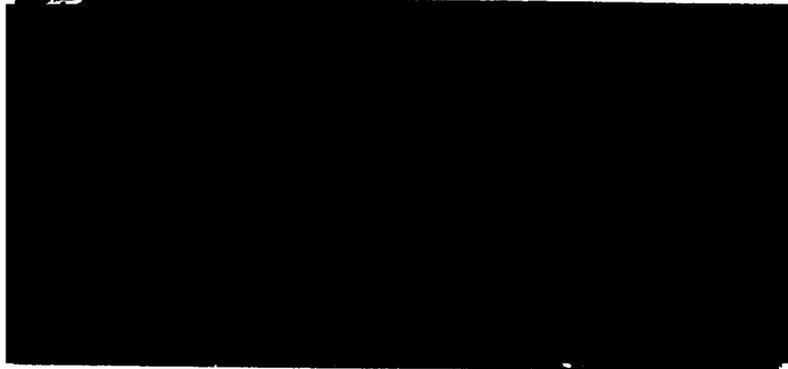


PD-PAN-566

ISSN: 32647



Local Revenue Administration Project

**Metropolitan Studies Program
Maxwell School of Citizenship and Public Affairs
Syracuse University**

RDHAN 566

ZILLA ROADS/LOCAL FINANCE PROJECT

INTERIM REPORT NO. 9

UPGRADED THANA PARISHADS: THEIR
STRUCTURE AND REVENUES

LARRY SCHROEDER

METROPOLITAN STUDIES PROGRAM
THE MAXWELL SCHOOL OF CITIZENSHIP AND PUBLIC AFFAIRS
SYRACUSE UNIVERSITY
SYRACUSE, NEW YORK 13210

JUNE 1983

SYRACUSE UNIVERSITY

Melvin A. Eggers

Chancellor

THE MAXWELL SCHOOL

Guthrie Birkhead

Dean

THE METROPOLITAN STUDIES PROGRAM

Roy W. Bahl
David Greytak

Director
Assoc. Director

FACULTY ASSOCIATES

James Alm	(Economics)	Bernard Jump, Jr.	(Public Admin.)
Roy Bahl	(Economics)	Stephen Long	(Economics)
Guthrie Birkhead	(Poll. Science)	William Mangin	(Anthropology)
Stuart Bretschneider	(Public Admin.)	Barbara Miller	(Anthropology)
Robert Buckley	(Economics)	Jerry Miner	(Economics)
Jesse Burkhead	(Economics)	Curt Mueller	(Public Admin.)
James R. Follain	(Economics)	David Robinson	(Geography)
David Greytak	(Economics)	Seymour Sacks	(Economics)
		Larry Schroeder	(Public Admin.)

RESEARCH ASSOCIATES

Mark Miller	(Program Analyst)	Jay Crozier	(Health Analyst)
-------------	-------------------	-------------	------------------

GRADUATE RESEARCH ASSISTANTS

Judy Ball	(Public Admin.)	Hasan Murshed	(Economics)
Laurie Bechtel	(Public Admin.)	Kent Olson	(Public Admin.)
Libby Dalton	(Public Admin.)	Joseph O'Malley	(Economics)
David Cross	(Economics)	Ruth Prier	(Economics)
Richard Joseph	(Public Admin.)	Jay Ross	(Public Admin.)
Showkat Khan	(Anthropology)	Evan Smith	(Economics)
Haeduck Lee	(Economics)	Brenda Spillman	(Economics)
Gregory Lewis	(Public Admin.)	M. Muin Uddin	(Economics)
Ranjana Madhusudhan	(Economics)	Dana Weiss	(Public Admin.)
Tamar Eml Miyake	(Economics)	James Wozny	(Economics)

STAFF

Anne Adams	(Secretary)	Amy Seiler	(Admin. Asst.)
Karen Brown	(Clerical Asst.)	Ellen Strbak	(Librarian)
Lisa Donofrio	(Secretary)	Jeanne Stukus	(Clerical Asst.)
Kim Downs	(Clerical Asst.)	Stephanie Waterman	(Secretary)
Esther Gray	(Secretary)		

LOCAL REVENUE ADMINISTRATION PROJECT

Roy Bahl (Economics) Director

Country Project Directors

Jerry Miner (Economics)--Upper Volta
David Robinson (Geography)--Peru
Larry Schroeder (Public Administration)--Bangladesh

Faculty Associates

James Alm	(Economics)	Larry Herzog	(Geography)
Ray Bromley	(Public Admin.)	William Mangin	(Anthropology)
Glynn Cochrane	(Anthropology)	Barbara Miller	(Anthropology)
James Follain	(Economics)	John Nellis	(Public Admin.)
David Greytak	(Economics)	Marshall Segal	(Social Psychology)

Research Associates

Hernando Garzon	(Social Sciences)	Robert Hall	(Rural Sociology)
Nilgun Gokgur	(Inter. Relations)	David Spetka	(Public Admin.)

Research Assistants

Libby Dalton	(Public Admin.)	Hasan Murshed	(Economics)
Richard Joseph	(Public Admin.)	M. Muin Uddin	(Economics)
Showkat Khan	(Anthropology)	James Wozny	(Economics)
Ranjana Madhusudhan	(Economics)		

Consultants

Fernando Bertoli	(Computer Sci.)	Kenneth Hubbell	(Economics)
Sandra Bertoli	(Computer Sci.)	Charles McLure	(Economics)
Richard Bird	(Economics)	Oliver Oldman	(Tax Admin.)
Fred Burke	(Pol. Science)	Alek Rozental	(Economics)
Nicolas Gavrielides	(Anthropology)	Kenneth Stacey	(Customs Admin.)
Daniel Holland	(Economics)	Michael Wasylenko	(Economics)

FOREWORD

This paper, the ninth in the series of Interim Reports of the Zilla Roads/Local Finance Project focuses on the most recent policy initiative concerning local governments in Bangladesh---the upgraded thana parishad. A portion of the paper is devoted to a description of these new local self-governments with the remainder focused on revenue powers that could be provided to the thana.

The upgraded thana is to become a self-governing body with increased administrative and technical powers at its disposal. The paper indicates that there are, however, several major issues that will need to be surmounted if these local bodies are to become effective instruments for development.

The paper also makes the case for an expansion of the revenue powers granted to the upgraded thanas. Specifically, it is argued that the land development tax be transferred to the thana thereby increasing available thana resources while fostering decentralization of revenue responsibility as well as of decision-making powers.

The Local Finance Project is one component of the Bangladesh Zilla Roads Maintenance and Improvement Project (Project Number 388-0056) and is intended to increase the capacity of local governments in Bangladesh to mobilize and effectively administer financial resources. While a Final Report will be issued at the close of the project, these interim reports are being released as the analysis occurs. It must be emphasized that any findings and conclusions contained herein are provisional and may be altered by the time the integrated Final Report is issued (scheduled for November, 1983). The work is supported by the United States Agency for International Development, Washington, D.C. under Cooperative Agreement (AID/DSAN-CA-0198). The views and interpretations in this publication are our own and should not be attributed to the United States Agency for International Development.

Many individuals contributed information regarding upgraded thana parishads subsequently used in this report. None, however, is responsible for the errors that remain nor the opinions regarding the use of a land-based tax in upgraded thanas. Among those with whom the upgraded thanas were discussed during May 1983 are: Mr. Siddiqur Rahman, Permanent Secretary, Ministry of Local Government (MLG); Dr. Kamil Siddique, Director, National Institute of Local Government; Mr. Q.I. Siddique, Superintending Engineer, Works Programme Wing, MLG; Mr. Mohammed Abdus Sattar, Deputy Secretary, MLG; Mr. Mohammed Shafi, Deputy Secretary, MLG; Mr. A.K. Azad, Deputy Secretary, MLG; Mr. Abdue Rahim Bhuiyan, Deputy Chief, Local Government Division, MLG; Mr. Mohammad Faizullah, Joint Secretary, Cabinet Division; Mr. M. Zillur Rahman, Section Chief, Planning Division, Ministry of Finance; Mr. Mohammed Shadidul Hassan, Executive Engineer, Faridpur District; Mr. S.M. Shah

Jahan, TNO, Rajoir Upgraded Thana, Faridpur District; Mr. Dawan Afsar Uddin, TNO, Sadarpur Upgraded Thana, Faridpur District; and Dr. Maqsood Ali, Director General, National Institute of Public Administration. I wish to thank each of these individuals for their fine cooperation.

Larry Schroeder
Project Director
Zilla Roads/Local Finance Project

TABLE OF CONTENTS

	<u>Page No.</u>
Upgraded Thana Parishads	1
Popularly Elected Chairman	2
Administrative, Judicial and Technical Personnel	3
Thana Nirbani Officer	5
Judicial	5
Technical	6
Revenues	8
Critical Issues	10
Revenue Powers of the Upgraded Thana Parishads	13
Revenue Powers in a Local Self-Government	13
Upgraded Thana Parishad Revenues	15
The Land Development Tax as a Thana Tax	18
Land-Based Tax	18
Revenue Effects	19
Incentive Effects	23
Administrative Considerations	24
Conclusions and Recommendations	26

LIST OF TABLES

<u>No.</u>	<u>Title</u>	<u>Page No.</u>
1	UPGRADED THANA PARISHAD MEMBERSHIP	4
2	STRUCTURE AND NUMBER OF PERSONNEL POSTED IN UPGRADED THANAS	7
3	TAXES, RATES, TOLLS AND FEES WHICH MAY BE LEVIED BY UPGRADED THANA PARISHAD AND OTHER SOURCES OF INCOME	14
4	CENTRAL GOVERNMENT EXPENDITURES AND TAXES INCLUDING THE LAND DEVELOPMENT TAX	20
5	LAND DEVELOPMENT TAX COLLECTIONS AND RWP GRANTS IN SELECTED FARIDPUR THANAS	22

UPGRADED THANA PARISHADS: THEIR STRUCTURE AND REVENUES

Larry Schroeder

One of the most important current policy initiatives in Bangladesh is the upgrading of thana parishads. This policy stems from the Report of the Committee for Administrative Reorganization¹ and was put into effect with the Resolution on Reorganisation of Thana Administration issued 23 October 1983. Finally, on 23 December, 1982 the Local Government (Thana Parishad and Thana Administration Reorganisation) Ordinance, 1982 became law.²

This paper has a two-fold purpose. The first is to provide a description of the structure of upgraded thana parishads (UTP), especially the features which differentiate them from their predecessor bodies, and to note the potential strengths and weaknesses of these features. The second objective is to argue the need for UTPs to develop resource mobilization powers beyond those already granted and to indicate how such development can be carried out.

Upgraded Thana Parishads

The pre-1982 composition of thana parishads and their functions, powers and financial activity have been described in a previous Interim

¹ Committee for Administrative Reorganisation/Reform, Report of the Committee for Administrative Reorganization (Dhaka, June 1982).

² The Resolution on Reorganization of Thana Administration and the Local Government Ordinance, 1982 together with amendments and supporting orders and notifications are contained in Government of the Peoples Republic of Bangladesh, Cabinet Division, Manual on Thana Administration (Dhaka: February 1983).

Report.¹ In this section we focus on the features that differentiate the UTPs from their predecessors. These features include: (1) a popularly- elected chairman; (2) posting of additional administrative, judicial and technical personnel at the thana level and (3) provision for own-source revenue powers.

Popularly Elected Chairman

Upgraded thana parishads still consist of a combination of elected and administrative officials. Unlike the former arrangement in which the SDO served as thana parishad chairman, the upgraded thana parishad is to have a popularly-elected chairman. All eligible voters within the thana will be allowed to participate in these elections, currently scheduled for late 1983.²

Elected chairmen of the union parishads within the thana will continue to serve on the thana parishad.³ In addition, the chairman of any paurashava located within the thana is to be a parishad member as are the chairman of the Thana Central Cooperative Association, three appointed women and one person nominated by the government.⁴ This group

¹Larry Schroeder and Maniruzzaman, "Local Government Structure in Bangladesh," Interim Report No. 1, Metropolitan Studies Program, The Maxwell School (Syracuse, NY: Syracuse University, November 1982).

²Until elections are held, the thana nirbani officer (TNO) will act as thana parishad chairman.

³Previously, these chairmen were also members of the thana development committee (TDC); however, the TDC has been abolished in all upgraded thanas.

⁴The inclusion of paurashava chairmen results from an amendment to the Local Government Ordinance promulgated on 22 February 1983.

constitutes the non-administrative members of the UTP and are the only members with voting power. While official members (employees of the several line agencies providing services to the thana) cannot vote, they can participate in discussions of thana parishad matters. The full roster of UTP membership is shown in Table 1.

A popularly-elected UTP chairman together with the abolition of voting powers for administrative personnel serve to make this new body truly a local self-government. Both of these changes should help to insure that the needs and desires of the local population are more adequately served at the thana level.

Administrative, Judicial and Technical Personnel

The most obvious and immediate difference between the UTP and the previous thana parishad organization is the posting of new more powerful officers in the thana. The personnel changes include establishing the thana nirbani officer (TNO) as the chief executive officer, posting magistrates and munsiffs in the thana and upgrading the technical staff. The key to this realignment is the direct linkage between the upgraded thana and the district, with the sub-division abolished. According to the Resolution issued from the Chief Martial Law Administrator's Secretariat, Cabinet Division on 23 October 1982, the officers dealing with subjects transferred to the TP "will be accountable to the respective Thana Parishad" and, even those officers dealing with subjects retained by the Government, "will be answerable to the thana parishad." This then lays the groundwork for decentralization of administrative powers.

TABLE 1

UPGRADED THANA PARISHAD MEMBERSHIP

Chairman

Voting Members	Non-Voting Members
Representative Members	Thana Health and Family Plan-
Union Parishad Chairmen	ning Officer
Paurashava Chairmen	Thana Education Officer
Appointed Members	Thana Agriculture Officer
Three women	Thana Engineer
One at-large	Thana Cooperative Officer
Chairman, Thana Central	Thana Livestock Officer
Cooperative Association	Thana Fishery Officer
	Thana Social Welfare Officer
	Thana Rural Development Officer
	Thana Mass Communication
	Officer
	Thana Revenue Officer
	Officer-in-Charge, Police
	Station

SOURCE: Ministry of Local Government, Rural Development and Cooperatives, Local Government Division, "Notification No. S-VIII/3E-3/83/41" (Dhaka, 26 January 1983).

Thana Nirbani Officer. The most important administrative change associated with the upgraded thanas is the posting of the TNO. These officers, most of whom formerly held such administrative posts as additional deputy commissioner (ADC) or sub-divisional officer (SDO), are higher in the administrative hierarchy than the other officers posted in the UTP. Furthermore, the TNO is directly linked administratively to the DC. This structure means that it is no longer necessary for decisions to be passed from the thana level through the SDO to the DC. Furthermore, since the TNO is to reside within in the thana the efficiency and effectiveness of administrative decision-making should be improved.

One example of increased efficiency pertains to the Food-For-Work Program (FFWP). Previously, the chairman or secretary of the FFWP project committee was required to obtain a delivery order (DO) from the SDO in order to remove grain from the local supply depot. Now the DO is issued directly by the TNO.¹ This has reduced delays and costs in carrying out FFWP's schemes.

Judicial. Thana citizens apparently have found local posting of magistrates (who are empowered to try criminal cases) and munsiffs (who can try certain civil suits) to be the most obvious and immediately beneficial aspect of the upgraded thana. Again, the primary benefit of the policy is the decreased costs (travel and time) to the parties in

¹As directed in a memorandum issued on 24 January 1983 by the CMLA Secretariat, Cabinet Division and in a memorandum of the Ministry of Food, Food Division issued January 1983.

such cases. The thana has replaced the subdivision as the site of most judicial decisions.

Technical. An increased number of more highly trained departmental officers are being posted at the thana level (Table 2). This is hoped to have a positive effect on the quality of services provided by the line ministries.

One example of this upgrading involves engineering. Each upgraded thana is to have a thana engineer (TE) assisted by 4-5 sub-assistant engineers divided into three wings--public health engineering, civil and electrical engineering and rural works programme engineering.

The upgrading of the thana engineering cadre should have a positive impact on the quality of work performed. Many of the rural development schemes involve earth-moving and erection of structures, and successful completion of such projects requires considerable oversight by technically-competent engineers. Under the prior system, thana-level schemes were sometimes poorly executed due to inadequate engineering input, since assistant engineers were stationed at the sub-division level and were seldom called upon by the CO-Dev.

While posting a thana engineer in each UTP should improve rural development schemes, the policy also raises the issue of manpower availability. Officers filling the thana engineer post are to be drawn from the ranks of assistant engineers. In the case of engineers 40 percent are to be obtained from the Rural Works Programme (RWP) wing of the Ministry of Local Government (MLG), 40 percent from the Public Works Department (PWD) and 20 percent from the Public Health Department (PHD). Unfortunately, there may not be enough of these engineers available to

TABLE 2
STRUCTURE AND NUMBER OF PERSONNEL POSTED
IN UPGRADED THANAS^a

<u>Positions</u>	<u>Number of Personnel</u>
Thana Parishad Chairman	4
Thana Nirbani Officer	15
<u>Service Delivery Officers</u>	
Thana Health and Family Planning Officer	60
Thana Education Officer	10
Thana Agriculture Officer	26
Thana Engineer	35
Thana Cooperative Officer	5
Thana Livestock Officer	11
Thana Fishery Officer	5
Thana Social Welfare Officer	4
Thana Mass Communication Officer	6
Thana Rural Development Officer	3
<u>Regulatory Officers</u>	
Accounts Officer	4
Thana Magistrate	6
Thana Revenue Officer	14
Officer-in-Charge, Police Station	37
Thana Ansar and VDP Officer	2
Thana Statistical Officer	4
<u>Judiciary^b</u>	
Munsiff-Magistrate	11

^aA full organizational chart is contained in the source of this table.

^bThis is the only function not under the organizational control of the thana parishad chairman.

SOURCE: Manual on Thana Administration, Vol. I (Dhaka, February 1983), p. 57.

fill all of the newly-created posts while simultaneously maintaining services associated with the officers' previous positions. There were sufficient numbers to fill the positions during the first three phases of the upgrading process;¹ however, it is apparently becoming more difficult to obtain qualified persons to staff these positions. It, therefore, may be necessary to promote individuals who are not fully qualified for the additional responsibility and skills which the new position entails. This aspect of the thana upgradation process may be its weakest link; however, it is not unique to the office of thana engineer and is likely to arise for other upgraded thana offices, including the TNO.

Revenues

From the standpoint of the Zilla Roads/Local Finance Project, the most significant change associated with upgraded thanas is their new revenue-raising powers. The specific powers are discussed in detail in the following section; here we limit ourselves to general issues pertaining to thana finances. Of special interest is how the thana will interact with the district administration and central government on fiscal issues.

Whenever a higher level of government provides some portion of a lower government's revenues, there is a continuing tension between governmental levels. Seldom does any public body provide resources to another body, public or quasi-private, without exerting some control

¹The upgrading process has occurred in stages. The first phase (23 December 1982) involved 45 thanas situated in the 21 districts; in the second phase (26 January 1983) 55 additional thanas were upgraded.

over the use of those resources. Indeed, such control should be anticipated.

Central-local government finance in Bangladesh has typically been characterized by central government domination over local affairs. Thana finances have been almost totally controlled by the central government. Revenues were provided from Dhaka, were administered by central government personnel and were only minimally influenced locally through the efforts of the thana development committee (TDC). The question, then, is the degree to which local decision-makers in upgraded thanas will determine the allocation of thana resources.

It is too early to provide an answer to that question because rules relating to thana finances are still being written. Still, it is unrealistic to anticipate that the Government will provide total autonomy to thanas regarding expenditures of intergovernmental grants. There will likely be conditions, constraints and possibly an approval process associated with the expenditure of grant monies.¹ Nevertheless, full decentralization will not come to fruition unless the locality is permitted to make the bulk of its own spending decisions. This, in turn, requires these local bodies to be willing and able to mobilize resources of their own.

¹ For example, we have been told that a District Approving Authority (DAA) will likely continue to approve, at the very least, large schemes implemented at the thana level. Apparently, even with a thana engineer in place, there is concern that large projects are so technically complex as to require additional review by the technically dominated DAA.

Critical Issues

If upgraded thanas are successfully to facilitate development, several key issues must be resolved. Foremost is the requirement that popular elections of thana chairmen be held. While local government elections are always risky to central governments because the "wrong" groups may gain power, these risks are necessary if decentralization is to proceed. In the absence of popular elections, all power will be retained by central government employees. Although thana officers may operate effectively, their orientation is still likely to be centralist since it is the central government which will evaluate their performance. True decentralization requires popular elections.¹

While popular elections are crucial, so is effective TNO leadership. It has been rumored that some TNOs are dissatisfied with their new posts in the outlying areas and that their unhappiness is affecting performance. Other TNOs apparently see the position as a challenge to their leadership abilities and are enthusiastically pursuing development of their local areas. It has been suggested that the primary impediment to the effectiveness of the former thana organization was the lack of strong leadership provided to thana officers. Continuing, thorough evaluation of the leadership abilities of all TNOs is, therefore, a necessity. Removal from the office of a few ineffective leaders should have an important demonstration effect on the entire cadre of TNOs. On the other hand, effective TNOs should not

¹This ignores the equally important argument that political stability may also require elections, especially after the widely-publicized promise of such elections.

be transferred frequently. The fruits of development require time before becoming visible. If TNOs are to be proud of their accomplishments and, therefore, are to strive to become even more effective, they should be allowed to remain in a single location long enough for their efforts to have some effect.

The dual leadership of thana parishad chairmen and TNOs presents a potential area of conflict. The Local Government Ordinance, 1982 makes it clear that the TP chairman is to be the dominant official, with the TNO serving as the chairman's chief executive officer. This arrangement, if carried out as envisioned, should not create problems and is in keeping with the goal of decentralized decision-making. Still, it must be recognized that a simple statement of the relative power of administrative and political leaders does not necessarily guarantee that conflicts will not arise.

Another potential conflict regarding personnel concerns thana officers, e.g., thana engineer, thana health officer, etc. These officers are to serve the thana parishad; however, they are to be evaluated for purposes of promotion, transfer, etc., by the district officers within their respective line ministries.¹ This implies that thana officers must serve two groups--the thana parishad and their specific line ministry. This could create tensions whenever the UTP and the line ministry see an issue differently. While statutory regulations specify that the thana officer should follow the dictates of the thana

¹The case of the thana engineer presents an even more complex case. As was noted above, these officers are drawn from the MLG (RWP), PWD and PHD. Apparently, they will be evaluated by the district officer within the department or wing from which they were drawn.

parishad,¹ the officer may decide that it is in his self interest to follow the desires of his line ministry since it is this organization which determines his promotions and transfers. If this occurs, true decentralization will not be complete. Line ministry evaluation must take into account evaluations by the thana parishad chairman, who can better ascertain whether the officer is fully carrying out his charter of duties.

A final issue pertains to finances, at least in the short-run. As noted above, it is anticipated that an approval process will be employed for large schemes initiated in the UTPs. This implies a recognition of limited technical abilities at the thana level. At the same time the Government has announced that each UTP is to receive Tk. 50 lakh. While it is desirable that additional resources be available to these local bodies, five million taka is a considerable sum to be transferred to localities which previously seldom had more than Tk. 3-5 lakh at their disposal. One therefore wonders if the UTP has the capability of absorbing and effectively spending such a large amount of funds during its first full year of operation.² As upgraded thanas become established, however, own source revenues should be developed.

¹The Charter of Duties for each officer contained in Annexure II of the Resolution on Reorganisation of Thana Administration contains a statement of the form, "He will work under the guidance of Thana Parishad as coordinated by Thana Nirbani Officer."

²At the time this is written, the accounting for the Tk. 50 lakh is still unclear. It is possible that the policy will not represent a massive infusion of new money into the thana. Still, resource absorption capacity is an issue that cannot be ignored.

Revenue Powers of the Upgraded Thana Parishads

The Third Schedule of the Local Government (Thana Parishad and Thana Administration Reorganisation) Ordinance, 1982 lists eight different taxes, rates, tolls and fees which may be used to generate own-source income for the UTP (Table 3). The current section expands on the reasons why this aspect of the upgraded thanas is especially appropriate, it also recommends that the list of revenues should be amended to include a broader based tax, one levied against the most accessible taxable resource of the thanas--land. The following section elaborates on how this recommendation could be implemented.

Revenue Powers in a Local Self-Government

Revenue-raising powers in upgraded thana parishads are appropriate for several reasons. First, it is widely recognized that the Bangladesh public sector is extremely small relative to other developing countries throughout the world. While larger public sectors do not guarantee development, the country's infrastructure needs together with maintenance requirements suggest that some increase in the relative size of the public sector is appropriate. Since upgrading of thanas is a primary domestic policy, it is especially timely that increased resource mobilization be coincidentally attained.

Decentralization also calls for thana parishad revenue-raising powers. Local governments must recognize that decision-making implies responsibility. Currently, when needs arise localities seem to turn automatically to the central government to provide the necessary

TABLE 3

TAXES, RATES, TOLLS AND FEES WHICH MAY BE LEVIED
BY UPGRADED THANA PARISHAD AND OTHER
SOURCES OF INCOME

1. Lease money on Jalamahals situated entirely within Thana boundaries.
2. Tax on profession, trades and callings.
3. Tax on dramatic and theatrical shows and other entertainment and amusement.
4. Street lighting tax.
5. Fees for fairs, agricultural and industrial shows and exhibitions and tournaments.
6. Fees for licenses and permits granted by the Parishad.
7. Toll on services and facilities maintained by the Parishad.
8. Lease money from specified hats, bazars and ferries to be determined by the Government.

SOURCE: The Local Government (Thana Parishad and Thana Administration Reorganisation) Ordinance, 1982, "The Third Schedule."

resources. This attitude must be changed, especially given the paucity of resources available centrally. Utilization of local revenue-raising powers and restructuring of the grant system provide the most effective policies for bringing about such change.

In addition, while no one enjoys paying taxes, tax compliance is most likely to improve when the taxpayer sees a linkage between his payment and benefits received. Although it is not the full solution to tax collection problems, a closer tie between taxes and benefits can improve tax collection. This linkage is more obvious when the revenues remain locally than when they are sent to Dhaka and return indirectly via central government grants.

Upgraded Thana Parishad Revenues

Specification of revenue sources in the 1982 Ordinance is in keeping with the idea that revenue-raising powers should be implemented at the thana level. The specification, however, has two potential weaknesses: if fully implemented it will erode the revenues of other local bodies, especially the union parishads; and if steps are taken to insure that such revenue erosion does not occur, it will not yield significant levels of revenue for the UTP.

Union parishads currently derive revenues from taxes on professions, trades and callings, taxes on entertainment, fees for licenses and permits and lease money from haats and bazaars. If thana parishads were to assume all of these revenue sources, income for the already financially-pressed union parishads would decline by about 5-10

percent. This would be counter-productive to the goal of expanding revenue mobilization at the local government level.

One possibility would be to allow both the union and thana levels to impose these levies; however, such a policy is likely to be both inefficient and inequitable.² Taxes create distortions in choices, and increased tax rates on a relatively small group of all potential taxpayers in an area would exacerbate these distortions. Similarly, considerably higher rates levied against select portions of the population may be deemed unfair.

Another alternative (which would require an amendment to the Third Schedule of the Local Government Ordinance, 1982) would be to tap zilla parishad revenues. The most productive revenue source available to the zilla parishads is the immovable property transfer tax. While we have argued that the tax rate should be increased, to shift all or even a portion of this tax to the thana would be unwise.³ Zilla parishads currently derive only slightly more than one taka per capita from their own revenue sources and, as such, find themselves in fiscal difficulties. To erode their revenue base would worsen their situation while

¹This based upon the 1980-81 sample findings reported in Larry Schroeder, "Zilla and Union Parishad Finances," Interim Report No. 8, Local Revenue Administration Project, Metropolitan Studies Program, The Maxwell School (Syracuse, NY: Syracuse University, 1982).

²The policy would also require an amendment to the Local Government Ordinance, 1976 which prohibits two local bodies from imposing identical revenue instruments.

³See James Alm, "The Immovable Property Transfer Tax in Bangladesh," Interim Report No. 3, Local Revenue Administration Project, Metropolitan Studies Program, The Maxwell School (Syracuse, New York: Syracuse University, April 1983).

the demand for the services provided by ZPs is likely to continue to increase. Furthermore, reliance on the property transfer tax in areas as small as thanas could lead to considerable year-to-year fluctuations in revenues--a situation that makes financial management even more difficult and that would probably increase demands on the central government to provide emergency financial aid to distressed local governments.¹

The other own-source revenues currently used by zilla parishads are not sufficiently productive to provide much financial support to thanas. The most reasonable option, therefore, is to develop a new thana parishad revenue source rather than to employ those already imposed by UPs and ZPs.

When searching for a new revenue source, there are several criteria to be kept in mind. The first pertains to the revenue base. If this new source is to be capable of yielding revenue amounts that have a significant impact on thana parishad finances, the base of the levy should be (1) large enough in all thanas to yield more than a token amount of revenue (thus ruling out special sources such as a tax on motor vehicles) and (2) stable enough to provide a continuity of revenues over time. Second, it is desirable that the new tax be put into effect without a large investment in new administrative machinery.

Since land is the most obvious taxable resource available in all thanas, it would seem to be a logical choice for the base of the new

¹ A similar situation is likely to arise if numerous additional districts are created, thereby reducing the size of zilla parishads.

tax. In order to take advantage of the administrative structure already in place, we recommend use of the land development tax as a new thana parishad revenue source.

The Land Development Tax as a Thana Tax

Here we provide the underlying rationale for a policy to convert the current central government land development tax (LDT) to a thana tax. Revenue implications as well as administrative considerations are discussed.

Land-based tax

In a country dominated by the agricultural sector, a land-based tax is a natural choice for a local government revenue source. Legal avoidance of the tax is impossible given the land's immobility. Furthermore, at least some land-based taxes can be imposed so as to produce beneficial effects on the allocation of resources. Similarly, the tax can be designed so as to impose tax burdens on those who benefit most from the expenditures which the taxes finance. Finally, the tax can be equitable.

The current LDT does not necessarily satisfy the efficiency and equity goals. It is currently based on land area rather than land value. Because of its progressive rate structure, the LDT encourages subdivision of land holdings while not necessarily providing an incentive for utilizing the land to its fullest.¹ Its vertical equity

A fuller discussion of these economic effects is contained in James Alm and Larry Schroeder, "The Land Development Tax in Bangladesh," Interim Report No. 7, Metropolitan Studies Program, The Maxwell School (Syracuse, NY: Syracuse University, 1983).

implications have been examined by Miller and Wozny¹ who show that, with its current progressive rates, over 80 percent of the potential tax revenue would be derived from only the largest 10 percent of all landowners. This tax, if altered slightly in the short-run and more substantially in the longer run, would seem to provide the most reasonable candidate for thana revenue mobilization since the administrative costs of imposing and improving this levy are likely to be less than with any other equal yield alternative.

Revenue Effects

Changing the LDT from a central government to a thana parishad revenue source would affect the available resources of both bodies. But Table 4 indicates that the total revenue effect of such a change would not be profound at the central government level. In 1979-80, the LDT produced a total of Tk. 138.8 million, or only only 1.1 percent of total central government taxes and 0.4 percent of total expenditures. The relative shares based upon budgeted revenues and expenditures were quite similar in 1980-81 and 1981-82. The increase in LDT rates imposed 1 July 1982 could increase the relative importance of LDT within the overall central government revenue structure. There have, however, apparently been numerous problems implementing these more progressive

¹ Barbara Miller and James Wozny, "The Land Development Tax in Bangladesh: Insights from the 1978 Land Occupancy Survey," Interim Report No. 4, Local Revenue Administration Project, Metropolitan Studies Program, The Maxwell School (Syracuse, NY: Syracuse University, April 1983).

TABLE 4

CENTRAL GOVERNMENT EXPENDITURES AND TAXES
INCLUDING THE LAND DEVELOPMENT TAX
(Amounts in thousand taka)

Fiscal Year	Land Development Tax (LDT) (in taka)	Taxes		Expenditures	
		Total (in taka)	LDT as Percent of Total	Total (in taka)	LDT as Percent of Total
1979-80	138,832.	12,237,585.	1.1	34,899,088	0.4
1980-81 ^a	250,000.	17,250,749.	1.4	66,955,857	0.4
1981-82 ^b	280,000.	20,461,899.	1.4	71,363,470	0.4

^a Revised budget

^b Budgeted

SOURCE: Budget Estimate, Ministry of Finance and Planning, Finance Division, Government of the People's Republic of Bangladesh: Detailed Estimates of Revenues and Receipts 1981-82, Ministry of Finance, Government of the People's Republic of Bangladesh.

rates so LDT revenues may actually decline in relative importance during the 1982-83 fiscal year.¹

While the central government revenue implications are insignificant, the tax could have substantial revenue effects in the upgraded thanas. In 1981-82 approximately Tk. 58.1 million were transferred to thana parishads under the Rural Works Programme. Even if only one-half of the Tk. 280 million budgeted LDT revenues had been retained at the thana level, the impact would have been to increase thana resources by 240 percent (assuming no cutbacks were made in the RWP).² The overall implication is, therefore, that such a transfer would substantially increase thana revenues without a major impact on central government resources.

Since LDT collections differ across thanas (as do RWP allocations), the thana-wise distribution of increased revenues would not necessarily be uniform. Table 5 shows 1980-81 RWP allocations (actually distributed to the thanas) as well as 1981-82 LDT collections (current plus arrears) for some selected Faridpur thanas. Also displayed in the Table are LDT collection efficiency ratios and the percentage increase in thana resources if the thanas had retained one-half of the local LDT collections as a supplement to the RWP.

The data suggest that, at a minimum, thana revenues would have increased by over 40 percent with Rajbari Thana experiencing more than a

¹These problems are discussed in more detail in Alm and Schroeder, "The Land Development Tax in Bangladesh."

²This is an upper bound since the LDT is collected in both rural and urban areas while the RWP is distributed only to rural thanas.

TABLE 5

LAND DEVELOPMENT TAX COLLECTIONS AND RWP
GRANTS IN SELECTED FARIDPUR THANAS

<u>Thana Parishad</u>	<u>1980-81 RWP</u>	<u>1981-82 LDT</u>	<u>LDT Collection Efficiency^a</u>	<u>Percent Increase^b</u>
Kasiani	194,349	169,968	45	43.7
Madaripur	302,028	541,545	74	89.6
Rajbari	181,685	614,739	93	169.2

^aTotal collections (arrears plus current) divided by total demand (arrears plus current).

Computed as one-half of LDT collections divided by RWP revenues.

SOURCE: Thana parishad records and LDT collection data supplied by Faridpur Revenue Officer.

150 percent increase. The collection efficiency information highlights another aspect of this proposed policy. Thanas with more effective tax collection efforts would derive the greatest benefit--an important incentive associated with any initiation of revenue mobilization powers.

Incentive Effects

Inserting the LDT into the revenue structure of the thana provides another advantage when viewed in conjunction with the intergovernmental grant system. One overriding characteristic of the current local government revenue structure in Bangladesh is the nearly complete absence of incentives for localities to increase resource mobilization efforts. Previously, thanas could do little to raise resources since their principle revenue source was totally controlled by the central government.

By placing a tax at the thana level and tying grant allocations to the locality's success in mobilizing resources via this tax instrument, there would be greater incentives for the locality to carry out such mobilization efforts. In part this incentive could be linked to the success of the locality in actually collecting the tax demand.¹ In addition, if LDT tax rates were at least partially determined by thana parishads rather than imposed at a uniform nationwide rate, those localities willing to impose higher taxes could earn larger grants. This would be in keeping with the goals of mobilizing additional

¹ In 1980-81 nationwide approximately 88.0 percent of the total LDT current demand was collected and 88.4 percent of the arrears were paid. Overall this amounted to a 88.3 percent collection efficiency.

resources for development purposes and decentralizing fiscal responsibilities.

Administrative Considerations

One major advantage of using the LDT as a thana revenue source is that the tax administration structure is already in place. This means that the transitional cost associated with initiating this UTP revenue source will be less than that necessary if an entirely new tax or fee is created.

In the short-run few administrative changes need to be made in the day-to-day operations of the LDT. The cadre of workers currently associated with the Ministry of Law and Land Reforms are already stationed at the thana level and can remain there with the thana revenue officer (TRO) continuing his revenue collection procedures.

Just as it is important that proper incentives be devised for local governments to mobilize resources, it is also crucial that those administering the tax have incentives to carry out fully their tax collection duties. Local LDT administrators, i.e. TROs and tahsildars, are central government employees. If a portion of LDT collections is retained by the central government, it can continue to evaluate the performance of these employees, thereby insuring that incentives for a strong performance are maintained in the system. (Tax sharing also lessens the central government revenue impact.) Splitting total thana-level LDT collections equally between the thana and the central government can therefore retain administrative incentives while still significantly increasing resources in the thanas.

In the longer run it will be desirable to alter the tax base and to decentralize its administration. The current area-based LDT should be replaced by value-based tax. This change would promote both economic efficiency and equity. The current rate structure encourages artificial break-up of land holdings for tax purposes only with no production incentives. A value-based levy, on the other hand, would encourage the best possible use of the land. Furthermore, value-based taxes treat land differently depending upon its productivity unlike the current system in which owners of equal-sized parcels pay equal taxes no matter what income is being generated by the land.

Development of a value-based tax would require time and considerable effort to implement; however, it should be possible to develop a relatively simple classification system that would distinguish among different land types and tax more heavily those lands which are capable of greater levels of production.

The second longer term administrative change proposed is transfer of LDT collection responsibilities from the central government to the local governments. This recommendation should be even longer term in nature than that associated with the change to a value-based tax. This would facilitate training a core of central government taxation officials to attain greater uniformity in the administration of the tax. Furthermore, over time thanas should develop increased capacities to absorb additional resources. Nevertheless, it is desirable that local governments be fully responsible for the complete administration of a local tax. Only in that way can the powers and responsibilities of local governments be fully shifted to the localities themselves.

Conclusions and Recommendations

This paper has reviewed the structure of the newly-created upgraded thana parishads including their revenue-raising powers. While there are several critical issues that will have to be resolved, the policy initiative should result in a significant decentralization of decision-making responsibilities.

Although the own source revenues already granted to upgraded thana parishads are in keeping with the decentralization strategy, it is desirable to provide thanas with even greater resource mobilization powers. To that end we recommend that the land development tax be transferred to the thana parishads.

Specifically:

1. Initially 50 percent of LDT taxes collected within a thana should remain with that thana. Tax administration would remain the responsibility of the central government. This would not significantly erode the level of central government revenues but should increase greatly the resources available to thana parishads.
2. As the grant system is restructured to provide resource mobilization incentives to localities, thana parishads should be given the responsibility to set local LDT tax rates within centrally established limits. Those thanas setting higher tax rates and actually collecting the revenues would be rewarded with an increased flow of grant funds.
3. A longer run goal is to replace the current area-based LDT with a value-based tax. Such a tax would be economically more efficient and would also improve the tax system's equity.
4. As local governments are strengthened in the longer run the entire land-based tax system should be transferred to these local bodies. In this way decentralized decision-making will become a reality since it would mean that financial responsibility would rest with the group making the financial allocation decisions.