving most essential local programmes unimplemented. In this view, both the expenditure and revenue assignment are very weak.

In summary, decentralisation in Bhutan is in the process of evolution. Given the high dependence on donor agencies for financial resource and considering the low domestic revenue generation, fiscal decentralisation is not feasible. In this moment it would be more beneficial if decentralisation is continued through deconcentration, and continue seeking donor assistance until the fiscal base of both central and local governments reach a considerable level.

Unlike decentralisation in many developing countries, the transition to decentralisation in Bhutan has been taking place as a top-down central government prerogative without any popular pressure and insistence from the below. While this process is a positive move, the flip side of it is the mismatch with people's capacity and resources. The pre-decentralisation Bhutan was characterised by the central role of the Government as the leader and giver of resources, investor and regulator of the country's socio-economic development. Not only for the long history of dependency on the CG, but the lack of certain fundamentals inherent in effective decentralisation leaves LGs in dilemma of delivering the new responsibilities. The implementation of decentralisation policy, especially after 2002, is seen as an imposition to the indigenous domain and traditional structure. In such a scenario, instead of using the authorities and resources devolved to implement responsibilities, LGs wait for the central government (CG) to guide how to use their authorities. The CG has to essentially dictate everything for local economic development under the banner of decentralisation, which hollow out the principle and essence of the concept.

**Conclusion**

The lesson learned from this paper is that the need for shift in development approach from centralisation to decentralisation was not necessarily based on the real situational requirements in all developing countries. Perhaps, it was more determined by alternative development images and ideological shift in the minds of external observers.

This makes us look back to the centralised control in the 1950s and 1960s which was implemented because of not only that it was compatible with major theories of economic development of the period, but that it was also entailed by the then circumstances of economic development of the period. During that time maximisation of gains in gross national product was the first priority of governments. Investment and production processes that required to be driven through comprehensive national plans entailed strong intervention of central government. Central planning and management of development was necessary for coherent policies on promotion of economic growth through increase in industrial output and effective use of scarce resources.

If such were the reasons for the need to centralise economic growth during those time of development stage of developing countries, the need to continue with
centralised control of development activities is still valid. Considering the fact that substantial change in terms of economic development in a country like Bhutan is not found, economic development need to continue to be steered by central government agencies.

This is relevant especially in a country like Bhutan, where process of modern development has started late. A large amount of capital investment is still required for basic infrastructure and building appropriate environment for decentralisation to work successfully.
REFERENCES


Ura, K. (2004b) "Deities, Archers and Planners In The Era of Decentralisation' Thimphu; Bhutan


Annexure 1: Composition and, Regulatory, Administrative and Financial Powers of DYT and GYT

A. Composition Of The Local Governments

<table>
<thead>
<tr>
<th>Members of DYT</th>
<th>Members of GYT</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. The Chairperson (elected from among the voting members through secret ballot) as a voting member;</td>
<td>i. The Gup (who is a chairperson and elected in the Gewog-wide adult franchise universal suffrage);</td>
</tr>
<tr>
<td>ii. The Chimi (elected representative of the people to the National Assembly) as the ex-officio voting member;</td>
<td>ii. The Mangmi (representative of the people of the Gewog, who is also elected in a Gewog-wide general election, and functions as Dy. Chairperson);</td>
</tr>
<tr>
<td>iii. The Gups or GYT chairpersons (of the district) as ex-officio voting members;</td>
<td>iii. The Tshogpa (representative of a village, or clusters of villages elected by the village);</td>
</tr>
<tr>
<td>iv. The Mangmis (elected representatives of people of the Gewogs within the district), as ex-officio voting member;</td>
<td>iv. The Chimi, as observer;</td>
</tr>
<tr>
<td>v. One elected representative of municipalities and towns as voting member;</td>
<td>v. The Gewog clerk (appointed by GYT), as observer;</td>
</tr>
<tr>
<td>vi. The Dzongrap (Sr. District Administrative Officer) or, in his absence, the district administrative officer, as ex-officio non-voting member secretary;</td>
<td>vi. Representatives of various sectors, as observers</td>
</tr>
<tr>
<td>vii. The Dungpas (administrative officer in charge of the sub-district(^{15})), if any; representatives of various sectoral agencies of the district administration and central ministries, and other representatives of municipalities and towns, as observers.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Compiled as described in (Ministry of Home and Cultural Affairs, 2002a: 5; Ministry of Home and Cultural Affairs, 2002b: 5-6)

\(^{15}\) Some larger districts are sub-divided into Dungkhags and are headed by the Dungpas. They are not a separate local government but administratively under the district. He functions under the command of the Dzongdag of the district.
### B. The Regulatory Powers

<table>
<thead>
<tr>
<th>Dzongkhag Yargay Tshogdu (DYT)</th>
<th>Gewog Yargay Tshogchhung (GYT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Designation and protection of monuments and sites of cultural and historical interests;</td>
<td>1. Safe disposal of waste;</td>
</tr>
<tr>
<td>2. Designation and protection of areas of special scenic beauty or biodiversity as district parks and sanctuaries;</td>
<td>2. Control and prevention of pollution of air, soil and water;</td>
</tr>
<tr>
<td>3. Posting of billboards, roadside signs, posters, banners and other commercial advertisements;</td>
<td>3. Sanitation standards;</td>
</tr>
<tr>
<td>4. Delineation and demarcation of boundaries between municipalities, towns and Gewogs;</td>
<td>4. Control of communicable livestock diseases within the Gewog in accordance with the Livestock Act, 2001;</td>
</tr>
<tr>
<td>5. Protection of consumers from unfair prices and counterfeit goods as provided in law;</td>
<td>5. Allocation of safe and clean drinking water from water supply schemes;</td>
</tr>
<tr>
<td>6. Commercial sale of distillery products, tobacco products, drugs and other harmful substances;</td>
<td>6. Allocation of irrigation water, in accordance with the provisions of the Land Act, 1979;</td>
</tr>
<tr>
<td>7. Prevention of gambling;</td>
<td>7. Standardisation of architectural designs of houses, within the broad framework of set national codes;</td>
</tr>
<tr>
<td>8. Control of noise pollution;</td>
<td>8. Protecting and harvesting of edible forest products in the local area in accordance with the Forest and Nature Conservation Act, 1995;</td>
</tr>
<tr>
<td>9. Content of broadcasting and telecasting within the district, to the extent it is not contrary to national law;</td>
<td>9. Setting up of local handicrafts enterprises within the Gewog;</td>
</tr>
<tr>
<td>10. Co-ordination of efforts in the defence and security of Gewogs and villages by villagers themselves;</td>
<td>10. Setting up of co-operatives, within the scope of Co-operatives Act, 2001;</td>
</tr>
<tr>
<td>11. Prevention of dangerous communicable diseases among livestock in accordance with Livestock Act, 2001;</td>
<td>11. Depredation of crops by livestock and wildlife, in accordance with the provisions of the Forest and Nature Conservation Act, 1995;</td>
</tr>
<tr>
<td>12. Regulation of safety standards and prices of dairy and livestock products in accordance with the Livestock Act, 2001;</td>
<td>12. Exemption of Gung (household) from Nangkhoet (works/responsibilities determined by villages) beneficiary contributions, in cash, in kind or in labour; and,</td>
</tr>
<tr>
<td>13. Establishment of quarries and mines in accordance with Mines and Mineral Management Act, 1995; and,</td>
<td>13. Creation and Designation of local recreational areas around villages.</td>
</tr>
</tbody>
</table>

14. Protection of public health as per preventing national guidelines or Acts.
C. The Administrative powers

<table>
<thead>
<tr>
<th>DYT</th>
<th>GYT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Give direction and approval on:</td>
<td>1. Identification, prioritisation and formulation of Gewog plan, for which the technical backstopping and advisory services must be provided by the sector staff of the Dzongkhag administration:</td>
</tr>
<tr>
<td>1. District's and Block's five-year and annual plans in accordance with the national policies and plans;</td>
<td>2. Administration, monitoring and review of all activities that are part of the Gewog's plans, including the maintenance of community properties:</td>
</tr>
<tr>
<td>2. Prioritisation of development activities;</td>
<td>3. Discuss and submit monthly progress reports to the Dzongkhag administration on sectoral projects, including financial and administration matters, performances of civil servant, etc:</td>
</tr>
<tr>
<td>3. Middle secondary and higher secondary schools and non-formal education centers;</td>
<td>4. Submission of motions arising from villages for consideration of DYT and the National Assembly:</td>
</tr>
<tr>
<td>4. Dzongkhag hospitals;</td>
<td>5. Approval of hiring and mobilising of labour for the upkeep of communal facilities:</td>
</tr>
<tr>
<td>5. Constructions of farm and feeder roads;</td>
<td>6. Approval of the appointment of Gewog clerk:</td>
</tr>
<tr>
<td>6. Dzongkhag agricultural and livestock farms and selection of crop varieties and breeds of livestock;</td>
<td>7. Conservation and protection of water sources, lakes, springs, streams and rivers:</td>
</tr>
<tr>
<td>7. Strategies for marketing outlets for local agricultural produce;</td>
<td>8. Prevention of construction of structures, whether on national, communal or private lands:</td>
</tr>
<tr>
<td>8. Forest management plan including extraction, conservation and forest road construction in accordance with the Forest and Nature Conservation Act, 1995;</td>
<td>9. Protection and preservation of religious sites, which are not part of custody of a monastic body or central agencies:</td>
</tr>
<tr>
<td>9. Rural electrification schemes in accordance with Electricity Act, 2001;</td>
<td>10. Management of community religious institutes, rites and festivities:</td>
</tr>
<tr>
<td>10. Communication services;</td>
<td>11. Management of community religious institutes, rites and festivities:</td>
</tr>
<tr>
<td>11. Small and medium scale industries;</td>
<td></td>
</tr>
<tr>
<td>12. Urban (municipal and town) plans;</td>
<td></td>
</tr>
<tr>
<td>13. Appointment of members of the District Tender Committee;</td>
<td></td>
</tr>
<tr>
<td>14. Recommendation of credit programmes;</td>
<td></td>
</tr>
<tr>
<td>15. Cooperatives involving inter-Gewog members, in accordance with the Co-operatives Act, 2001;</td>
<td></td>
</tr>
<tr>
<td>16. Monitoring and evaluation of</td>
<td></td>
</tr>
</tbody>
</table>

14 Such as religious monuments, water supply schemes, irrigation channels, footpaths, mule tracks, farm and feeder roads, suspension and cantilever bridges, micro-hyedls, Basic Heath Units (BHUs) and other outreach clinics, lower secondary school and community schools, and extension centres of the Renewable Natural Resources.
<table>
<thead>
<tr>
<th>D. The Financial Powers</th>
<th>GYT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DYT</strong></td>
<td><strong>GYT</strong></td>
</tr>
<tr>
<td>1. Prioritisation and allocation of</td>
<td>1. Approval of the Gewog’s annual budget;</td>
</tr>
<tr>
<td>resources to Gewogs and the district</td>
<td></td>
</tr>
<tr>
<td>plan activities, upon confirmation of</td>
<td>2. Accordance of approval for works or activities costing above Nu.</td>
</tr>
<tr>
<td>budgetary outlay by the Ministry of</td>
<td>50,000;</td>
</tr>
<tr>
<td>Finance;</td>
<td></td>
</tr>
<tr>
<td>2. Re-appropriation of the Gewog plan</td>
<td>3. Accordance of other financial approval as required under</td>
</tr>
<tr>
<td>budget of a particular Gewog to other</td>
<td>regulations;</td>
</tr>
<tr>
<td>Gewog from activities which have no</td>
<td></td>
</tr>
<tr>
<td>possibility to be implemented on time,</td>
<td>4. Re-appropriation of Gewog plan budget, as provided in regulation;</td>
</tr>
<tr>
<td>provided the recipient Gewog’s activity is</td>
<td></td>
</tr>
<tr>
<td>part of its Gewog plan;</td>
<td></td>
</tr>
<tr>
<td>3. Re-appropriation of district plan</td>
<td>5. Approval of the plan for maintenance of development</td>
</tr>
<tr>
<td>budget, as provided in rules;</td>
<td>infrastructures to be met from the retained rural taxes;</td>
</tr>
<tr>
<td>4. Review and ratify the Gewog’s</td>
<td>6. Approval of the plan for use of other funds raised by the GYT</td>
</tr>
<tr>
<td>accounts of rural tax and other</td>
<td>itself;</td>
</tr>
<tr>
<td>collections and expenditures thereof;</td>
<td></td>
</tr>
<tr>
<td>5. Review and ratify the accounts of</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
plan expenditures of the Gewog
incurred under the authority of GYT;

6. Review of accounts of
Dzongkhag administration accounts;

7. Approval of rates for 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 Gewog and ratify, in
accordance with the financial rules and
regulations.

Besides these general functions and powers of DYT's and GYT's, the administrative
responsibilities of the DYT chairperson, Gup (DYT Chairperson), Mangmi, Gewog
Clerk and Tshogpa are specified separately. The DYT and GYT Acts also describe
a code of practice for the members and office bearers, and penalties for violations
of the code of practice, including provisions of hiring and firing the officials.
Similarly, a separate provision on the functional responsibilities and powers of the
Dzongdag and district administration are clearly mentioned.