



STUDY REPORT ON THE LOCAL GOVERNMENT RURAL REVENUE MOBILISATION STRATEGY IN BHUTAN

May 2021

**Department of Local Governance
Ministry of Home and Cultural Affairs
Royal Government of Bhutan**

**EU-Technical Assistance Complementary Support (EU-TACS)
Local Governments and Decentralisation (Bhutan)**



**Funded by
the European Union**

Project implemented by



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LIST OF ABBREVIATIONS/ACRONYMS

ACG	:	Annual Capital Grant
C2G	:	Citizen to Government
CD	:	Current Deposit (bank accounts used by local government for local revenue)
CDG	:	Constituency Development Grant
CG	:	Central Government
CMI	:	Common Minimum Infrastructure
CPEIR	:	Climate Policy, Expenditure and Institutional Review
DDG	:	Dzongkhag Development Grant
DLG	:	Department of Local Governance
DNB	:	Department of National Budget
DPA	:	Department of Public Accounts
DRC	:	Department of Revenue and Customs
DT	:	Dzongkhag Tshogdu
Dzongkhag	:	District
Gaydrung	:	Gewog Clerk
GDG	:	Gewog Development Grant
Gewog	:	Sub-District
GNHC	:	Gross National Happiness Commission
GPMD	:	Government Performance Management Division
GT	:	Gewog Tshogde
FY	:	Fiscal Year
FYP	:	Five Year Plan
LG	:	Local Government
LGA	:	Local Government Act
MoF	:	Ministry of Finance
MOU	:	Memorandum of Understanding
MRG	:	Mainstreaming Reference Group
NLC	:	National Land Commission
Nu	:	Ngultrum
OAG	:	Office of the Attorney General
PFA	:	Public Finance Act
PFM	:	Public Financial Management
RAA	:	Royal Audit Authority

RAF	:	Resource Allocation Formula
RGoB	:	Royal Government of Bhutan
RICB	:	Royal Insurance Corporation of Bhutan Limited
RGR	:	Royal Government Revenue (bank accounts that receive transfers from CG)
RSTA	:	Road Safety and Transport Authority
Lag Thram	:	Land Ownership Certificate
Thromde	:	Municipality
Thrompon	:	Mayor
TL	:	Team Leader

EXECUTIVE SUMMARY

As decentralisation pushes service delivery functions to lower levels of government, local government needs more revenue. This study was requested to help develop a strategy for mobilising revenue in rural areas. While Thimphu Thromde currently raises enough revenue to support its operational costs, Dzongkhags and Gewogs are dependent on central government. The goal of this report is to make recommendations to the Department of Local Governance (DLG) for increasing Dzongkhag and Gewog local revenue, diversifying their sources of revenue, and moving them closer to sustainability. The introduction of new taxes, fees and charges - or redirection thereof - can only be done with central government, and possibly Parliamentary, support.

The study engaged a team to run field surveys in four Dzongkhags and eight Gewogs, interviewing officials and organising focus group discussions. To triangulate the findings, another 35 interviews were done with central government ministries, departments and agencies. Two progress updates and a review session of the final report were held with the DLG and Ministry of Home and Cultural Affairs (MoHCA), providing valuable feedback to keep the research on track.

The field surveys and interviews found that Dzongkhag and Gewog operations are supported by current account transfers from the central government while the Dzongkhag Development Grant, Annual Grant and Common Minimum Infrastructure (CMI) grants support service delivery projects. The rural tax is the principal source of Gewog internal revenue. It generates negligible amounts and is wholly inadequate for addressing service delivery demands. The grants provide funding for materials but not for labour. Gewog local service provision relies on volunteer labour.

Dzongkhags and Gewogs report and remit to the central government the bulk of revenues, which they collect, including various fees and, most importantly, insurance premiums. However, the field surveys

found that local governments are also collecting and retaining some minor unreported revenues. Interviews within both central agencies and Gewogs revealed that these unreported revenues have become almost common practice in order to meet certain expenses. While these revenues may be collected in good faith, however, they lack transparency and accountability, making them antithetical to good governance. Like the formal fees retained by local government, these unreported revenues need further assessment to determine whether the Ministry of Finance (MOF) should formalise them across and take them to scale in all Gewogs.

Since service responsibilities and revenue authorities are not clearly defined, revenue collection practices vary between the local governments (LGs). For example, Gewogs are responsible for protecting water sources but Dzongkhags fund it, collecting the revenues in different ways: one collects vendor fees while another collects parking fees.

Revenue collection burdens local governments, which see no benefit when the revenues go direct to central government. Reimbursing local governments for the revenue collection may not be feasible, but adoption of a modern online system would reduce the costs to community centres (CCs), Dzongkhags, Gewogs, and private citizens. These citizens currently travel substantial distances to get a document signed or stamped, for example, even when they have paid the fees in their home village. The Citizen to Government (C2G) project is considering enterprise resource planning / workflow solutions. Additional training for CCs, local governments, and central government ministries, agencies and departments would also increase efficiency and reduce the costs to government and citizens alike.

Other recent developments have been encouraging. The miniscule local land tax payment system was modernised last year and land tax can now be paid online and distributed to the appropriate Gewogs. Similarly,

taxpayers with a bank account can now pay online for many other taxes and fees. Citizens without bank accounts face challenges, but many of these challenges can be overcome by collaborating with any relative or friend who has both a bank account and access to the internet. The National Land Commission, the Ministry of Finance and Thimphu Thromde are currently investigating the feasibility of taxing a property's assessed value in order to create a modern property tax system that is fair as well as capable of producing revenues to sustain local governments. Since assessing property values will take years, this study suggests that, as an interim step, the 1992 rural tax rates are brought in a phased manner to present value. This report also highlights other potential areas of revenue generation for the Gewogs.

Bhutan's extraordinary capacity for e-government could help provide better local services, streamline revenue processes, and establish stable and efficient revenue sources in support of local government. As local revenue grows, it will be increasingly important to standardise processes and to train Gewogs and Dzongkhags to budget their internal revenues properly.

1. OVERVIEW

1.1 Terms of reference

The local government rural revenue mobilisation study seeks to assist the DLG to achieve the 12th Five Year Plan Objective for a “just, harmonious and sustainable society through enhanced decentralisation, where decentralisation is defined as empowering local governments and other sub-national bodies through provision of greater financial planning and administrative responsibility, authority and accountability.” The study addresses the need to mobilise rural revenue which has been cited in numerous studies and documents. The terms of reference (ToR) proposes the following distinct activities (*detail ToR in Annex 6.2*):

- review the current rural revenue mobilisation policy and its usage;
- review and analyse current types of tax and non-tax revenue sources for local governments (LGs);
- analyse LG internal revenue generation arrangements and procedures;
- identify ways of increasing capacity to administer and manage local revenue collection; and
- draft short-term (including quick wins) and medium-term recommendations.

1.2 Methodology

The study was developed and guided in partnership with the DLG who received and reviewed the inception report, mid-point report, and updates, providing input to make the report more useful. Norlha Engineering and Management Consultancy, a local consultancy firm, was engaged to develop the inception plan, deploy survey and focus group tools, collect and consolidate data, as well as to produce the midpoint report, updates, and final report too. The use of a local consultancy provided knowledge of central and local government, access to officials for interview and proficiency in data handling. It also builds capacity within Bhutan’s professional services sector.

Table 1 lists the twelve local governments (4 Dzongkhags and 8 Gewogs), selected in consultation with the DLG, for survey, interview, and focus group sessions. These local governments represent diverse geographies, demographics, and resources.

Field surveys provided insights into Dzongkhag revenue mobilisation policy, and current tax and non-tax revenue sources, as well as revenue arrangements, procedures, and management practices. Focus groups in each Gewog included local government officials and citizen representatives to gain local perspectives on current and potential sources of local revenue.

Annex 6.8 shows field data, now collected, cleaned and consolidated into four separate files for each of the four tools. The data was sorted and summarised, producing data tables for the body of this report. In addition, 35 interviews (listed in Table 1 below) were conducted to triangulate information collected from the field.

Table 1: Study Areas

Dzongkhag	Gewog	Central Government Agencies and Non-Governmental Organisations Interviewed (number of separate interviews)
Paro	Tsento	<ul style="list-style-type: none"> Ministry of Economic Affairs: Department of Trade, Export Promotion Division (1) Department of Small & Cottage Industries, Programming Division (1)
	Dopshari	
Trashigang	Khaling	<ul style="list-style-type: none"> Department of Local Governance (1): Thimphu Thromde (2) Dzongkhags (4) Gewogs (9) Gewog Community Centre (1)
	Kanglung	
Tsirang	Barshong	<ul style="list-style-type: none"> Cabinet Secretariat, Public Service and Grievance Redressal Division, Government to Citizen (G2C) (1) National Land Commission, ICT Division (1)
	Mendrelgang	
Bumthang	Chumey	<ul style="list-style-type: none"> Ministry of Finance: Policy and Planning Division (1) Department of National Budget (1) Department of Public Accounts (1) Department of Revenue and Customs (2) Department of Macroeconomics (2) Legal Division (1) Road Safety and Transport Authority (1) Royal Audit Authority (1) Royal Insurance Corporation of Bhutan (1) Tarayana Foundation (1) Tourism Council of Bhutan (1) Department of Forests and Park Services, Social Forestry Division (1)
	Tang	

2. RESULTS FROM TOOLS

2.1 Revenue Collections

Survey Tool #1 *Revenue Template* asks basic questions about actual Dzongkhag / Gewog revenue collected. The revenue information collected by the field team was cleaned and consolidated into a master file, then summarised and presented in Tables 2, 3 and 4.

Table 2 shows that Dzongkhags receive the bulk of their funds from annual grants which come directly from the central government. Dzongkhags reported receiving grants based on a Resource Allocation Formula (RAF) and Common Minimum Infrastructure (CMI) needs, but they did not report funding amounts from the Dzongkhag Development Grant (DDG) which, according to grant guidelines, are very small as they are limited to Nu 10 million. Rural taxes are not a revenue source for Dzongkhags, but the latter do collect some fees including for land certificates, immigration and census etc. Two Dzongkhags reported other charges such as service charges for water, sewers and solid waste, and one reported housing charges. Some Dzongkhags also collect for environmental clearance, building approvals etc. No contributions for services were reported. Two Dzongkhags report local government income from rent, and both said the incomes from these rents were transferred to central government.

It should be noted that in addition to the grants, taxes, fees, charges, contributions and investment income discussed in this report, current budget allocations are provided to support operation and maintenance as determined by the MOF. These allocations are based on staff numbers, expenditure trends, and inflation. They are used to pay salaries and wages, travel, utilities, supplies and materials, maintenance of properties, etc. During discussion with the DLG, concerns regarding staffing were expressed. While this study focuses on revenue not human resources, the interview with the Thrompon (Mayor) of Thimphu

Thromde also discussed the use of incentives and multi-tasking to increase staff productivity and reduce the numbers of staff employed.

Table 2 shows the extent to which Dzongkhag revenues depend on central government. Dzongkhags collect fees, charges and income, which together equal less than 2 percent of government grants.

Table 2: Dzongkhag Revenue, Grants and Income Received

Budget Revenue Received (Nu. millions)	Trashigang	Bumthang	Tsirang	Paro
Annual grants	1122.430	736.380	901.510	1075.400
Rural taxes collected by local government				
Fees collected by LG	6.412	1.300	1.375	1.428
Service charges collected by LG	0.508	1.002	0.000	0.000
Contributions collected by LG				
LG investment income	5.539	1.063	0.000	0.000

Source: 2019-20 Field Survey reports of FY2018-19 data

Table 3 below presents details of Dzongkhag fees collected. Numbers in blue italic text represent revenue that was retained by the Dzongkhags. Dzongkhag Tshogdu (DT) then discusses the use of these retained revenues. Some Dzongkhags retain revenues from building permits, land registration, site plans, building approvals, land leasing, and delayed payments, and these might be reasonable sources of income for other Dzongkhags too.

Table 3: Dzongkhag Fees Collected

Fees Collected by LG (Nu Millions)	Trashigang	Bumthang	Tsirang	Paro
Land development and subdivision				
Land demarcation				0.092
Building permit	<i>0.002</i>			
Land registration	<i>0.004</i>			0.049
Site plan		<i>0.009</i>		
Vehicle parking				
Market vendor				
Advertisement				
Building approval		<i>0.074</i>		
Land leasing		<i>1.116</i>	0.375	0.287
Delayed payment		<i>0.101</i>		
Land registration certificate	0.058			
Identity card processing	0.070			
Survey	0.005			
School charges	0.185			
School fee	0.042			
Environmental assessment	0.083		1,000	1.000
Fines and penalties	5.963			
Total fees collected	6.412	1.300	1.375	1.428
Total retained & directed by Dzongkhag	<i>0.006</i>	<i>1.300</i>		

Source: 2019-20 Field survey reports of FY2018-19 data) *Italicized* entries indicate revenue retained by the Dzongkhag

Gewogs were also surveyed, and the results are presented in Table 4 below. As with the Dzongkhags, Gewogs depend mainly on grants to fund services. Rural tax collections are almost insignificant. One Gewog reported investment income from rents, which it said went to the central government.

Table 4: Gewog Revenue, Grants and Income received

Budgeted Revenue Received (Nu Millions)	Khaling	Kanglung	Chumey	Tang	Barshong	Mendregang	Tsento	Dopshari
Annual grants (RAF +CMI)	85.31	108.66	72.6	69.45	105.37	95.11	94.66	68.26
Rural taxes collected by local government	0.06	0.057	0.055	0.06	0.02	0.028	0.028	0.024
Fees collected by LG (not including insurance)	0	0	0	0	1.26	0	0	0
Service charges collected by LG	0	0	0	0	0	0	0	0
Contributions collected by LG	0	0	0	0	0	0	0	0
LG investment income	0	0.168	0	0	0	0	0	0

Source: 2019-20 Field survey reports of FY2018-19 data

2.2 Documenting Revenue Sources and Processes

The results from Tool #2 - Local Governments' Index to Revenue Sources - document existing taxes, fees and charges, including the appropriate legal references, definitions of base rate, and limitations on spending, and registry of payees etc.

Details of the collection process were used to compare it with recommended processes. Local governments documented a total 87 revenue sources and provided details of each source in the index with assistance from Norlha field staff. The index is found in Annex 6.8 and interviews can be found in Annex 6.9. Table 5 below presents an example of a single report.

The indices contain information on the authority to impose the tax, fee or charge, the rates and due dates, how the revenue is directed, and a history of collections. These tools are useful to understand the local revenues and are especially useful in estimating future revenues or when contemplating changes in various revenues.

Table 5: Sample of Index of Rural Taxes, Fees and Service Charges

Index of rural taxes, fees and service charges (Fiscal Year July 1 – June 30)	
Name of Dzongkhag/Gewog:	Barshong
Name of fee/tax/charge:	House tax
Law imposing fee/tax/charge:	Taxation Act 1992
Authorities setting and approving fee/tax/charge:	Ministry of Finance
Current rate or fee amount:	20 for permanent & 10 for semi-temporary
Name of government collecting:	Gewog
Method of collection:	Public come to pay
Timing of collection (due dates):	Oct-Dec
Base (fee/tax/charge imposed on):	House
Penalty for non-payment provisions:	24 percent

Where is revenue directed (to the central or local government, or elsewhere?):	Local government
Is the use of the revenue specified? If so, to what purpose?	No
Is there a registry of tax/fee/charge payers?	Yes
History of changes in the fee/tax/charge rate and base?	None
Factors that influence the fee/tax/charge revenue:	Regulatory requirement
Cost of collection (total and cost elements, e.g. labour, transportation, supplies etc.)	Administrative cost
Social Benefits (not quantified, e.g. encourage recycling and waste reduction)	Ownership of house

Collections by year (Nu in Thousands)					
ACTUAL REVENUE	FY 2014-15	FY 2015-16	FY 2016-17	FY2017-18	2018-19
Annual Nu		3,260.00	3,330.00	3,390.00	3,450.00
Fines /Penalties Nu					

Source: 2019-20 Field survey reports of FY2018-19 data

The reports show that most revenue, both the number of revenue sources and their total value, is not retained by Dzongkhags and Gewogs. In Table 6 below, the blue italic text shows revenue sources, for the 12 local governments, which are remitted to the central government or insurance corporation. Local governments did not document their unreported revenues, which may have no legal basis for collection. Interviews indicated the need for clearly defined policies and processes, and for training, if additional revenue collection responsibilities are to be devolved.

Table 6: Rural taxes prepared by Dzongkhags and Gewogs

<u>Paro</u>	<u>Tsirang</u>	<u>Trashigang</u>	<u>Bumthang</u>
<i>Identity card fee</i>	<i>Identity card fee</i>	<i>Rural lag thram fee</i>	<i>Rural lag thram fee</i>
<i>Rural life Insurance</i>	<i>Rural life Insurance</i>	<i>Education fee</i>	<i>Education fee</i>
<i>Rural lag thram fee</i>	<i>Rental</i>	<i>Utility building charges</i>	<i>Utility charges</i>
<i>Urban lag thram fee</i>	<i>Street light charge</i>	<i>Property transfer tax</i>	<i>Environmental clearance</i>
<i>Land registration fee</i>	<i>Solid waste charge</i>	<i>Urban house tax</i>	<i>Building approval fee</i>
<i>Construction fee</i>	<i>Sewerage charge</i>	<i>Under develop tax</i>	<i>Name change fee</i>
<i>Modification charges</i>	<i>Water charge</i>	<i>Urban land tax</i>	
<i>Lease rent</i>	Vegetable vendor fee	<i>Building plan processing fee</i>	<u>Chumey</u>
<i>Service charges</i>	Cloth vendor fee	<i>Urban lag thram fee</i>	House tax
<i>Building plan processing fee</i>	Meeting hall charge	Utility charges	Land tax
<i>Water charges</i>	Septic tank emptying fee		Cattle tax
<i>Building extension fee</i>		<u>Kanglung</u>	<i>Rural house insurance</i>
<i>Land demarcation fee</i>	<u>Barshong</u>	House tax	<i>Rural life insurance</i>
<i>Rental</i>	House tax	Land tax	
<i>Environmental assessment fee</i>	Land tax	Cattle tax	<u>Tang</u>
<i>EC renewable fees</i>	Cattle tax	<i>Rural house insurance</i>	House tax
<i>Urban land tax</i>	Orchard tax	<i>Rural life insurance</i>	Land tax
<i>Water charges</i>			Cattle tax
Parking fee	<u>Mendregang</u>	<u>Khaling</u>	<i>Rural house insurance</i>

Septic tank emptying fee	House tax	House tax	<i>Rural life insurance</i>
	Land tax	Land tax	
Tsento	Cattle tax	Cattle tax	Dopshari
House tax	Orchard tax	<i>Rural house insurance</i>	House tax
Land tax	<i>Rural house insurance</i>	<i>Rural life insurance</i>	Land tax
Cattle tax	<i>Rural life insurance</i>		Cattle tax
<i>Rural house insurance</i>			Orchard tax
<i>Rural life insurance</i>			<i>Rural house insurance</i>

Source: 2019-20 Field survey reports of FY2018-19 data). *Blue italics* indicate proceeds remitted to the central government or insurance corporation.

Dzongkhags and Gewogs were also asked to describe their processes for collecting taxes, fees and charges. Surveyors recorded the descriptions of collections, recording, depositing and reporting practices. Local governments reported that they either keep manual records such as a register or use excel spreadsheets. Their processes tended to mirror processes outlined in RGoB rules and regulations. Receipts are issued, revenue is recorded, and deposits are made to the current deposit (CD) account for rural taxes. There was some confusion regarding a significant amount of rent earned in one Gewog which had been transferred out of the Gewog's CD account after the annual audit. It is unclear whether the problem was use of the national receipt which should then direct the deposit to the Royal Government Revenue (RGR) account rather than to the local CD account receipt. Officials said that since the central government had invested in the infrastructure, any returns should be directed back to central government. The most frequently cited departure from proper process in Gewogs occurs when land and house payments are late. This is often the case when taxpayers

no longer reside locally or when land is purchased by absentee landowners. Local officials occasionally cover late payments when the owner is unknown or unreachable, the household is unable to pay, or additional collection visits are too time consuming.

Some Gewogs said they need a tax collector. The duty to collect is not specifically defined and it most often falls to the Gaydrung (clerk) who has other responsibilities. The long payment period is a constant distraction. From the perspective of local government, online payments are recommended since they address the problem of absentee owners, reduce the need for house-to-house collections, and generate a record of accounting. Online land payments should be transferred to the appropriate Gewog.

Interviews with central government officials and a community centre operator reveals an antiquated system, in which multiple levels of government require paper documents for approval. This greatly disadvantages citizens who sacrifice time and money, travelling to offices in another community in order to gain a signature or pay a fee. Modern ERP/workflow systems can route documents for approval electronically, and with some additional training, community centre staff can facilitate online payments even to citizens who are unbanked. Community centre staff reported a desire to learn more and to do more for citizens. The RGoB's success in multiple areas offers an appropriate blueprint. The Land Commission has made great strides in implementing the online land tax system; Thimphu Thromde has increased electronic payments for a host of taxes, fees and charges; and the G2C system has made electronic payments possible across the country.

2.3 Budget Support for Service Delivery

There is an adage in public finance management that “finance follows function”. This means that government must demonstrate the use and need for revenue before collecting it. Fiscal decentralisation, which provides increased revenue authority to LGs, is linked to administrative

decentralisation. This, in turn, provides support services with the authority to make decisions about the use of those revenues. Tool #4, Local Services Template, identifies local government responsibilities and which of these responsibilities received any funding. The data for Tool #4 can be found in Annex 6.8 in the file titled Tool 4. Table 7 summarises LG-mandated services and which of the LGs funded those services.¹

Table 7: Budget to support service delivery by local government

Budget to support service delivery by local government				
Services funded in FY 2018-2019 budget (Nu millions)	Dzongkhag	#Dzongkhag	Gewog	# Gewog
Construct / maintain bus stops, bus terminals, taxi parking	Tsirang	1	Mendregang	1
Construct / maintain Gewog centre roads	Trashigang, Paro	2	Tsento	1
Construct / maintain farm roads, bridges, mule tracks	Bumthang	1	Chumey, Tang, Kanglung, Khaling, Barshong, Mendregang	8
Waste management	Trashigang, Bumthang, Tsirang, Paro	4	Mendregang	1
Construct / maintain water source protection	Trashigang, Bumthang, Tsirang	3	Khaling, Mendregang, Tsento	3
Construct / maintain market sheds	Trashigang	1	Chumey, Barshong, Mendregang	3

¹ The table of responsibilities was drawn from the UNDP's Fiscal Decentralization in Bhutan report, p. 17. Table 2, Assignment of Responsibilities for the 12th FYP.

Budget to support service delivery by local government				
Services funded in FY 2018-2019 budget (Nu millions)	Dzongkhag	#Dzongkhag	Gewog	# Gewog
Construct / maintain	Tsirang	1		0
Human / wildlife management		0		0
Construct / maintain irrigation channels / river protection	Trashigang, Bumthang, Tsirang, Paro	4	Kanglung, Kanglung, Barshong, Mendregang, Dopshari, Tsento	6
Construct / maintain rainwater harvesting		0		0
Construct / maintain livestock, agriculture, horticulture farms	Trashigang, Bumthang, Tsirang	3	Chumey, Tang, Kanglung, Khaling, Barshong, Mendregang, Dopshari, Tsento	8
Construct / maintain electric / solar fencing	Tsirang, Paro	2	Tang, Khaling, Dopshari, Tsento	4
Maintain veterinary hospitals	Trashigang, Bumthang, Tsirang	3	Khaling, Mendregang, Dopshari	3
Maintain district hospitals	Trashigang, Bumthang, Tsirang, Paro	4	Chumey, Mendregang, Tsento	3
Construct / maintain rural water supply		0	Tang, Kanglung, Khaling, Barshong, Tsento	5

Budget to support service delivery by local government				
Services funded in FY 2018-2019 budget (Nu millions)	Dzongkhag	#Dzongkhag	Gewog	# Gewog
Undertake eco-tourism	Tsirang	1	Mendregang	1
Construct / maintain higher / middle/ lower secondary schools	Trashigang, Bumthang, Tsirang, Paro	4	Tang	1
Construct / maintain primary schools, extend classrooms, ECCD, non-formal ed. mitigation	Trashigang, Bumthang, Tsirang	3	Tang, Kanglung, Mendregang	3
Maintain Dzongs	Trashigang, Bumthang	2		0
Construct / maintain monasteries / temples	Trashigang, Tsirang, Paro	3	Chumey, Tang, Kanglung, Barshong, Mendregang, Dopshari, Tsento	7
Initiate small / cottage / medium industries		0	Khaling	1
Construct / maintain buildings	Trashigang, Bumthang, Tsirang	3	Khaling, Mendregang, Dopshari, Tsento	4
Construct / maintain sewage line	Trashigang	1		0

Source: 2019-20 Field Survey reports of FY2018-19 budget data

Some confusion exists over the services assigned to Dzongkhags and Gewogs. In the table above, the light blue shaded boxes in the Dzongkhag and Gewog columns indicate that the particular service is not assigned to that level of government. For example, Section 54 (f) of the LGA assigns

responsibility for water source protection to Gewogs, but three of the Dzongkhags reported funding. Similarly, three Gewogs reported funding for veterinary hospitals / BHUs and district hospitals too. Some services received little or no budgetary support from the majority of the 12 LGs surveyed. The yellow shaded boxes in the column marked “Services Funded” indicate that, in 2018-19, budget support was received in two or less of the 12 local governments. All but two of the LG responsibilities – human / wildlife management and rainwater harvesting - received some funding by Dzongkhags or Gewogs. Dzongkhag and Gewog service responsibilities lack clear definition. In practice Dzongkhags and Gewogs fund the same responsibilities.

These findings do not speak to the adequacy of funding for these activities. A lack of funding may indicate that needs have been prioritised to meet specific budget ceilings. The important point is that when responsibilities are devolved, they need a source of revenue to pay for them. Otherwise, service delivery will fail.

3. FINDINGS FROM INTERVIEWS, DATA ANALYSIS AND DOCUMENT REVIEWS

A total 35 interviews were conducted. Interview notes are in Annex 6.9 in three separate files: Dzongkhag and Gewog process interviews; central agency interviews; and follow-on interviews. Interview information was triangulated against RGoB published sources and field data collected.

3.1 Rural Tax

Rural taxes are inefficient because the output (revenue collected) is most likely too small to justify the input (cost of collection). Additionally, they are inequitable since they are not based on the value of the thing that is taxed (land and house). For any given category (wet/dry, occupied/semi-occupied), citizens with prime locations and luxurious homes pay the same amount as citizens with less desirable land or modest homes. Revenue generated for the Gewogs is wholly inadequate to promote self-sufficiency.

Using data from the field survey, Figure 1 shows Gewog revenue from land tax over the most recent five-year period. The land tax revenue is small due to the very low rates of tax, but it is more than the revenue from house or cattle tax and is relatively stable over time. Stability is important for local government revenues because budgeting requires predictability. A detailed breakdown of rural tax collection and its trends from FY 2014-15 to FY 2018-19 are shown in the Annex 6.8 in the file titled Graphics.

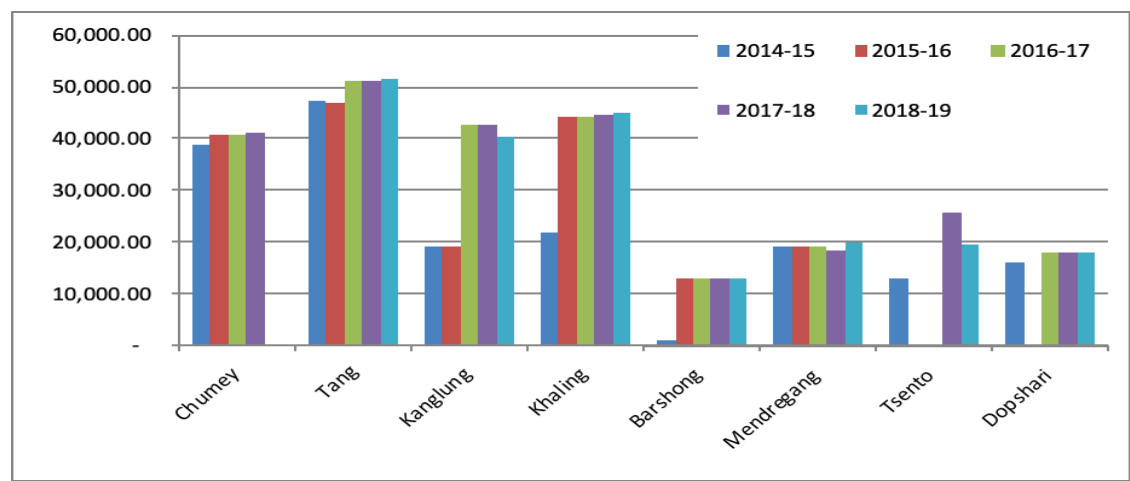


Figure 1: Land tax revenue by Gewog FY 2014-15 to FY 2018-19

Rural tax rates have not changed since the Land Tax act was adopted in 1992. But the present value (2019) of the 1992 tax schedule can be calculated from the consumer price index (CPI) annual percentage change as published on the MOF, National Statistics Bureau (NSB) and Statistica.com websites. As Table 8 shows below, if the 1992 tax rates are brought to present value using the CPI, then the rates would be more than four times what they are today (a 439 percent increase). A price index of land value by category would be more appropriate, but none could be found.

Table 8: Present (2019) value of 1992 rural taxes

Rural Tax Act 1992	Sub-Category	1992 Imposition	Present (2019) Value of 1992 Imposition
Land Tax	Wet land	24	105
	Dry land	12	53
	Dry bamboo	1	0
	Dry undeveloped	10	44
	Orchard with fruit	12	53
	Orchard without fruit	12	53
House Tax	Permanent house	20	88
	Semi-permanent house	10	44
Grazing Tax	Grazing undeveloped tsamdos	100	439
	Grazing developed tsamdos	5	22
Livestock Tax	Up to 10 of all types	1	4
	11 and above	5	22
	Sheep	1	4

RGoB ministries, departments and agencies are actively laying the groundwork for a modern property tax system, based on property assessments and an online payment system which can route proceeds back to the Gewog and also identify non-payers. Comments made during local and central government interviews were favourable towards

the online land payments system, recently implemented by the National Land Commission (NLC). However, implementation of an assessed value-based land tax system may take years. In the interim, amended schedules for land and house tax could be developed. Property zones within cities, towns or villages could use sub-categories such as developed versus undeveloped land, house size, or the designation of land as commercial, residential or agricultural property, etc. Interviews with officials from the NLC, Department of Macroeconomic, MOF, G2C, Royal Audit Authority (RAA) and Thimphu Thromde can be found in Annex 6.9 in the Follow-on Interviews file.

3.2 Investment Projects

Local officials have numerous ideas for innovative projects, but they have not proposed these projects for grant funding. It is possible that Gewog officials do not understand the grant proposal process or their mandate in LGA Section 54 (m) to “Submit motions arising from villages for consideration in Dzongkhag Tshogdu” or that the Dzongkhags do not understand the Gewogs’ mandate in LGA Section 54 (f) to “encourage setting up of economic enterprises within the Gewog”. Not all suggestions constitute good public investments, of course. Most of the proposals discussed require an initial capital investment which should be subject to an investment analysis. No process for public investment analysis or project ranking was mentioned. Partnering with community forests on eco-tourism projects to promote local economic activity and protect the water shed while responding to LGA Section 54 (e) mandate for the Gewogs to “be the custodian of community land, community forests”.

- Operating laundromats and solar heated hot water bath houses;
- Producing buckwheat noodles, honey, mustard seed oil; and
- Promoting tourism by constructing footpaths that follow historic routes or by engaging in Gewog beautification projects.

The MOF has developed public-private partnerships (PPP) rules and regulations, guidelines, screening tools and other materials. In the

materials, PPP is a “contract between an institution and a private party whereby the private party renovates, constructs, operates, maintains, and/or manages an asset to provide a service in whole or in part, in accordance with specified output specifications. The private party assumes the associated risks for a significant period of time and in return, receives benefits and financial remuneration according to agreed terms”. The PPP guidelines provide a procedural framework and analytical tools to assess whether or not to use a PPP.

In Thimphu Thromde, a PPP was used for the development and management of an integrated parking system, including two new multi-level car parks and off-street and on-street surface parking. It was based on a design, build, finance, operate and transfer concession. The mechanism may be suitable for some additional local government initiatives such as cash crop lease, rental of facilities, and livestock farming.

Although resource allocation formula (RAF) grants have flexibility, they may not have sufficient capacity or be appropriate for development projects. PPP may also be inappropriate for small scale projects. Revolving loan funds, similar to micro-finance loans in their structure, could help support agricultural production, or promote energy efficiency, manufacturing, and hotel construction. In these schemes, funds are loaned to local entrepreneurs or local governments in order to establish revenue earning enterprises. That revenue then pays for operation and maintenance as well as loan repayment. An authority is established to administer, direct and review the project feasibility analyses upon which funding decisions are based. Fund management and oversight can be assigned to central government bodies, non-governmental organisations, or international donors. The establishment of a revolving loan fund reduces the need for local governments to borrow, which anyway may not be possible. Where credit is available, local governments must sometimes pay higher interest rates because the credit worthiness of the project and / or the local government is not

established. Initial funding to support such loans could come from central government or donors.

3.3 Transportation Taxes and Fees

Selected motor vehicle fees and penalties could be directed to LGs to support the construction and maintenance of centre roads, farm roads, bridges and mule tracks. The Road Safety and Transport Authority (RSTA) works under the umbrella of the Transport Act 1999, part of the Ministry of Information and Communications. The RSTA has been one of the highest contributors to government, bringing in Nu 438,525,198.87 during financial year 2018-2019².

Motor vehicle revenue consists of vehicle registration fees, vehicle registration renewable fees, license fees, license renewal fees, fitness test fees, fines and penalties. Figure 1 shows the growth in motor vehicle revenue collection, increasing with the number of vehicles on Bhutan roads.

RSTA regional offices collect the revenue for motor vehicle and forward it to the head office which in turn directs the revenue to the Department of Revenue and Customs.

Because the proposal for RSTA to become an autonomous agency is still under discussion, there may be an opportunity to discuss the possibility of directing selected motor vehicle fees to LGs. The proposal would require proper rules and regulations, Gewog capacity to administer and manage the revenue, and direction from the government most likely in the form of amending an act. Local government may currently lack the capacity to administer and manage motor vehicle registration, licensing and testing. But, if proceeds from one of the revenues, such as the license renewal fee, were transferred to the Gewog where the vehicle is registered, it would supply that Gewog with a growing stream of revenue with which to improve and maintain local roads.

² Road Safety and Transport Authority, Annual Report (2018-2019)

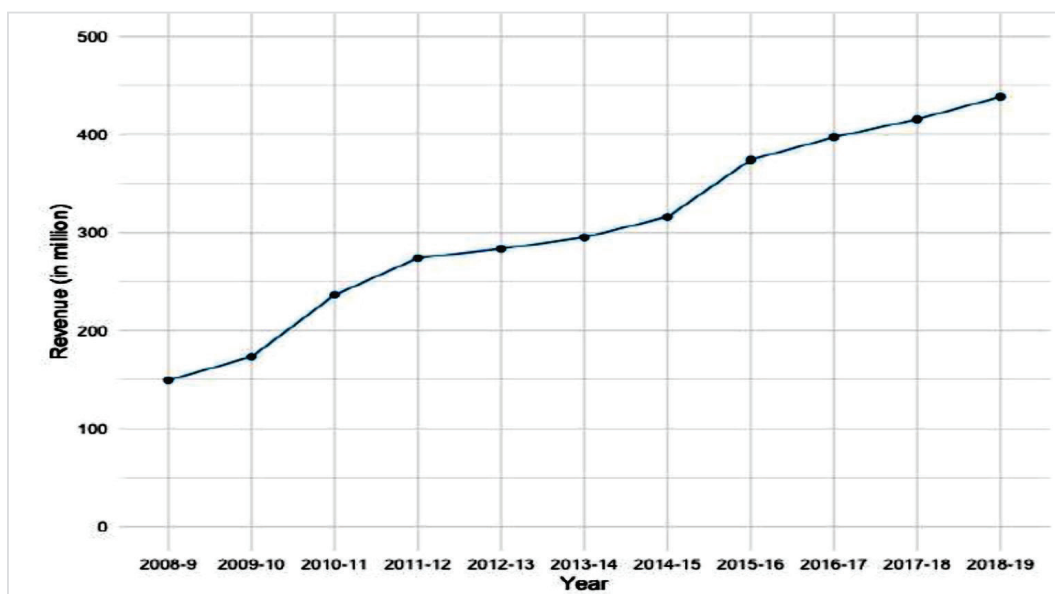


Figure 2: Motor vehicle revenue collections FY 2008-09 to FY 2018-19

Several Asian nations (China, Indonesia, Malaysia, Philippines, and Thailand) have seen an increase in highway demand associated with economic growth and increasing levels of vehicle ownership and use. They have used private sector concessions to design, build, finance and operate toll roads.³ The MOF's PPP framework and analytical tools could be used to develop significant road projects, which could spur economic development, but are likely not suitable for smaller projects. A World Bank study of private financing for toll roads found that the economics of each project vary widely, and that countries with less developed capital markets rely on foreign capital. The mechanism and bidding processes should be carefully analysed to balance transparency and competitiveness against private sector flexibility and innovation. Fortunately, Bhutan's PPP policy addresses some of these findings, and the study found that while "private toll road development is likely to experience modest growth in the near future, public resistance to tolling,

³ Asian Toll Road Development Program, PADECO and World Bank, 1999

the time and cost of implementing concessions, and other factors will probably limit industry activity.”⁴

3.4 Goods and Service Tax (GST)

RGoB moves toward a goods and services tax (GST) offers an opportunity to discuss the design of a shared tax system. Consumption taxes can be an important source of local government revenue if the system allows for tax sharing or local option impositions. Proposed legislation would place a seven percent GST on taxable supplies and taxable imports and require a GST return to be filed, reflecting the net amount for the period. Positive amounts are due at the time of filing the return. Additionally, registration is required according to pre-set thresholds. Finally, the act conforms to the destination principle, meaning that the tax is imposed only on consumption in Bhutan.⁵

In the GST proposal and other similar systems, national governments are allowed to collect local increments on top of the national rate, noting the place of consumption. The monthly proceeds can then be distributed back for local governments to use. In such a system, the national government imposes and collects the tax, then directs the appropriate share to each jurisdiction based on information from each return. Alternatively, a share of the central government rate of 7 percent could be distributed back to LGs, shared out in proportion to information in the return.

3.5 Insurance Premiums

Premiums for life and house insurance are collected by Gewogs and sent to the Royal Insurance Corporation of Bhutan (RICB), which also receives contributions from the central government, invests the funds, and pays insured individuals for claims. In interviews, officials proposed reforms that range from compensating the Gewogs for collections to devolving the entire life and house insurance operation to the Gewogs.

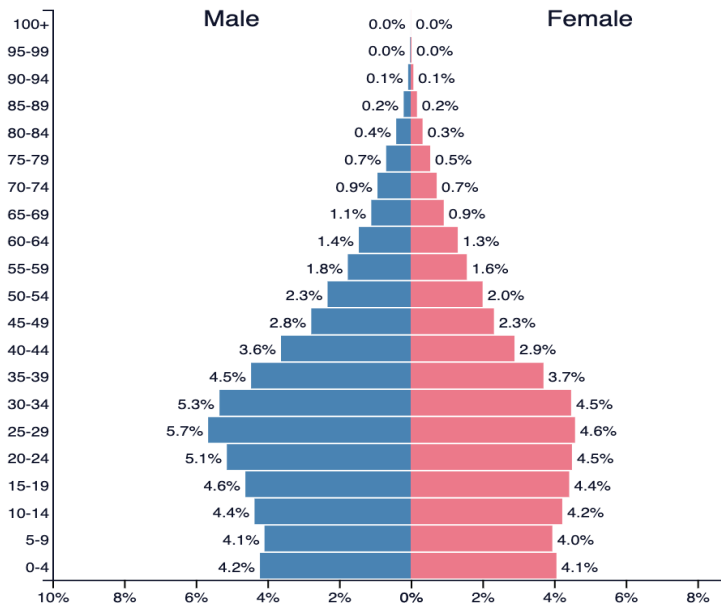
⁴ Private Financing of Toll Roads, The World Bank, RMC Discussion Paper Series 117

⁵ Goods and Services Tax Bill of Bhutan 2020 (proposed)

These proposals face significant obstacles. Insurance premiums are currently co-collected with the rural tax making it difficult to calculate the marginal collection cost of insurance premiums. Gewogs are obliged to collect the premiums by the LGA and house insurance MOU.

Fund management focuses on cash flow analysis, comparing collections against annual pay-outs. However, actuarial valuation raises concerns that assets may not be sufficient to cover future claims and may require increasing government subsidies as Bhutan’s population ages. A look at the population pyramid for Bhutan suggests that life insurance payouts will increase as the 25-29 year age group gets older and the younger cohorts shrink. Contributions may not be sufficient to cover cash flow needs when the group now in their 20s and 30s reach their 60s and 70s. The population pyramid is presented in Figure 3.

Figure 3: Bhutan population pyramid, 2020⁶



⁶ Source : Bhutan 2020, Population Pyramid.net <https://www.populationpyramid.net/bhutan/>

Finally, cash flows in and out have been about equal over the past few years. Therefore, reimbursing Gewogs for collection costs may need an immediate increase in central government subsidy to cover liabilities. Details can be found in the Land Commission, community centre, and RICB interviews.

The collection burden would be greatly reduced if payments could be made online, and if community centres can help unbanked citizens, or citizens requiring additional assistance, to make their payments.

3.6 Unreported Collections

Interviews with Dzongkhags and Gewogs reveal that Gewogs are collecting small amounts of fees or charges, but not reporting or distributing them to central government. Unreported collections included fees from farm shops and businesses, fines for missing public meetings and payments in lieu of supplying labour for a community project.

Unreported impositions and collections are reportedly driven by the need for LG to purchase food and refreshments for volunteers working on community projects, and other incidental costs. Unfortunately, this well-intentioned behaviour, which raises revenue to support services, does not comply with rules and regulations. It also lacks accountability and transparency. However, these unreported collections provide useful suggestions for new local government impositions. LG potential revenues, including local business operating fees, local transfer taxes, fines and penalties for non-participation, market fees, etc., can be evaluated, refined and possibly proposed as new sources of local revenue.

3.7 Fees for Services

Around the world, LGs almost always use service fees to fund local public services. Section 171 of the 2007 PFA appears to provide an opportunity for LGs to set fees for services with MOF approval.

Dzongkhags currently impose fees for water, sewer and waste services and send the proceeds to central government. They are also successfully collecting, retaining and reporting other fees, such as vegetable and clothing vendor fees, parking fees, septic tank emptying fees and meeting hall charges etc. Gewogs appear to need revenue to pay for essential services.

In Table 9 below, Thimphu Thromde imposes and retains an array of fees through its online revenue management system to support municipal services. With the appropriate approvals, some of these fees could be adapted and used in the Dzongkhags and Gewogs.

Table 9: Revenue collected by Thimphu Thromde and configured in revenue management

Land tax - residential	Rental deposits – ground
Land tax - commercial	Rental deposits – market
Land tax - semi commercial	Rental deposits – parking
Urban house tax - residential	Lease deposits - land
Urban house tax - shops and restaurants	Security deposits / water meter cost
Urban house tax - hotels	Service charge refunds - fees and administrative charges
Underdevelopment tax - residential	Service charge refunds - sale and hire charges
Underdevelopment tax - commercial	Mutation charges – land registration
Underdevelopment tax - semi commercial	Water connection charges - water line shifting
Garbage collection charges	Road cutting / property damage / soil dumping

Amenities service fee (street lights)	Penalty
Water charges	Betterment charges
Sewerage charges	Scrutiny fee
Rent from civic amenities - ground	Service and amenities fee
Rent from civic amenities - market	Meter rent
Rent from civic amenities - parking	Cost of fittings
Rent from lease land	Cost of chamber
Development charges - construction approval	Handling charge
Development charges - occupancy certificate	Water reconnection charges
Mutation charges - property transfer fee	Water connection charges - chamber shifting
Mutation charges - sub-division	Sale of tender
Regularisation fee - excess land	Lagthram - fee
Regularisation fee - building regularisation	Garbage collection charges commercial
Water connection charges - permanent	Amenities service fee commercial
Water connection charges - temporary	House rent
Sewerage connection charges - permanent	Penalty - residential property tax
Sewerage connection charges - temporary	Penalty - water & sewerage charge
User charges - environmental fines	Penalty - rent from lease land
Service charges - land demarcation	Penalty - service charges-site plan survey
Service charges - site plan survey	Penalty - lease deposits-land lease
Service charges - building plan survey	Penalty - rent from civic amenities-market
Service charges - construction assessment	Penalty - rental deposits-parking
Service charges - vacuum tanker	Penalty - rental deposits-market
Service charges - road cutting and excavation	Penalty - house rent

Documents - application	Penalty - commercial property tax
Documents - certificate	Environmental charges
Products - dust bins	Application fee - environmental charges
Products - demarcation pegs	Penalty - environmental charges

Source: RMS and DAR Implementation Status Thimphu and Phuentsholing Thromdes

In Gewogs with limited services, the initial investment for items such as water meters, water and sewer lines, etc., and their installation could be paid for with an initial investment from either the CMI or RAF grants. Fees could be charged for lower cost investment projects, such as public toilets and community water sources. Although modest, such projects may be appropriate in communities such as Dogar Gewog, which was visited during the preparation of this report, and has been without water for the past year. Fees charged could be used to operate and maintain the service, as indicated in PFA Section 172, which forbids fees or charges being any higher than the cost of the most efficient method of providing the service. To conform with international best practices, fees and charges for service should not be considered general revenue (available for any governmental purpose). Instead, they should be directed for providing the service. Besides water, sewer and waste collection, fees could support smaller initiatives such as public toilets, community water taps, etc.

3.8 Opportunities for Improving Revenue Collection Processes

The rural tax law needs reform but could become the Gewogs' principal source of revenue. Rural taxes are collected on the basis of the taxation policy of 1989 and 1992. However, in interviews, some officials had the impression that these revenues are not always properly recorded, deposited and reported. They said local officials pay on behalf of some residents and then seek reimbursement later. According to the MOF interview in Appendix 5.8, the ministry is currently reviewing rural

property taxation to develop a proposal which will be submitted to the Parliament. The legislation presents an opportunity to clarify the necessary processes and procedures.

Unreported collections in Dzongkhags and Gewogs lack accountability and transparency. Interviews in Dzongkhags and Gewogs reveal a few unreported collections, but totals were not disclosed. It is not clear whether these unreported collections are deposited into the current deposit (CD) account or being held as cash to support discretionary spending. If unreported collections are deposited in CD accounts, the sums will be reflected in reports compiled by the MOF. These unreported collections are generally fees on businesses or roadside vendors, land transfers, fines and penalties for absence during Gewog meetings and other contributions. Poor revenue handling is likely to cause wastage or loss.

LGs currently collect taxes, fees and charges on behalf of the relevant agencies, but discussion might clarify whether the LG might retain the revenue in whole or in part. Current collections are small when compared to the value of grants, but LGs have little incentive to increase collection efforts. Fees are collected to process identity cards, land registration, building plans and approval, environmental assessment, education, and rural and urban *lag thram* (land ownership certificate), before being directed to the central government. Nor does local government retain locally collected taxes on property transfer, urban land, housing and underdevelopment, or life and house insurance.

Revenues collected are not uniform across the Dzongkhags surveyed. As presented in table 3, some Dzongkhags impose and retain fees for building permits, land registration, site plans, building approval, land leasing and delayed payments. With formal approval and authorisation, it may be possible for other Dzongkhags to implement these revenue sources too.

Clear rules guiding local revenues do not appear to be universally understood. Guidance and training for Dzongkhags will make the revenue system more accountable, transparent, and ready for meaningful reform. The field survey found that one Dzongkhag retained the utility charges that it collected, while another Dzongkhag reported that it remitted the charges for water, street light, solid waste and sewer charges to central government.

3.9 Budgeting and Reporting Practices

The current practice is for the Gewogs to collect rural taxes, deposit them in the CD account and spend on relevant entertainment, but this process does not meet international best practices. However, it is currently accepted given the very small amounts involved. Entertainment includes refreshments and food for official visitors and volunteers working on community projects. Receipts are presented to the Gewog Tshogde (GT).

Dzongkhags also generate very small amounts of internal revenue since they remit the majority of revenue collected to central government. Dzongkhags report that the Dzongkhag Tshogdu (DT) uses the minimal fee revenue retained to support town maintenance.

Best practice is to budget and report all revenue and expenditure. With fiscal decentralisation, Gewogs and Dzongkhags may receive more internal revenue in the future. With increased administrative decentralisation Gewogs and Dzongkhags may enjoy increased authority to use that internal revenue for the provision of select public services. Therefore, there will be a need to teach budgeting at the local government level so that the GTs and DTs can publicly reveal to their citizens how the local taxes, fees and charges will be spent. This practice will make local government more accountable and transparent. In doing so, it will also increase local government legitimacy.

3.10 Legal Authority and Responsibility

A thorough analysis of the Public Finance Act (PFA) and Local Government Act (LGA) is necessary to confirm the entity with legal authority to impose and collect local taxes, fees and charges. Discussion with experts of Bhutan's public finance laws indicates differences of opinion about the correct procedures. The procedure for new taxes or changes to existing taxes seems clear. The legal expert recommended that DLG seek a legal opinion from the Office of the Attorney General (OAG). Other agencies have legislation similar to the LGA and have imposed fees without MOF approval. A legal opinion would bring clarity.

Imposing new taxes or making changes to existing taxes requires the MOF to make proposals to the parliament. However, with respect to fees and charges for the Dzongkhags and Gewogs, the PFA requires local authorities to receive MOF approval. The LGA allows LGs to levy taxes and fees in accordance with existing law. Both the PFA and the LGA requires that fees be set at a rate no higher than the cost of most efficient delivering the service.

4. CONCLUSIONS

1. Both Dzongkhags and Gewogs are almost completely dependent on the central government for resources. Local revenue collection is extremely low and most of the revenue collected goes directly back to central government.
2. Most of the revenue collected by Dzongkhags is on behalf of central government agencies and most of the revenue collected by Gewogs is remitted to the RICB in the case of insurance which is much higher than the taxes.
3. Dzongkhags and Gewogs generally understand and comply with collection and distribution rules and regulations for the formal revenues they collect.
4. Dzongkhags and Gewogs service responsibilities lack clear definition and in practice Dzongkhags and Gewogs fund the same responsibilities which may result in duplication.
5. RGoB agencies are moving forward with the long-term goal of reforming the current land and house tax system. In the short-term, increasing the rural taxes established in 1992 could be brought to present value (increase of 439 percent) and / or the tax schedule could be adjusted to provide for more categories for land and houses that approximate value (developed / undeveloped, locations by zone within cities, towns or villages, commercial / residential / agricultural designations, etc.). Finally, changes to rates may be more palatable if phased in over a few years.
6. Gewogs want funding for investment projects. Training can help them to access investment funding sources, prioritise projects, and conduct feasibility studies. Use of public private partnerships (PPP) as defined in the MOF's PPP rules, regulations, guidelines and tools could open opportunities for LGs to contemplate large projects. The establishment of a revolving loan fund might help LGs to meet their more modest project needs.

7. Motor vehicle fee collections are strong and growing. With appropriate approval and capacity building, motor vehicle fees could be made available to Dzongkhags and Gewogs. The fees could provide a growing source of revenue for constructing and maintaining centre roads, farm roads, bridges and mule tracks. Additionally, the Bhutan PPP policy may help guide the development of toll roads.
8. GST proposals have reached the parliament. As the GST structure evolves, proposals to create a shared tax with local government and optional tax increments could be developed. Provisions could be made to distribute a portion of collections back to the originating LG. A share of GST could significantly diversify local government revenues.
9. There are several barriers to reimbursing Gewogs for the cost of collecting life and house insurance for the RICB from the insurance fund: collections are required into the LGA; paying for collection may increase the required government subsidy to maintain current cash flow; and increasing subsidies may be required in the future as Bhutan's population ages. However, if an electronic payment system is developed, the burden on Gewogs will be reduced.
10. Unreported fees currently being collected by local governments need evaluation and refinement to determine whether any are feasible, and whether they might be proposed for formal approval as new LG fees and taxes. From the LGs surveyed, these might include a local business license fee and local transfer tax.
11. Fees are an important revenue source for local services. Currently, Dzongkhags are successfully collecting fees. The potential for supporting large and small local services from water, sewer and waste collection systems to public toilets and public taps should be explored for implementation in communities currently lacking services. Additionally, Thromdes collect many other fees and taxes that can be evaluated for feasibility, including a variety of rental fees.

12. Five major process improvements have been identified: 1) Improve rural tax collection, recording, depositing and reporting practices to eliminate payments made by local officials on behalf of residents and other irregularities. 2) Unreported revenue collections should be scrutinised to reduce the risk of waste or loss. 3) LGs lack an incentive to increase collection efforts for taxes and fees collected on behalf of the central government. 4) Dzongkhags are collecting different revenues and may be able to improve their collections by sharing information and experiences. 5) Variation in what is collected and how it is distributed indicates that clear revenue rules should be trained and enforced.
13. Local revenues are currently not budgeted. Best practice is to formulate and receive legislative approval for an annual budget in advance of spending, then to implement the adopted budget making regular reports on revenue and expenditure. DTs and GTs are likely to require training as local revenue increases with decentralisation.
14. The LGA and PFA are not consistently read and understood by experts. It appears that the law requires tax proposals to come from MOF to the parliament for approval, but fee changes or new fees may or may not require MOF approval.

5. RECOMMENDATIONS

5.1 Quick Wins/Short-Term Recommendations

Recommendations	Activities	To be led by	Stakeholders involved
A. Legislative Reform			
1. Request OAG opinion on the process for establishing new fees and charges as allowed in the LGA without violating provisions in the PFA. An opinion will protect against future claims of inappropriate actions and better define the process for mobilising LG revenue.	<ul style="list-style-type: none"> Consult with the MOF to discuss the ability to amend existing fees and charges or impose new ones without MOF approval. Request an opinion from the OAG following the prescribed process 	DLG	DLG, MOF, OAG
B. Planning for the Introduction of New Taxes, Fees and Charges for Amendments to Existing Taxes and Fees			
<p>2. Some LGs currently impose and retain small fees. In partnership with a coalition of LGs, follow the prescribed process and formally allow all local governments to impose fees for services under the provisions of Section 171 of the PFA and Section 59 of the LGA. These fees include:</p> <ul style="list-style-type: none"> a. parking fees, b. vendor fees, c. market fees, d. hall rental charges, and e. local business operating fees. <p>Prepare guidance for Gewogs and Dzongkhags to assure that service fees are</p>	<ul style="list-style-type: none"> Coordinate with LGs to identify preferred potential fees Coordinate with relevant central service delivery agencies to understand details of service delivery, including investment, operating and maintenance costs Make fee recommendations based on cost of service Present proposal for adoption by the DLG or for MOF approval 	DLG	MOF, Dzongkhags, DTs, Gewogs, GTs, citizen representatives

reasonable and used to operate and maintain that service as per Section 172 of the PFA and Section 60 of the LGA.	<p>as advised by the OAG</p> <ul style="list-style-type: none"> • Include guidance on specific allowed fees, collection, and recording, depositing and reporting in the DLG manual. 		
3. Advocate for legislation to increase rural taxes (land, house, grazing and livestock) by at least a factor of four (adjusting the 1992 rates to present value) and consider the addition of sub-categories to reflect value such as location zones, house size categories, etc. Pair the effort with a commitment to develop a clear local government manual and training programme to assure that Gewog revenues are rationally budgeted by and periodically reported to the GT.	<ul style="list-style-type: none"> • Develop a working group under DLG guidance and assign staff • Consult Gewogs / GTs to identify needs that will be addressed with additional rural tax revenue • Consult Gewogs / GTs to gain agreement for budgeting local revenue and halt the collection of unreported revenue • Develop a training program for Gewogs on budgeting and periodically reporting local revenue and expenditure to the GT • Develop a proposal for adjusting 1992 rural tax rates to present value, including additional categories to reflect value and phasing in rate changes • Brief MOF of the needs and request assistance and support the MOF in 	DLG	Parliament, MOF, Dzongkhags, DTs, Gewogs, GTs

	<p>the development of a tax proposal</p> <ul style="list-style-type: none"> • Support the MOF proposal to Parliament; enlist Gewogs / GTs as advocates 		
<p>4. Explore the feasibility of allowing Dzongkhags to retain some of the fees and charges currently collected on behalf of the central government and develop a comprehensive draft act to integrate the existing laws. These include fees on:</p> <ol style="list-style-type: none"> a. Identity card b. Urban lag thram c. Rural lag thram d. building permit, e. Building plan processing f. Building approval g. land registration h. construction i. modification j. building extension k. education l. site plan m. building approval n. rental o. land leasing p. delayed payment q. environmental clearance r. environmental assessment s. utility building t. name change <p>Various acts will most likely need to be amended.</p>	<ul style="list-style-type: none"> • Develop a more complete list of fees collected on behalf of the central government by surveying additional Dzongkhags • Seek legal advice on the need to amend the relevant acts • In cooperation with MOF, develop the proposal to amend the various acts to allow Dzongkhags to retain the various revenues collected • Develop a comprehensive draft act to integrate existing laws • Support the MOF proposal to Parliament to amend the various acts. 	DLG	MOF, Competent ministries, departments and agencies, OAG, Parliament, Dzongkhags, DTs, Gewogs, GTs

<p>5. Service charges for water, sewer, waste and streetlighting are currently collected by Dzongkhags but not Gewogs. Villages could establish services by accessing grant funds for the upfront investment cost of lines, meters, heavy trucks and earth moving equipment, but do not have a source readily available for operation and maintenance of the services. Explore and document the proper path to allow Gewogs to collect and spend service charges, including the necessity of developing service delivery plans, costing, and analysis of the cost and benefit, including risks.</p>	<ul style="list-style-type: none"> • Review the guidelines for RAF and CMI grants, and other documents to develop simple step-by-step directions on how to write a proposal for funding capital requirements of water, sewer, waste or streetlighting projects including sizing the project, preparing capital and operating/maintenance cost estimates and implementation timetables • Summarise the steps necessary to set service charges sufficient to cover the efficient operation and maintenance of the proposed water, sewer, waste or streetlighting system • Design a training and support system to assist Gewogs to design a system, put forward proposals for capital requirements, and set charges to sustainably deliver services • Deploy the training and deliver ongoing support to Gewogs 	<p>DLG</p>	<p>DLG, Dzongkhags, DTs, Gewogs, GTs, competent ministries,</p>
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<p>6. Explore redirecting the proceeds from some element or percentage of motor vehicle fees to the Gewog where the vehicle is registered, including registration fees, vehicle registration renewable fees, license fees, license renewal fees, fitness test fees, fine and penalties. The fees could continue to be collected in RTSA regional offices with a portion distributed back to Gewogs for local road maintenance and enforcement. This proposal is most likely to require changes to various acts.</p>	<ul style="list-style-type: none"> • Identify the feasibility of distributions some portion of the motor vehicle fees to the Gewog where the vehicle is registered • Identify the steps necessary to authorise the redistribution including the various acts requiring amendment • Draft guidelines outlining how the revenue should be spent (road and mule track maintenance, etc.) • Propose changes to the RSTA and MOF for support • Support a proposal to parliament to change various acts (many require MOF proposal) 	<p>DLG</p>	<p>RSTA, MOF, Dzongkhags, DTs, Gewogs, GTs</p>
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C. Improving Current Taxation and Fees Administration

<p>7. Modernise the life and house insurance system, allowing online payments to reduce the collection burden on Gewogs, and activate proper mechanisms to audit the revenue collected in a transparent and accountable manner</p>	<ul style="list-style-type: none"> • Convene a meeting with the RICB and Gewogs to gain buy-in for an online life and house insurance payment process • Develop a step-by-step plan for modernisation, including resource needs timing and auditing mechanisms • Develop a procedure for unbanked citizens to make payments through CCs • Work with C2G to make payments available through their portal using a transparent and accountable system 	<p>DLG</p>	<p>RICB, BDBL, CCs, C2G, Gewogs, GTs, citizen representatives</p>
<p>8. Facilitate rapid implementation of the online land tax collection system by working with BDBL to train community centre staff so that they can collect cash from local unbanked taxpayers and remit the payment through the online system on their account. Increased timely compliance across Bhutan will increase rural land tax revenue.</p>	<ul style="list-style-type: none"> • Convene a working group to facilitate online payments for unbanked citizens • Develop an accepted method for CC operators to assist unbanked citizens • Develop training materials • Deploy training 	<p>DLG and BDBL</p>	<p>DLG staff, BDBL, G2C, Royal Monetary Authority, Gewogs, GTs, citizen representatives</p>

9. Spearhead an initiative with partners from other departments and agencies who issue permits and licenses including census documents and those agencies who have put their collection processes online to review, streamline and modernise census, permitting and licensing processes so that citizens can access online system and reduce their time and cost of travel.	<ul style="list-style-type: none"> • Identify manual permit and licensing processes which impose the largest burden on rural citizens and the relevant agencies involved in payment and approval • Identify IT expert resources in RGoB to provide advice and BDBL CC advisors • Convene a work group to develop a plan to streamline at least one process important to rural citizens 	DLG	RSTA, Department of Forests and Park Services, RICB, Civil Registration and Census, G2C, RLC, Thimphu Thromde, BDBL, Dzongkhags, DTs, Gewogs, GTs, citizen representatives
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D: Capacity Development

10. Study human resource capacity needs for the Gewogs to retain, administer, and manage local revenue.	<ul style="list-style-type: none"> • Assign DLG staff to lead the study and coordinate with stakeholders • Define staffing needs • Assess existing staff and skills • Define training needs • Make appropriate training available • Seek authority to implement incentives, multi-tasking and other schemes to increase productivity 	D L G	RCSC, Dzongkhags, DTs, Gewogs, GTs
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<p>11. Develop standard operating procedures for local revenue collection, recording, depositing and reporting and encourage local government to adopt guidelines and bylaws that promote transparency and accountability, and facilitate auditing. Consider differentiating revenue SOPs to fit economic conditions in the LGs. (Note that smaller jurisdictions with few revenue sources may require different procedures than their larger and more complex counterparts).</p>	<ul style="list-style-type: none"> • Coordinate with MOF to identify relevant laws, rules and regulations • Identify specific taxes, fees and charges authorised for LG collection and procedures to assure transparency and accountability • In consultation with MOF, RAA, and local governments, develop model SOPs and by laws that can be adapted to accommodate the different conditions among the Dzongkhags and Gewogs • Train local governments 	<p>D L G</p>	<p>MOF, RAA, Dzongkhags , DTs, Gewogs, GTs</p>
<p>12. Fiscal and administrative decentralisation, which seeks to devolve power to LGs, requires specific authority and responsibility assignments. Clarify Dzongkhag and Gewog service responsibilities and specific revenue sources authorised to fund those services</p>	<ul style="list-style-type: none"> • Assign staff to research laws, rules, guidelines, regulations and plans to: define specific service delivery responsibilities, and revenue sources available to support those services • After an internal review, distribute the report to MOF, MOHCA and other entities as needed for review 	<p>D L G</p>	<p>MOF and GNHC</p>

	<ul style="list-style-type: none"> • Based on the report, produce guidelines for Dzongkhags and Gewogs and circulate 		
13. Provide training to gups and Dzongkhags on the uses of block grants to fund the initial investment associated with essential service delivery and impose fees to support operations and maintenance, with the support and approval of the MOF under the leadership of the DLG; assist local governments in developing an evaluation process to assess the feasibility of investment projects and rank projects for block grant funding (or revolving loan funds if developed).	<ul style="list-style-type: none"> • Establish a working group under the direction of the DLG • Research current grant guidelines • Develop a plan to train local governments on the use of grants • Develop training materials on project assessment tools, including feasibility to support ranking projects • Deliver training to appropriate Gewog and DT officials and staff 	D L G	MOF, Gross National Happiness Commission , Dzongkhags , Gewogs
<p>The establishment of working groups to facilitate the necessary interagency cooperation to implement these recommendations could mirror techniques used to promote flagship initiatives in the Five Year Plan. This formal cooperation includes: monthly meetings with implementing partners to report progress; preparation of quarterly reports; and presentation of updates to a steering committee which includes heads of the relevant implementing partners; and sending periodic updates to the GNHC and PMO.</p>			

5.2 Medium-Term Recommendations

Recommendations	Activities	To be led by	Stakeholders involved
A: Planning for Introducing New Taxation and Fees			
1. Promote the transition to a modern property tax system by working with partners from MOF, Thimphu Thromde, RAA, National Land Commission and others to draft proposed legislation to transition to an assessment-based land and house tax system which will provide a sizable and stable revenue stream to support decentralised service delivery responsibilities to Dzongkhags and Gewogs.	<ul style="list-style-type: none"> Form a working group with stakeholder representatives Assess current progress in land and house assessments and identify barriers and potential partners Develop a road map with dates and benchmarks, including resource needs Move to implementation 	DLG or MOF	DLG; MOF: Department of Macroeconomics and Department of Revenue and Customs; Thimphu Thromde; Royal Audit Authority; and Royal Land Commission
2. Move fiscal decentralisation forward by drafting a proposal for MOF introduction to Parliament to provide expanded authority for Dzongkhags and Gewogs to impose and retain taxes, such as: <ol style="list-style-type: none"> property transfer tax urban house tax urban land tax underdevelopment tax 	<ul style="list-style-type: none"> Form a working group with members from relevant ministries, agencies and departments to study and propose taxes to support local government services and reduce dependency on the central government Define project goals Develop a background study TOR and identify resources 	MOF	MOF: Policy and Planning Division Department of National Budget, Department of Public Accounts, Department of Revenue and Customs,

Recommendations	Activities	To be led by	Stakeholders involved
<p>Pair the proposal for expanding local government authority (fiscal decentralisation) with evidence of the need for funding to develop, operate and maintain essential community services, pursue economic development initiatives and reduce dependency on the central government (administrative decentralisation). These funding sources should be used to cover the current operating and maintenance costs that the grants do not address.</p>	<ul style="list-style-type: none"> Based upon the findings and recommendations, develop a road map with benchmarks and timelines to result in draft legislation for presentation to the MOF 		<p>Department of Macroeconomics; Thimphu Thromde; and DLG</p>
<p>3. Introduce other revenue sources based on the potential areas available for each Gewog due to economic potential, biodiversification, resource availability and other factors. The areas of revenue generation may include the following:</p> <ol style="list-style-type: none"> Fees for water source from the community forest on cost sharing basis Allocation of archery range and introduction of fees Allocation of land for commercial farming or industrial activities on lease 	<ul style="list-style-type: none"> Each Gewog to assess its potential for revenue generation activities Propose proper business plans to government DLG to compile and submit to the MoF for endorsement Develop rules and regulations on administration and management of such fees and charges Implementation of new fees or charges 	<p>Gewogs and DLG</p>	<p>MOF: Department of Public Accounts and Department of National Budget; and Dzongkhags</p>

Recommendations	Activities	To be led by	Stakeholders involved
<ul style="list-style-type: none"> a. Rental of property such as power tillers, meeting hall charges etc b. Charges on extraction of minerals, forest and non-wood forest resources c. Fees on ecotourism activities d. Fees on activities such as business set ups during major events or annual festivals e. Other fees and charges based on viability and feasibility of the Gewogs 			
B: Legislative Reform			
<p>4. In partnership with MOF, begin a systematic review of the PFA of 2007 and amendments of 2012, the LGA of 2009 amended in 2014, and various acts assigning responsibility for the collection and use of related fees and charges, to identify areas of incongruity and jointly propose a comprehensive act to integrate existing laws and make changes that support sustainable fiscal and administrative decentralisation and promote increased accountability.</p>	<ul style="list-style-type: none"> • Draft the TOR to define the desired outputs and resources and select members of a working group with finance, governance and legal experts • Activate the working group to assess the LGA, PFA and other related acts to identify areas of incongruity and possible tax incentives and prepare draft legislation 	DLG	Office of the Attorney General, MOF, DLG

Recommendations	Activities	To be led by	Stakeholders involved
As part of the review, investigate the possibility of providing incentives, including rebates for citizens to encourage early payment of taxes and special incentives for green business.	<ul style="list-style-type: none"> • Produce a report with data, summaries and analysis to support the draft legislation for review • Prepare the final report and comprehensive legislative draft act integrating existing laws for circulation and action 		

C: Further Research

5. In lieu of issuing debt, investigate the use of PPPs as per the MOF rules, regulations and guidelines for road projects and local government projects including cash crop leases, rental of facilities and livestock farming. If it is deemed that the PPP is not an appropriate tool for some viable projects, explore the feasibility of establishing a government owned and managed revolving loan fund for rural development projects. Projects are proposed, assessed, ranked and funded by loan administrators. Revenues from projects are directed to project operation and maintenance, and loan repayment.	<ul style="list-style-type: none"> • Assign staff to research the feasibility of using PPP to support local development projects • If PPPs are feasibility, assign a team to support at least one PPP proposal • If it is determined that PPP are not an appropriate tool, assign staff to research the use of revolving loan funds to benefit local government 	DLG	MOF, Thimphu Thromde, National Department of Budget,
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<p>6. Examine proposals to expand local government revenue sources that do not necessarily redirect central government revenue to local governments but may take the form of a new local imposition. (For example, the state GST is an important state revenue source in India where it supports LG revenue and the right of states to levy taxes within their state.)</p>	<ul style="list-style-type: none"> • Research the status of the GST or other consumption taxes proposed or enacted in Bhutan • Discuss the possibility of amending existing or proposed direct and indirect general taxes to provide for a revenue stream to LG • Assess the readiness of LG to budget and manage significant revenue streams and identify gaps • Based on findings, make a decision to move forward and develop a roadmap if indicated, to include legislative drafting 	DLG	MOF, Dzongkhags, DTs, Gewogs, GTs,

The establishment of working groups to facilitate the necessary interagency cooperation to implement these recommendations could mirror techniques used to promote flagship initiatives in the Five Year Plan. This formal cooperation includes: monthly meetings with implementing partners to report progress; preparation of quarterly reports; and presentation of updates to a steering committee which includes heads of the relevant implementing partners; and sending periodic updates to the GNHC and PMO.

6. ANNEXES

6.1 Glossary

Block Grant - a grant from central government which a local authority can allocate to a wide range of services. Both the RAF and CMI are block grants with the RAF allowing more flexibility than the CMI grant.

Capital expenses - are incurred when a government spends money or takes on debt to either buy a new asset or add to the value of an existing asset with the expectation of receiving benefits for longer than a single tax year. Essentially, a capital expenditure represents an investment.

Efficiency – is getting the most out of the resources used. The higher the ratio of output/input, the greater the efficiency.

Decentralisation – Decentralisation is a complex and multifaceted concept that spans fiscal, administrative and political dimensions to transfer authority and responsibility to lower levels of government. *Fiscal decentralisation* shifts defined responsibilities for expenditure and/or revenue; *Administrative decentralisation* transfers decision making authority and responsibility for allocation to support specific public services as assigned to different levels of government; and political decentralisation transfers political power and authority.

Equity – is fairness with regard to how systems of taxation work. Equity examines whether taxes treat fairly people with the same ability to pay (horizontal equity) and people with different abilities to pay (vertical equity).

Fees and charges - are both voluntary payments to the government for providing a special service rendered by government in the public interest. A special benefit is conferred on the person paying the fee. Fees and charges are mostly imposed to regulate or control various types of activities. The terms are used interchangeably in Bhutan laws. The Local

Government Act refers to fees and charges for Gewogs in Sections 59 and 60 but does not define or differentiate between the two. For the purpose of this document, water, sewer and solid waste are charges collected by Dzongkhags. Fees include a variety of Dzongkhag and Gewog collections for permits, registrations, certificates, cards, assessments, and penalties, primarily collected on behalf of and distributed to the central government

Grants - Capital grants to LGs are allocated based on Resource Allocation Formula (RAF) and Common Minimum Infrastructure (CMI) needs. CMI grants are used to reduce disparities in distribution of common public infrastructure and facilities among Dzongkhags, Gewogs and Thromdes. The required CMI with indicative costing have been determined in close consultation with LGs and central agencies.

Operating expenses - are expenses incurred during the course of providing regular government services, including salaries, supplies, utilities, regular maintenance and administrative expenses. Operating expenses are much easier to understand conceptually than capital expenses since they are part of the day-to-day operation of government. All operating expenses are recorded in the period when they were incurred.

Revenue - in the LGA Section 304 includes taxes, duties, tolls, fees, and charges. The Public Finance Act definition includes taxes, fees, charges and income from sales.

Tax - is a compulsory contribution to state revenue levied by the government. Taxes may be imposed on income (personal, business and corporate income tax), property (land, house, cattle tax) and transactions (sales of good and services tax). There is no assumption of the receipt of a particular service or benefit in exchange for payment of tax.

6.2 Terms of Reference

Project	Technical Assistance for Renewable Natural Resources and Climate Change Response and Local Governments and Decentralisation (EU-TACS) –EuropeAid/139521/DH/SER/BT
Activity	Study for Local Government Rural Revenue Mobilisation Strategy
Start/end date	From 25 November 2019 to 17 February 2020
Inputs	Intermittent with Phases and inputs to be confirmed as part of Inception Report
Travel	Travel within Bhutan as part of the Study to <i>at least</i> three Dzongkhags and three Gewogs (or more) ⁷
Supervision	The subcontract will be held with DAI Brussels. The authorised supervisor for this activity will be the EU-TACS Team Leader.
Location	Thimphu, Bhutan with travel within Bhutan as part of the Study to at least three Dzongkhags and three Gewogs (or more)

1. INFORMATION AND CONTEXT

Country and local government and fiscal decentralisation sector background

Bhutan is a small, land-locked and Least Developed Country (LDC) situated between two large neighbours, i.e. India and China. The total population is currently about 775,000 persons. Bhutan has a total land area of 38,394 km² of which 72.5 per cent are covered by forest. According to 2015 national data, the population below the poverty line, i.e. with a per capita income below USD 1.25 per day, stands at 8.2 per cent. Bhutan's economy is traditionally based on agriculture and forestry which provide the main livelihood for more than 60 per cent of its population.

⁷ Rationale for the selection of the Dzongkhags and Gewogs should be included within the Inception Report's study methodology. A minimum of three of each (or more) should be identified with criteria, inter-alia, based on spread of geographical location across Bhutan, Annual Performance Assessment (APA) performance, and socio-economic context.

The Constitution and the Local Government Act of Bhutan, enacted in 2009 and amended in 2014, provides for direct participation of the people in the development and management of their own social, economic and environmental well-being through decentralization and devolution of power and authority. These laws stipulates that Local Governments be established in each of the 20 Dzongkhags (districts) comprising the Dzongkhag Tshogdu (District Assembly), Gewog Tshogde (County Council) and Thromde Tshogde (Municipal Council). It provides Local Governments with a set of administrative, regulatory, service delivery, and financial powers and functions for governance at the local level.

Since the early 1980s, decentralization has been a key policy objective of the RGoB. Article 22, Section 1 of Bhutan's Constitution states that "power and authority shall be decentralized and devolved to elected local governments to facilitate the direct participation of the people in the development and management of their own social, economic and environmental well-being". The objective of the 12th Five Year Plan (FYP) (2018-2023) is to promote "Just, Harmonious and Sustainable Society through Enhanced Decentralization". Hence the European Union's (EU) Sector Budget Support – Capacity Development for Local Government and Fiscal Decentralisation (CDfLG&FD) which is being implemented by the Department of Local Governance (DLG), Ministry of Home and Cultural Affairs (MoHCA), Royal Government of Bhutan, will support the achievement of the objectives of the 12th FYP with regard to enhanced decentralisation and better governance at local levels.

Local revenue legislative and policy context

Local revenue mobilisation is an important aspect of good governance, where the levels of government closest to the people can become more autonomous, and citizens can hold their local governments (LGs) accountable for the expenditure of their money.

In Bhutan, Clause 18, Article 22 of the Constitution entitles LGs to levy, collect, and appropriate taxes, duties, tolls, and fees in accordance with such procedure and subject to limitations as may be provided for by Parliament by law.

The Public Finance Act of Bhutan 2007 provides that the Parliament will endorse the requirements of raising revenues through taxes and that the Parliament shall enact laws or resolutions related to public finance, within the principles of financial sustainability in the best interests of the people of Bhutan. The Act also provides that the Minister of Finance shall be responsible, inter alia, for: (a) framing fiscal policies and managing the fiscal affairs of the Government as a whole; (b) proposing taxation measures to the Parliament, and raising other revenues and resources for the Government;

Section 57 of the Local Government Act 2009 allows Gewog Tshogde (GT) to mobilise and spend money for the support of its functions in accordance with RGoB's policies, rules and regulations. Upon approval by the Parliament, GT can levy taxes on land, building, cattle, grazing, entertainment and advertisement other than advertisement in newspapers, print, radio and internet, and such other taxes as may be determined by Parliament from time to time. GT could appropriate, levy and vary rates of fees and charges on utilities in accordance with the existing law. Section 216 of the LG Act provides financial autonomy to LGs to levy, collect and appropriate taxes, fees, tools, duties and fines in accordance with such procedures and subject to limitation as may be provided for by law.

The 12th FYP has devolved 50 percent of total capital grants for Dzongkhags, Gewogs and Thromde 'A's - doubled since the 11th FYP. The route map for decentralisation is currently being formulated through a Decentralisation Policy and Action Plan. The Policy is now being screened by the GNHC before it is adopted by the government.

Challenges in current Local Government rural revenue policy and practice

Currently, LGs' own revenue sources are not considered as part of the financing for their development plans, and the entire funding of the LG budget is currently provided by the Government. In FY 2016-17, fiscal transfers made up 86.6 per cent of Dzongkhag financing, with the balance 12.7 per cent coming from grant funding and 0.7 per cent from loan financing.

The sources for internal revenue are limited and the current rates of rural taxes, which have not been changed since January 1993. Therefore, the amount collected is meagre: annual revenues from rural taxes range from Nu. 20,000 to Nu. 30,000 per annum, per Dzongkhag.

Three studies have been undertaken in recent years in relation to local revenue. A study into Fiscal Decentralisation was undertaken by RGoB in 2017⁸. It has been found that the LGs are fully dependent on the central government for financing their budget. At present, there is no locally generated revenue financing the budget expenditures. In Fiscal Year (FY) 2013-14 Dzongkhags collected the following total amounts of local taxes: house tax: Nu. 4.8 million; land tax: Nu.34.2 million; and cattle tax: Nu. 0.383 million. This minor revenue generation is retained by the Gewogs to meet petty expenses outside the budget.

⁸ FISCAL DECENTRALISATION IN BHUTAN, DEPARTMENT OF LOCAL GOVERNANCE, MINISTRY OF HOME AND CULTURAL AFFAIRS (UNDP AND UNCDF), 2017

Examples of revenue raising (including: taxes, fees, service charges, duties, tariffs, fares, loan investments, fines and penalties, auction sale of goods, contracts etc.) as well as revenue sharing arrangements are cited from the Philippines, Nepal and India.

The study has found that citizens consulted were generally of the view that since both the living standards of people and disposable incomes have improved in recent years that increased local taxation, fees and charges would contribute towards reducing income disparities and poverty. The study identified the possible re-assignment of some fees to LGs, currently retained by central government: business and professional license fees collected by the Department of Revenue and Customs, which amounted to Nu. 87.40 million in FY 2015-16; motor vehicles license fees; and fees from the operation of mines and quarries. However, the study recommended that usage of this revenue should be tied to income and employment generation in the locality, and not for ad hoc activities as is the case now.

The second study – a Municipal Finance Policy Note, was prepared by the World Bank in 2019⁹. Whilst the Policy Note focuses on the Thromdes, it has made observations that are also applicable to mandate of LGs in relation to fiscal decentralisation and domestic revenue mobilisation. It explains that in 2012, the Gross National Happiness Commission (GNHC) developed a Division of Responsibilities Framework (DoRF) to divide roles and delineate responsibilities amongst the central agencies, Thromdes, Dzongkhags and Gewogs based on three key principles: (a) assignment of expenditure responsibilities, (b) assignment of tax and revenue sources, and (c) intergovernmental fiscal transfers between the national government and local governments. Bhutan's functional and fiscal assignments are a combination of devolution, delegation and deconcentration, but have not been supported by a simultaneous expansion of resources, with limited strengthening of local government

9 MUNICIPAL GOVERNANCE AND FINANCE POLICY PAPER, ONE OF FOUR BHUTAN-FOCUSED URBAN POLICY NOTES PRODUCED BY THE WORLD BANK.

systems and enhancement of local accountabilities, all of which they consider would create the capabilities and incentives for better municipal government performance.

They identified issues affecting revenue collection as including: a weak revenue management system; little incentive or motivation to enhance own revenue sources; lack of government approval of an attempt to revise the rates in FY 2016/17; no own-revenue targets are set and performance is not assessed; limited capacity to assess, administer and monitor collection; and methods of assessment are not transparent.

The study provides examples of practice in the USA and Organisation for Economic Co-operation and Development (OECD) countries in relation to role of property (land, house and property taxes) taxes as part of local revenues. The Paper explains the benefits of such taxes which are among the most predictable sources of revenues for local governments. To update such taxation would require a database an inventory – registry of land and properties, based on a model of valuation.

The Policy Note identifies other requirements to increase the efficiency of revenue mobilisation, including strengthening local revenue administration through business process re-engineering and publishing revenue collection performance reports, for example. The report identifies that there are no institutional platforms in Bhutan for systematic exchange of information and dialog between the central government and LGs, thus limiting avenues for intergovernmental coordination and cooperation; which this ToR observes could provide a forum for the discussion of domestic revenue policy, strategies and generation.

The third study – Local Governance Assessment Study¹⁰ was published by Helvetas in 2016. It found that the collection of rural taxes is not cost effective. Generally, the costs of collection (e.g. staff time and transport costs) exceed the revenue collected. Furthermore, they found that Gewogs

¹⁰ THE ASSESSMENT WAS UNDERTAKEN BY HELVETIA'S FOR THE NATIONAL COUNCIL OF BHUTAN.

do not have designated revenue officers who can dedicate time to collection of revenue. The assessment noted that elected LG officials perceived taxes to be an unpopular way of increasing funds and citizens did not see the direct benefits of taxation, through improved service delivery for example.

The assessment highlighted the need to consult citizens on changes in local taxation. Before introducing new taxes and revenues, Gelephu Thromde first initiated consultations with citizens to agree on what would be fair and realistic rates. It also established a social contract that the increased revenue must be used to improve the delivery and quality of services in the municipality. The assessment concluded that policy-makers should consider whether the financial sustainability and ideally even self-reliance of LG shall primarily come through increases in rural taxes or through reviewing of the national tax system (including more effective corporate taxation and for foreign direct investments), since raising rural taxes has clear limits, as often poor people bear the biggest burden.

SCOPE OF WORK

Assignment Objectives

The **EU-TACS project objective** of which this Study is a part is: “to assist Bhutan in achieving the reforms envisaged in its 11th and 12th Five Year Plans in the Local Government and Fiscal Decentralisation sector.

The **EU-TACS project** (RfP - Annex 1) **purpose** is: “to provide consulting services including technical assistance and studies in support of sound implementation (including communication aspects) of the EU-bilateral development cooperation strategy in Bhutan, with particular focus on the two sector budget support programmes currently being implemented in Bhutan under the Multi-Annual Indicative Programme 2014-2020, i.e. (1) Capacity Development for Local Government and Fiscal Decentralisation and 2) Rural Development and Climate Change Response”.

The **Local Government Rural Revenue Mobilisation Strategy assignment objectives** are to support the DLG to develop such a strategy by reviewing exiting policies and practices; increasing efficiency of collection; exploring alternative/additional sources of revenue; and ultimately identifying ways of maximising collection.

Study Activities and Tasks

Activities

The Study **to be undertaken by a local firm/organisation/Institute** will provide the inputs to inform the drafting of the Strategy through the following **activities**:

- (a) Carry out a policy review of the current rural revenue mobilisation legislative and policy frameworks, regulatory guidelines, and their usage (revenue sharing);
- (b) Review and analyse current types of Tax and Non-Tax Revenue Sources for LGs (see Appendix 3) and current rates, including a cost/benefit (value for money) analysis of current each type, and particularly, explore alternative/additional/changes in types of Tax and Non-Tax Revenue Sources;
- (c) Undertake a situation analysis of the LGs internal revenue generation arrangements and procedures (on paper and in practice), their methods, systems and costs of collection (and identify where costs of collection exceed revenue collected), and current capacity to do so;
- (d) Identify ways of increasing capacity to administer and manage local revenue collection (including revenue that may currently be collected by the Department of Customs and Revenue centrally or regionally and could be administered locally with revenue sharing arrangements); efficiency of collection methods, including arrangements, methods, systems; and capacity development improvements, and make recommendations accordingly; and
- (e) Draft short (including quick wins) and medium-term recommendations in relation to findings of (a), (b), (c), and (d) above for DLG, LGs, Ministry of Finance, Parliament and other related agencies

for increasing LG Rural Revenue Mobilisation on strengthening fiscal decentralisation.

The design and planning of the study, and formulation of the recommendations, strategy and action plan should be carried out with close collaboration with DLG and LG staff.

(The Senior Non-key Expert (SNKE) will be responsible for **directing, advising and quality assuring all aspects of the local firm/organisation/Institute's Study activities and reports** including: design of approach and methodology, planning, execution, analysis, validation of findings, conclusions and recommendations).

The SNKE will ensure that the Study is designed, undertaken and completed to meet international research quality standards, remains on track and delivered on time.

Specifically, the SNKE will bring experience and knowledge of international good practice in relation to LG Rural Revenue Mobilisation.

The SNKE will be responsible for finalisation and quality assurance of the Study report, and in particular the (a) formulation of short and medium recommendations, and (b) Drafting the Local Government Rural Revenue Mobilisation Strategy and costed Action Plan).

Tasks

- (a) Prepare Inception Report including Workplan (see Appendix 1 Template) and seek endorsement of DLG for the study methodology, and process-steps to apply in carrying out the assignment.
- (b) Review all relevant policy documents, Acts, Regulations, Rules and Manuals pertaining to revenue mobilisation and usage. The list of documents reviewed would be confirmed during finalisation of the inception report.
- (c) Carry out stakeholders' consultation at the central level, with relevant agencies and individuals, particularly with MoF and GNHC in relation

to legislative framework, policies, procedures and usage of revenue collected.

- (d) Carry out field visit to *at least* three Dzongkhags and three Gewogs (or more)¹¹ for document, system, procedural review and stakeholder consultation on type and size of existing revenue, process and cost of collection, use and effectiveness, including challenges faced and suggestions for policy/system/procedural and efficiency improvements and recommendations.
- (e) Draft Study Report (see Appendix 2 Template)

RESULTS TO BE ACHIEVED

The main development-oriented results to be achieved through the activity shall be:

- a) The Department of Local Governance will gain a clear understanding of the most effective policy options in relation to efficient revenue mobilisation and revenue sharing in the short and medium-term; and
- b) The Local Governments will share their views on the enabling factors and barriers in terms of methods, systems, costs and organisational capacity, and possible improvements and solutions to increasing revenue generation and accountability to their local communities.

¹¹ Rationale for the selection of the Dzongkhags and Gewogs should be included within the Inception Report's study methodology. A minimum of three of each (or more) should be identified with criteria, inter-alia, based on spread of geographical location across Bhutan, APA performance, and socio-economic context.

ACTIVITIES, DELIVERABLES AND REPORTING

The following deliverables will be drafted by the Study Team (and finalised and quality assured by the SNKE):

- (a) Draft and Final Inception report including workplan, in soft copy (Appendix 1);
- (b) Presentation of Inception Report to RGoB Reference Group (chaired by DLG);
- (c) Interim Progress Update (presentation) at mid-way point of Study;
- (d) Two soft copies of draft Study Report (Appendix 2) and two soft and hard copies of Final Study Report, after incorporating RGoB and EUD comments;
- (e) Presentation of draft Study Report to RGoB Reference Group.

The Survey Team will report to the SNKE and provide draft inputs to them. (All written outputs will be delivered by the SNKE to the TL as determined by the agreed workplan).

A workplan will be produced by the Survey team and finalised by the SNKE and will adhere to the following deadlines:

- Draft Inception Report within 5 days of project commencement
- Completion of Study tools and training of Study enumerators/researchers within 10 days of project commencement
- Draft Study Report within 6 weeks of commencement of project
- Allow 10 days for comments on draft reports by RGoB and EUD
- Finalise reports within 5 days of comments being received

Formats for the reports are found at Appendix 1 and 2. Further specific guidance will be provided by the EU-TACS Team Leader.

Reports will be produced in English. The Executive Summary of the Final Study Report should be translated into Dzongkha.

10 hard copies of the Final Report should be provided to be distributed by EU-TACS to: DLG, GNHC, Ministry of Finance (MoF), United Nations (UN), World Bank, Asian Development Bank (ADB), Helvetas and others.

Target groups

The design and planning of the study, and formulation of the recommendations, strategy and action plan should be carried out in close collaboration with DLG and LG staff. Central government stakeholders, in addition to DLG include the Ministry of Finance, Department of Revenue and Customs; and the GNHC.

The key stakeholders at LG level are the (at least) three Dzongkhag and three Gewogs, to be selected by the firm as part of the design of the Study methodology. They should be consulted in relation to current enabling factors and barriers to the efficiency of the local revenue mobilisation.

In addition to the LG staff, communities – including local civil society organisations and the private sector should also be consulted on the potential options for increasing local revenue and the expectations of these stakeholders of LG in return.

Geographical area

(At least) three Dzongkhag and three Gewogs should be selected by the firm as part of the design of the Study methodology. Their poverty status, accessibility/isolation and population size should be taken into account to determine a mixed sample. The selection of LGs should be agreed with the Department of Local Governance, who are likely to attend at least some of the LGs along with the Study team.

ASSUMPTIONS AND RISKS

Assumptions underlying the activity

The following assumptions have been made to enable the Study to be undertaken successfully:

- The design and planning of the study, and formulation of the recommendations, strategy and action plan should be carried out with close collaboration with DLG and LG staff;
- The DLG will be available to make contribute to the design, planning, formulation, and oversight of the study;
- The DLG will inform the selected LGs of the Study enough time in advance for the interviews, surveys and focus groups etc. to be arranged;
- The LGs will pro-actively arrange interviews, surveys and focus groups etc. and be open about their views and current revenue mobilisation arrangements;
- The Study researchers will be properly trained and reflect a gender balance;
- Consultees shall be selected based on representative socio-economic factors, including gender and age; and
- The Study will be carefully managed to ensure that all deadlines are adhered to.

Risks

Risk	Potential Impact	Mitigation measure
There is little in-country knowledge about tax and non-tax revenue collection.	Options for alternate and most lucrative increased revenue may not be identified.	Local firm should have some experience and/or knowledge of local revenue mobilisaiton initiatives in the region. SNKE will have good track record in undertaking studies/working with LGs

		to increase revenue mobilisation in the region.
The Study may be delayed during the period due to adverse weather conditions.	The Study is delayed which in turn delays policy decisions taken by the RGoB.	The Study methodology allows for 'Plan B' for each LG selected and carefully plans its logistics.
The Study does not engage a representative sample of LGs.	The possible solutions and options for increased effective and efficient revenue mobilisation may not be maximised.	The evaluation team, including DLG will finally approve the sample of LGs proposed.
The options proposed for increasing revenue mobilisation may not be politically acceptable.	The options proposed for increasing revenue mobilisation are not adopted and revenue is not increased.	The Study firm, and EU-TACS team along with the Study Reference Group will ensure that options proposed have been subject to a robust cost/benefit analysis and reality check.

PROJECT MANAGEMENT AND LOGISTICS

Management structure

The successful firm will be issued a subcontract by DAI Brussels. The EU-TACS project Team Leader will take administrative and financial decisions for this subcontract. S/he is supported by a Senior Project Manager and Project Officer based in Bhutan, as well as DAI Brussels Home Office backstopping team.

The Senior Non Key Expert (SNKE) Local Government Rural Revenue Mobilisation Strategy will be supervisor with responsibility for supporting the design, monitoring, reporting and quality assuring the Study. The Team Leader/KE Local Government and Fiscal Decentralisation will be responsible for the oversight and final quality assurance of all deliverables of the Study.

6.3 Annex Tools and Focus

TOOL #1

Budgeted Revenue Received (Nu Millions)			Remit/Revert to Central Govt? (Y/N)	Is the use of the revenue dedicated to specified purposes?
Name of LG: _____	FY 2018-19 Dzongkhag Gewog			
Intergovernmental Transfer (RAF) by sector			Revert year-end Balance?	Are projects specified in the budget?
✓ Health				
✓ Education				
✓ Agriculture				
✓ Discretionary				
✓ Other _____				
Annual Grants			Revert year-end Balance?	Are projects specified?
✓ DDG				
✓ RAF				
✓ CMI				
✓ Other _____				
Rural Taxes Collected by Local Government			Remit yearly Collections?	Is spending directed to a specified purpose? Are remitted revenues re-appropriated to the specific LG?
✓ House				
✓ Land				
✓ Cattle				
✓ Grazing				
✓ Entertainment				
✓ Advertising				
✓ Other _____				

Budgeted Revenue Received (Nu Millions)			Remit/Revert to Central Govt? (Y/N)	Is the use of the revenue dedicated to specified purposes?
Name of LG:	FY 2018-19			
_____	Dzongkhag	Gewog		
Fees Collected by LG			Remit yearly Collections?	How is spending directed? Must it be spent of purposes related to the fee?
✓ Land Development and Subdivision				
✓ Land Demarcation				
✓ Building Permit				
✓ Land Registration				
✓ Site Plan				
✓ Vehicle Parking				
✓ Market Vendor				
✓ Advertisement				
✓ Building Approval				
✓ Land Leasing				
✓ Delayed Payment				
✓ Other _____				
Service Charges Collected by LG			Remit yearly Collections?	Is spending limited to support the service?
✓ Water				
✓ Sewage				

Budgeted Revenue Received (Nu Millions)			Remit/Revert to Central Govt? (Y/N)	Is the use of the revenue dedicated to specified purposes?
Name of LG:	FY 2018-19			
_____	Dzongkhag	Gewog		
✓ Connection				
✓ Solid Waste				
✓ Pipe realignment				
✓ Housing				
✓ Other _____				
Contributions Collected by LG			Remit yearly Collections?	Who directs collection and spending?
✓ Roads				
✓ Water				
✓ Fire				
✓ Other _____				
✓ Other _____				
LG Investment Income			Remit yearly Collections?	Who directs collection and spending?
✓ Rents				
✓ Royalties & interest				
✓ Other returns				

TOOL #2

Index of Rural Taxes, Fees and Service Charges (complete separate sheet for each tax/fee/charge collected by each LG) Fiscal Year July 1 – June 30

Name of Dzongkhag/Gewog:

Name of Fee/Tax/Charge:

Law Imposing Fee/Tax/Charge:

Authorities setting and approving Fee/Tax/Charge:

Current Rate or Fee Amount:

Name of government collecting:

Method of collection:

Timing of collection (due dates):

Base (Fee/Tax/Charge Imposed on):

Penalty for non-payment provisions:

Where is revenue directed (to the central or local government, or elsewhere?): _____

Is the use of the revenue specified? If so, to what purpose?

Is there a registry of tax/fee/charge payers?

History of changes of changes in the Fee/Tax/Charge rate and base?

Factors that influence the Fee/Tax/Charge revenue:

Cost of Collection (total and cost elements, e.g. labor, transportation, supplies, etc.) _____

Social Benefits (not quantified, e.g. encourage recycling and waste reduction) _____

Collections by year (Nu in Thousands)

REVENUE	ACTUAL REVENUE FY 2014-15	ACTUAL REVENUE FY 2015-16	ACTUAL REVENUE FY 2016-17	ACTUAL REVENUE FY2017-18	ACTUAL REVENUE 2018-19
Annual Nu in 000s					
Fines /Penalties Nu in 000s					

REVENUE PROCESS (notes)

For each revenue, define the required revenue imposition, collection, recording, deposit and reporting process per Bhutan laws, rules and regulations. These requirements may be different depending upon the tax, fee or service charge. Compare the required process to the practice observed. Note gaps and recommendations for improvement.



1. What is the official procedure as defined in laws, rules and regulations?
- a. Impose:

b. Collect:

c. Record:

d. Deposit:

e. Report:

2. What is done in practice?
 - a. Impose:
 - b. Collect:
 - c. Record:
 - d. Deposit:
 - e. Report:
3. What are the major gaps?
4. What are the monitoring arrangements to assure compliance?
5. Suggestions for improvement

References (this list is incomplete, other laws, rules and regulations may apply)

Impose:

PF Act 2007

- 39 (a) Local authorities may set, vary and annul authorized local charges for service delivery
- 39 (d) expenses defrayed from local revenues must be approved by the local governing body

Local Government Act (2009)

- 216. Local Governments shall be entitled to levy, collect and appropriate taxes, fees, tolls, duties and fines in accordance with procedures and limitation provided in law
- 220. Local Governments have the power to spend funds generated from local taxes fees and fines...

Collect:

Local Government Act (2009)

- 28. Local governments are entitled to levy, collect and appropriate taxes, duties, tolls and fees as allowed by law

Local Government Act (2009)

- 59. Gewog Tshogde may levy and vary rates of fees and charges on utilities
- 60. Rates must not be excessive, contrary to law or policy, and not higher than the cost of the most efficient method of providing the service

Local Government Rules and Regulations (2012)

- Payments for tax, premiums, duties, tolls and fees are made to the Gewog accountant.

Record:

Local Government Act 2009 (as amended in 2014)

- Gewog and Dzongkhag Thromde Administrations shall prepare and submit accounts as per the financial rules and regulations

Deposit:

FAM Manual (2016)

- 1.6.10.5 Requires deposit same or next day except rural locations without banks have up to 10 days
- 1.6.14.1 Provides for Current Deposit accounts for management of activities outside of the budgetary system with the permission of the Department of Public Accounts
- 1.6.14.2 Allows money collected and budgetary releases for a specific purpose to be deposited in a CD account
- 1.6.14.3 Capital grants are passed to the CD through the budget
- 1.6.14.5 Expenditures from CDs are subject to financial rules and regulations
- 1.6.14.8 Supplementary funds from fees and charges for service are deposited into CD accounts, with permission from the MOF
- 1.6.15.2 All deposits require deposit invoices from the accounting system,
- 1.6.15.6 Reference to the deposit invoice is kept in the depositor's cash book

Report:

Revenue Manual (2019)

- 1.4.1.1 RAAD compiles Rural Tax collection

PF Act 2007

- 40. Local authorities prepare and submit annual reports to the portfolio minister and the MOF no later than three months after the end of the fiscal year

Local Government Act 2009

- 147 (c) Chairpersons of Local Governments must submit annual reports, including all funds received, including revenue, income and subsidy expenditure

TOOL #3

Local Government Revenue Focus Group Topics

Interview/Focus Group Questions				
Inter-governmental Transfers	Is ministry service funding for operations in the rural areas predictable? Is volatility a problem? Is there a need for better consultation, coordination and collaboration between central and local government?	Should proposals that support poverty reduction, environment and climate goals be prioritized?	Does LG need staff/training to improve expenditure management? Should procurement rules be revised to improve implementation?	How could current IGT funding for ministry services be more responsive to local needs?
Grants	Are DDG and GDG grants well received? Are they perceived as fair and adequate? Can management/efficiency be improved?	How can grants encourage innovative projects?	What can be done to encourage public input into project selection?	How can LGs address maintenance needs once projects are operational?
Revenue Sharing	Rural taxes should not change because poor farmers can't pay more. Should house and land tax rates be increased, value based, and/or directed to specific economic development purposes?	Should Business license fees be assigned and retained by Dzongkhags/Gewogs? If so, for what purpose?	Should LGs be incentivized to collect business license fees and use proceeds to grow the local economy through development projects?	Should Dzongkhags/Gewogs impose and retain motor vehicle license fees? If so, for what purpose?

Community Engagement	Are community volunteers/contribution used to support service delivery projects (solid waste management, fire protection, etc.)? Is this effort significant? How can this be increased? Are there efforts beyond the required infrastructure building and maintenance?	Would community members be willing to pay fees to support basic services (water, waste, market sheds, farm shops, hospitals, schools, etc.)? What would the community expect in return?	Should the community be engaged to report maintenance needs, or volunteer in community projects to clean, repair, etc.?	How can citizens be more engaged in setting LG budget priorities? How can LG keep citizens informed? How can LG engage citizens in decision making?
Service Charges	Should LGs ask the central government for more service delivery responsibility? Or, should LG focus on their current service delivery responsibility to do a better job? Should fees increase to support local service (water, waste, etc.)?	Should LG have more autonomy to set fees, prioritize projects, and spend to execute projects with only local council approval, and DLG/Central Government guidelines/oversight? Will service improve?	Should LGs do a better job to develop their own budgets that support their service delivery responsibilities? Should these rural revenue budgets require only council approval and DLG oversight?	How should fees be collected? Can LG spend the revenue collected? Is there adequate LG collection, accounting, finance and procurement staff? Is the collection process clear?
Economic Development	Should LG be able to commercially borrow?	Do LG's need to update their inventory of property?	What viable economic development options exist that could be attractive for a PPP?	What investment proposals is the local government requesting in the annual budget?

TOOL #4

Budget to Support Service Delivery by Local Government

Services Funded in FY 2018-19 Budget (Nu millions)		
Please note source of funding		
Name of Dzongkhag/Gewog	Dzongkhag	Gewog
Construct/Maintain bus stops, bus terminals, taxi parking		
Construct/Maintain Gewog center roads		
Construct/Maintain Farm roads, mule tracks		
Waste management		
Construct/Maintain Water source protection		
Construct/Maintain Market sheds		
Construct/Maintain Farm shops		
Human/wildlife management		
Construct/Maintain Irrigation channels/river protection		
Construct/Maintain rainwater harvesting		
Construct/Maintain Livestock, agriculture, horticulture farms		
Construct/Maintain electric/solar fencing		
Maintain Veterinary hospitals		
Maintain District hospitals		
Construct/Maintain Rural water supply		
Undertake eco-tourism		
Construct/Maintain higher/middle/lower secondary schools		
Construct/Maintain primary schools, extended classrooms, ECCD, non-formal education mitigation		
Maintain Dzongs		
Construct/Maintain monasteries/temples		
Initiate small/cottage/medium industries		
Other		
Other		

6.4 Focus Group Discussion (FGD) Questions

1. Intergovernmental Transfers

- a. Is ministry service funding in the rural areas predictable? Is volatility a problem?
- b. Is there a need for better consultation, coordination and collaboration between central and local government?
- c. Should proposals that support poverty reduction, environment and climate goals be prioritised?
- d. Does LG need staff/training to improve expenditure management?
- e. Should procurement rules be revised to improve implementation?
- f. How could current IGT funding for ministry service be more responsive to local needs?

2. Grants

- a. Are DDG and GDG grants well received? Are they perceived as fair and adequate? Can management/efficiency be improved?
- b. How can grants encourage innovative projects?
- c. What can be done to encourage public input into project selection?
- d. How can LGs address maintenance needs once projects are operational?

3. Revenue Sharing

- a. Should house and land tax rates be increased, value based, and/or directed to specific economic development purposes?
- b. Should business licence fees be assigned and retained by Dzongkhag/Gewogs? If so, for what purpose?
- c. Should LGs be incentivised to collect business licence fees and use proceeds to grow the local economy through development projects?
- d. Should Dzongkhag/Gewogs impose and retain motor vehicle licence fees? If so, for what purpose?

4. Community Engagement

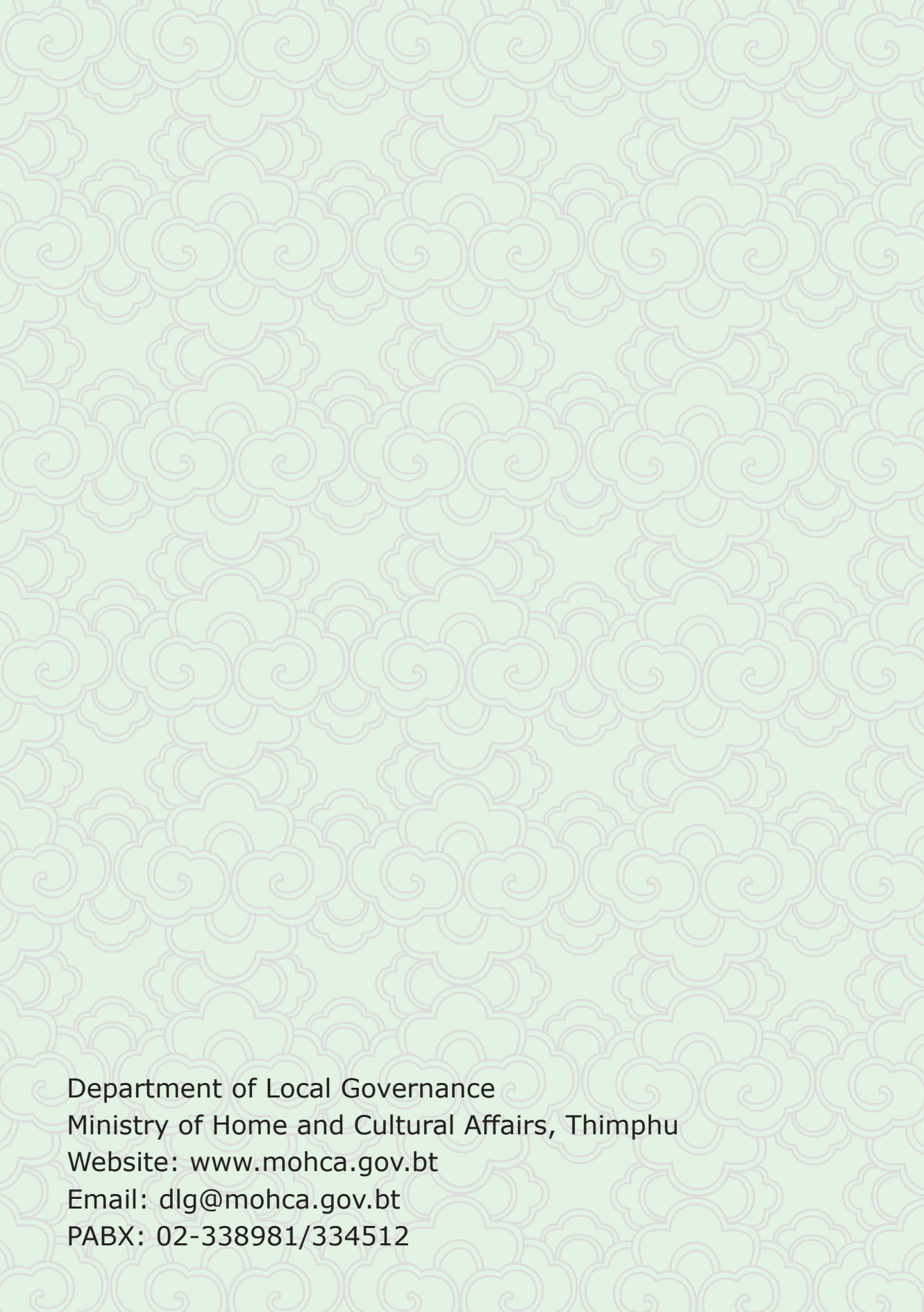
- a. Are community volunteers/ contribution used to support delivery projects (solid waste management, fire protection, etc.)? Is this effort significant? How can this be increased? Are there efforts beyond the required infrastructure building and maintenance?
- b. Would community members be willing to pay fees to support basic services (water, waste, market sheds, farm shops, hospital, schools, etc.)? What would the community expect in return?
- c. Should the community be engaged to report maintenance needs, or volunteer in community projects to clean, repair, etc.
- d. How can citizens be more engaged in setting LG budget priorities? How can LG keep citizens informed? How can LG engage citizens in decision making?

5. Service charges

- a. Should LGs ask the central government for more service delivery responsibility to do a better job? Should fees increase to support local service (water, waste. etc.)?
- b. Should LG have more autonomy to set fees, prioritise projects, and spend to execute projects with only local council approval and DLG/Central government guidelines/oversight? Will services improve?
- c. Should LGs do a better job of developing their own budgets that support their service delivery responsibilities? Should these rural revenue budgets require only council approval and DLG oversight?
- d. How should fees be collected? Can LG spend the revenue collected? Is there adequate LG collection, accounting, finance and procurement staff? Is the collection process clear?

6. Economic Development

- a. Should LG be able to borrow commercially?
- b. Do LGs need to update their inventory of property?
- c. What viable economic development options exist that could be attractive for PPP?
- d. What investment proposals is the local government requesting in the annual budget?



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