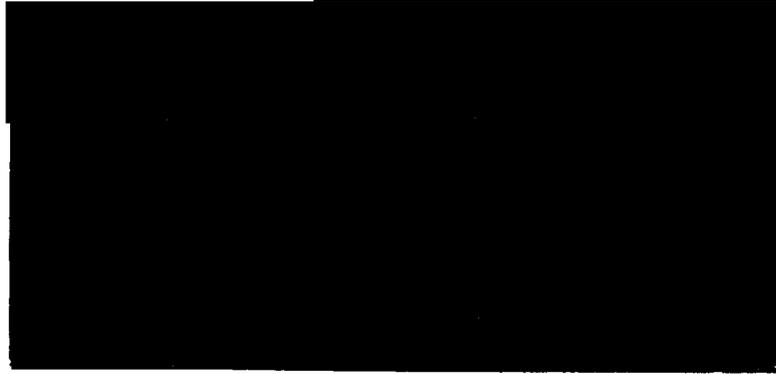


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**Metropolitan Studies Program
Maxwell School of Citizenship and Public Affairs
Syracuse University**

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ZILLA ROADS/LOCAL FINANCE PROJECT
INTERIM REPORT NO. 8

A REVIEW OF BANGLADESH ZILLA AND
UNION PARISHAD FINANCES

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FOREWORD

This eighth in the series of Interim Reports from the Zilla Roads/Local Finance Project focuses on revenue and expenditure activities of zilla and union parishads. The analysis is based on local financial data collected from a census of zilla parishads and a sample of union parishads covering the period 1976-77 through 1980-81 as well as personal interview data collected during 1982.

The study suggests that neither level of local government mobilizes considerable sums of own-source revenues, especially when viewed in per capita terms. While grants constitute a major source of funding for these local bodies, growth in this revenue source has been lacking and sporadic. Several recommendations are made to improve the fiscal health of these governments in light of the reported findings.

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 provision 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.

Larry Schroeder
Project Director
Zilla Roads/Local Finance Project

TABLE OF CONTENTS

	<u>Page No.</u>
Potential Revenue Sources of Zilla Parishads	1
Own Source Revenues	2
Intergovernmental Grants	4
Actual Revenues of Zilla Parishads	5
Total Revenues by Source	7
Per Capita Revenues by Source	11
Real Revenues Per Capita	17
Annual Growth Rates in Real Per Capita Revenues	18
Zilla Parishad Expenditures	21
Total Expenditures	22
Per Capita Expenditures	25
Revenue Differentials	28
Revenue Effort	28
Measurement of Revenue Effort	30
Statistical Results	32
Potential Revenues of Union Parishads	37
Own Source Revenues	37
Intergovernmental Revenues	46
Actual Revenues of Union Parishads	47
Total Revenues by Source	48
Per Capita Revenues	54
Revenue Growth	58
Union Parishad Expenditures	58
Total Expenditures	61
Per Capita Spending	61
Union Parishad Revenue Differentials	65
Interdistrict Revenue Differentials	65
Impressionistic Analysis of Revenue Differentials	71
Recommendations	75
Zilla Parishads	76
Union Parishads	80

LIST OF TABLES

<u>No.</u>	<u>Title</u>	<u>Page No.</u>
1	ZILLA PARISHAD FINANCIAL DATA ANALYZED	6
2	MEAN ZILLA PARISHAD REVENUES BY SOURCE, 1967-77 TO 1980-81	8
3	PERCENTAGE DISTRIBUTION OF ZILLA PARISHAD REVENUES, BY SOURCE, 1976-77 - 1980-81	12
4	MEANS, COEFFICIENTS OF VARIATION AND RANGES IN ZILLA PARISHAD PER CAPITA REVENUES BY SOURCE, 1976-77 - 1980-81	14
5	MEAN ZILLA PARISHAD REAL PER CAPITA REVENUES, BY SOURCE, 1976-77 - 1980-81	19
6	MEAN ANNUAL GROWTH RATES IN ZILLA PARISHAD REAL PER CAPITA REVENUES, BY SOURCE	20
7	MEAN ZILLA PARISHAD EXPENDITURES BY TYPE, 1976-77 - 1980-81	23
8	PERCENTAGE DISTRIBUTION OF ZILLA PARISHAD EXPENDITURES, BY TYPE, 1976-77 - 1980-81	26
9	MEAN ZILLA PARISHAD REAL PER CAPITA EXPENDITURES, BY TYPE, 1976-77 - 1980-81	27
10	PER CAPITA OWN SOURCE REVENUE REGRESSION RESULTS	33
11	SUMMARY MEASURES OF ZILLA PARISHAD TOTAL REAL OWN SOURCE REVENUES PER CAPITA FOR THE PERIOD 1976-77 - 1980-81	38
12	SOURCES OF UNION PARISHAD REVENUES	41
13	MEAN UNION PARISHAD REVENUES BY SOURCE, 1976-77 - 1980-81	49
14	PERCENTAGE DISTRIBUTION OF UNION PARISHAD REVENUES, 1976-77 - 1980-81	50
15	PERCENTAGE DISTRIBUTION OF UNION PARISHAD OWN SOURCE REVENUE, BY SOURCE, 1976-77 - 1980-81	52

LIST OF TABLES (CONT.)

<u>No.</u>	<u>Title</u>	<u>Page No.</u>
16	PERCENTAGE DISTRIBUTION OF FEES IN NINE SELECTED UNION PARISHADS, 1976-77 - 1980-81	53
17	MEANS, COEFFICIENTS OF VARIATION AND RANGES IN UNION PARISHAD PER CAPITA REVENUES BY SOURCE, 1976-77 - 1980-81	55
18	MEAN UNION PARISHAD PER CAPITA REAL REVENUE BY SOURCE, 1976-77 - 1980-81	57
19	MEAN ANNUAL GROWTH RATES IN UNION PARISHAD REAL PER CAPITA REVENUES BY SOURCE	59
20	TYPES OF UNION PARISHAD EXPENDITURES	60
21	MEAN UNION PARISHAD EXPENDITURES BY TYPE, 1976-77 - 1980-81	62
22	PERCENTAGE DISTRIBUTION OF UNION PARISHAD EXPENDITURES BY EXPENDITURE TYPE, 1976-77 - 1980-81	63
23	MEAN PER CAPITA UNION PARISHAD REAL EXPENDITURES, BY TYPE, 1976-77 - 1980-81	64
24	MEAN UNION PARISHAD PER CAPITA REVENUES, BY SOURCE 1976-77 - 1980-81: FARIDPUR DISTRICT	66
25	MEAN UNION PARISHAD PER CAPITA REVENUES, BY SOURCE, 1976-77 - 1980-81: RANGPUR DISTRICT	67
26	MEAN UNION PARISHAD PER CAPITA REVENUES, BY SOURCE, 1976-77 - 1980-81: STELLET DISTRICT	68
27	DISTRICTWISE UNION PARISHAD RELATIVE REVENUE EFFORTS, 1976-77 - 1980-81	70
28	UNION PARISHAD PROPERTY TAX PERFORMANCE INDICATORS	73

A REVIEW OF BANGLADESH ZILLA AND UNION PARISHAD FINANCES

Zilla and union parishads derive revenues from a variety of local and non-local sources and expend them on an assortment of activities. This paper reviews the recent history of these revenue and expenditure flows so that recommendations concerning alteration in the finance system can be made with knowledge of the current state of financial affairs of the local bodies.

Zilla parishad (ZP) finances are studied first. The examination includes a brief review of the revenues available to these governments, the extent of their reliance upon these revenue sources and the growth patterns detected from a census of zilla parishad finances covering the period 1976-77 through 1980-81. This section is followed by an analogous review of ZP expenditures. Finally, a statistical analysis of factors related to interdistrict differences in ZP finances is made.

The second portion of the paper follows a similar format but with union parishad (UP) finances as the subject of inquiry. Again both revenues and expenditures are analyzed, in this case for a sample of 42 UPs in the districts of Faridpur, Rangpur and Sylhet.

The paper closes with several recommendations regarding policies which could improve the financial affairs of these local bodies.

Potential Revenue Sources of Zilla Parishads

Potential revenues of zilla parishads include both own source and intergovernmental revenues. The former consist of several taxes, fees and charges levied within the district while the latter comprise numerous

grant programs designed to transfer funds from the central government to the ZPs.

Own Source Revenues

The taxes, rates, tolls and fees stipulated in the Fourth Schedule of the Local Government Ordinance, 1976¹ as well as rents, profits and proceeds from the sale of ZP property constitute the own source revenues available to ZPs. While the list in the Fourth Schedule contains 28 items, Paragraph 60 of the Local Government Ordinance prohibits both union parishads and zilla parishads from imposing identical levies thereby shortening the effective list considerably. In fact, zilla parishad own source revenues currently consist primarily of the immovable property transfer tax, fees and rates imposed on a few activities and tolls from roads, ferries and bridges.

The immovable property transfer tax is a 1 percent levy imposed on the value of all land and permanent structures sold within the boundaries of the ZP.² While it constitutes the primary ZP revenue source, it is collected and administered by the Ministry of Law and Land Reform with 97 percent of the proceeds distributed to the ZP in which the property lies (the remaining 3 percent is retained by the Ministry

¹The Fourth Schedule is shown in Appendix B of Larry Schroeder and Manfruzzaman, "Local Government Structure in Bangladesh" Interim Report 1, Local Revenue Administration Project, Metropolitan Studies Program, The Maxwell School (Syracuse, NY: Syracuse University, November 1982), pp. 70-71.

²A comprehensive analysis of the tax is found in James Alm, "The Immovable Property Transfer Tax as a Local Government Revenue Source," Interim Report No. 3, Local Revenue Administration Project, Metropolitan Studies Program, The Maxwell School (Syracuse, NY: Syracuse University, March 1983).

to help cover administrative costs). Because ZPs lack control over this tax, it is little more than another form of intergovernmental grant whose size depends upon property transactions within the ZP.

Tolls on roads, bridges and ferries provide another source of local revenue with nearly all of the revenues derived from ferry franchises.¹ Franchises are issued to operators who collect tolls from ferry users with the toll rates set by the ZP. This arrangement provides the ZP with revenues without great cost since, once the franchises are auctioned, the ZP needs only to police the ghats periodically to ensure that proper tolls are being charged.² The franchise holder is responsible for all operating and maintenance costs on the ferry as well as the landing.

Some minor fees and rates are also levied by ZPs. One common fee is a registration fee charged to contractors who wish to submit bids for construction contracts let by the ZP. Other fees include license fees for vehicles, fees charged to patients receiving antirabies vaccine, and fees paid by schools, charitable dispensaries and veterinary hospitals in the district.

¹Tolls on roads are or have been levied in some zilla parishads. For a discussion of this source of revenue see Larry Schroeder, "Toll Roads as a Zilla Parishad Revenue Source: A Case Study," Interim Report No. 2, Local Revenue Administration Project, Metropolitan Studies Program, The Maxwell School (Syracuse, NY: Syracuse University, November 1982).

²The specific regulations that apply to the operation of toll-levying franchises are delineated in Chapter V of the Rules Under the Basic Democracies Order (Those Applicable to District Councils) (Dhaka, 1968).

Another zilla parishads revenue source is rent, profit and sale proceeds from ZP property. For example, road rollers and cement mixers are owned by some ZPs which, in turn, rent the equipment to construction contractors. Many zillas also lease roadside land to individuals and operate ZP-owned structures, e.g., dak bungalows. Timber on ZP land (especially roadsides) is sold in some districts to generate additional revenues. Interest income is earned from cash balances deposited in local banks. Most of these sources are, however, quite small when compared with revenues from the property transfer tax.

Until 1976 the local rate attached to the central government's land tax generated zilla parishad revenue. The rate was abolished when the Land Development Tax was instituted; however, since 1976 some ZP revenues have been derived from arrear collections.

Intergovernmental Grants

Two kinds of intergovernmental grants are received by zilla parishads.¹ The first, termed "normal grants," consist of several different grant programs. Among these are: (1) augmentation grants designed to aid development activities in the ZP; (2) grant in lieu of the zamindar's contribution to the zilla parishad to compensate for the revenue loss associated with the abolishment of the zamindari system in effect during the British era; (3) special grants which provide hardship allowances to ZP employees; (4) compensation grants used to increase

¹For a more comprehensive review of intergovernmental grant programs in Bangladesh and an analysis of their economic and fiscal effects, see Roy Bahl, "Intergovernmental Grants in Bangladesh" Local Revenue Administration Project, Metropolitan Studies Program, The Maxwell School (Syracuse, NY: Syracuse University, forthcoming).

staff salaries; and (5) grants against specific projects carried out by the ZP but fully funded by the central government.

The second major intergovernmental grant is the Rural Works Programme (RWP). The RWP has been the major rural development program carried out by local government bodies since its inception as an experimental project begun in Kotwali thana, Comilla, in 1961-62. The ZP portion of the program, while smaller than its thana and union counterpart, is a major source of monies for construction and reconstruction of roads and bridges in the district.

Actual Revenues of Zilla Parishads

Zilla parishad revenues generated during the period 1976-77 through 1980-81 are analyzed in this section. Total and per capita actual revenues (rather than budgeted amounts) are studied in both nominal and real terms; additionally, annual growth rates in these amounts are examined.

The data used are based on a census of zilla parishad finances conducted between March and September 1982.¹ While attempts were made to collect data from all ZPs for the entire five year period, there were some districts for which data were not available (Table 1). Jamalpur was created from a portion of Mymensingh District in 1979 thereby accounting

¹For a description of the data-collection process and techniques, see Larry Schroeder, with Hasan Burshed and Muin Uddin, "Collecting Local Government Financial Data in Developing Countries: The Bangladesh Experience," Interim Report No. 5, Local Revenue Administration Project, Metropolitan Studies Program, The Maxwell School (Syracuse, NY: Syracuse University, June 1983).

TABLE 1
ZILLA PARISHAD FINANCIAL DATA ANALYZED

<u>Zilla Parishad</u>	<u>Fiscal Years For Which Data Are Available^a</u>
1. Chittagong	1977-81
2. Chittagong Hill Tracts	1977-81
3. Comilla	1977-81
4. Noakhali	1978-81
5. Sylhet	1977-81
6. Dhaka	1977-81
7. Faridpur	1977-81
8. Jamalpur	1980-81
9. Mymensingh	1977-81
10. Tangail	1977-81
11. Barisal	1977-81
12. Jessore	1977-81
13. Khulna	1977-81
14. Kushtia	1979-81
15. Patuakhali	1977-81
16. Bogra	1977-81
17. Dinajpur	1977-81
18. Pubna	1977-81
19. Rajshahi	1977-81
20. Rangpur	1977-81

^a1977 here refers to the fiscal year 1976-77.

SOURCE: Compiled by author.

for the three years of missing data. It was not possible to obtain data for Noakhali and Kushtia for the first two or three years of the time period.

Total Revenues by Source

Table 2 displays the average total revenues received by zilla parishads for each of the five years when data were available.¹ Zilla parishad accounting practices, revenue structures and the unavailability of data result in mean revenues computed from different numbers of observations. (The first number in the parentheses below each entry indicates the number of ZPs on which the result was based.) Different ZP revenue structures mean that all jurisdictions do not necessarily obtain each type of revenue while alternative accounting techniques mean all ZP do not report revenues similarly in their financial accounts. Rather than including these zero entries in the determination of mean revenues, the table has been constructed by omitting zero entries. The displayed means therefore show the amounts which are, on average, collected in the ZPs for which the particular revenue source is reported to have been collected.²

¹Even though standard accounting practices in Bangladesh include Opening Balances among the "revenues" of local bodies, they are not included here since we are particularly interested in the flow of income into the governmental accounts and how these flows differ across jurisdictions and change over time.

²Since the second entry in parentheses indicates the frequency of zero entries, one can easily recompute the means to indicate average revenues across all districts. The displayed mean multiplied by the first number in parenthesis yields the total amount in all reporting ZPs. This product divided by the sum of the two numbers in parentheses gives the mean amount of revenue earned in all available ZPs in the sample.

TABLE 2

MFAN ZILLA PARISHAD REVENUES BY SOURCE, 1976-77 - 1980-81
(in taka)

Revenue Source	Fiscal Year				
	1976-77	1977-78	1978-79	1979-80	1980-81
Property Transfer Tax	2,819,034 (16,1) ^a	3,425,981 (17,1)	4,003,179 (18,1)	5,257,987 (19,1)	4,498,665 (19,1)
Local Rate	334,411 (15,2)	159,470 (12,6)	146,142 (12,7)	93,635 (12,8)	59,133 (10,10)
Rent, Profits and Sale Proceeds	553,968 (17,0)	578,695 (18,0)	561,878 (19,0)	606,447 (20,0)	465,348 (20,0)
Fees and Rates	25,571 (13,4)	27,250 (12,6)	31,164 (14,5)	34,141 (15,5)	34,285 (15,5)
Tolls on Roads Ferries and Bridges	197,115 (14,3)	193,845 (15,3)	221,223 (16,3)	238,606 (18,2)	296,870 (18,2)
Interest	48,399 (11,6)	95,145 (12,6)	117,851 (15,4)	135,419 (17,3)	155,093 (17,3)
Miscellaneous Revenue	118,900 (17,0)	176,930 (18,0)	241,932 (19,0)	363,762 (20,0)	308,505 (20,0)
Voluntary Contributions	42,379 (1,16)	2,191 (1,17)	400,604 (2,17)	545,957 (3,17)	697,656 (3,17)

TABLE 2 (CONT.)

Revenue Source	Fiscal Year				
	1976-77	1977-78	1978-79	1979-80	1980-81
Normal Grants	403,119 (17,0)	433,613 (18,0)	383,525 (19,0)	408,350 (20,0)	386,677 (20,0)
Works Programme Grants	2,280,598 (14,0)	2,258,580 (14,0)	2,340,444 (16,0)	2,988,697 (17,0)	2,550,005 (17,0)
Special Grants	897,277 (8,9)	3,026,402 (8,10)	2,759,314 (6,13)	2,592,513 (5,15)	4,274,684 (5,15)
Total Revenue	6,540,347 (17,0)	7,876,196 (18,0)	8,258,848 (19,0)	10,055,699 (20,0)	9,229,377 (20,0)

^a First number in the parenthesis represents the number of observations used to compute means; the second number represents the number of ZPs for which no revenues were reported for this source; there were 10 districts in 1976-77 through 1978-79 and 20 thereafter. The difference between the total possible number of ZPs and the sum of the two numbers shown in parentheses represent missing data.

SOURCE: Zilla Parishad Records.

The zero entry indicators are themselves informative. For example, no immovable property transfer tax is collected in the Chittagong Hill Tracts even though for most ZPs this tax constitutes the largest income source. The demise of the local rate is indicated by the increased number of ZPs reporting no revenues from this source over the five year period. Likewise, the data show that voluntary contributions are not commonly made to zilla parishads although the average size of the contributions, where they were made, were large.¹

The zero entries also reveal differences in accounting practices across the districts, documented by the fact that three ZPs report no RWP grant income in the current account of the District Fund and most do not report Special Grants.² Instead, these monies are held in special accounts maintained by the DC. It is also possible that fees and rates as well as tolls are used more extensively than indicated by the number of zero entries for these sources. Arbitrary inclusion of these revenues in the Rent, Profits and Sale Proceeds or in the Miscellaneous revenue categories would account for the apparent non-utilization of fees, rates

¹For a discussion of the role of voluntary contributions in lower level local governments in Bangladesh, see Barbara D. Miller and Showkat Hayat Khan, "Local Voluntarism and Local Government Finance in Rural Bangladesh: Overview and Recommendations" Interim Report No. 6, Local Revenue Administration Project, Metropolitan Studies Program, The Maxwell School (Syracuse, NY: Syracuse University, June 1983).

²Special grants are usually tied to specific projects or uses. These include the Divisional Development Board grants, Haor Development Board grants, Sugar Cess Road Development Grants, Special Welfare Program grants, Zero Population Growth grants and Food Storage Godown Construction grants. For further discussion see Roy Bahl, "Intergovernmental Grants in Bangladesh," Interim Report No. 10, forthcoming.

and tolls. These differences in accounting practices complicate analysis of the data and require special handling of the entries.

Table 3 provides information on the relative size of the different sources of revenue. In order to make intertemporal comparisons, the data have been restricted to the fourteen ZPs for which data are available for the entire period and which include the RWP in the District Fund. (Special Grants have been omitted in this computation.) The results show that the property transfer tax and the RWP together account for 70-80 percent of overall revenues in these local governments. Still, central government grants (normal and RWP) declined during the five year period. The monotonic decrease in the relative importance of normal grants is due to the fact that they remained nearly stable throughout the period (see Table 2). The property transfer tax grew in relative importance and by 1980-81 accounted for approximately one-half of all revenues in these ZPs. The decline in the Local Rate as a ZP revenue is directly attributable to the 1976 imposition of the Land Development Tax. The decline in relative importance of Rent, Profit and Sales Proceeds may be attributable to the fact that some sales, e.g., roadside trees, constitute a one-time only revenue source.

Per Capita Revenues By Source

In the face of a growing population, per capita revenues provide a better indicator of the locality's ability to finance spending needs than do total revenues. In order to compute ZP income in per capita terms it was necessary to derive population estimates for the time period under examination. Census population data are available only for the years 1974 and 1981; furthermore, it is recognized that both censuses suffered

TABLE 3
 PERCENTAGE DISTRIBUTION OF ZILLA PARISHAD REVENUES,
 BY SOURCE, 1976-77 - 1980-81
 (in percentages)

Revenue Source	Fiscal Year ^a				
	1976-77	1977-78	1978-79	1979-80	1980-81
Property Transfer Tax	40.7	45.5	48.3	50.7	49.4
Local Rate	4.9	0.1	1.4	0.6	0.5
Rent, Profit and Sales Proceeds	9.4	10.0	7.5	6.7	5.3
Fees and Rates	0.2	0.2	0.2	0.2	0.2
Tolls on Roads, Ferries and Bridges	2.8	2.7	2.8	2.3	3.3
Interest	0.5	1.0	1.4	1.2	1.6
Miscellaneous Revenue	1.8	2.7	2.5	3.9	3.6
Voluntary Contribution	0.0	0.0	0.6	0.1	1.3
Normal Grants	6.2	6.5	5.1	4.2	4.5
Works Programme Grants	33.5	31.3	30.0	29.9	29.6

^aOnly the 14 zilla parishads for which data were available for the entire period and which reported RWP grants in the District Fund were used for this table.

SOURCE: Computed by authors.

from undercounts. The Bangladesh Bureau of Statistics prepares district-wise population estimates on an annual basis adjusted for the undercounting. We have used these data but have further adjusted them to include only the rural portion of the district under the assumption that zilla parishad fiscal activities are principally rural in nature.¹

Table 4 contains mean per capita revenues by revenue source for those ZPs in which the particular source was non-zero during that fiscal year. Also shown in the table are the ranges of non-zero per capita amounts and the coefficients of variation. This last statistic is the ratio of the variable's standard deviation to its mean (expressed in percentage terms) and indicates the relative variability in the per capita amounts.

On a per capita basis total own source revenues of the ZPs continued to grow, at least through 1979-80. This was the case both when the Chittagong Hill Tracts are included and excluded from the analysis. On the other hand, total per capita resources available to the ZPs did not grow steadily throughout the period. This is due to the fluctuations in Works Programme grants which declined significantly between 1976-77 and 1977-78 and subsequently rose to their former levels during the last two years of the period.

The growth in per capita own source revenues can be attributed primarily to the increase in per capita property transfer tax collections

¹Most importantly, the immovable property transfer tax is derived only from property transactions occurring outside paurashavas and municipal corporations.

TABLE 4

MEANS, COEFFICIENTS OF VARIATION AND RANGES IN ZILLA PARISHAD
PER CAPITA REVENUES BY SOURCE, 1976-77 - 1980-81

Revenue Source	Fiscal Year ^a				
	1976-77	1977-78	1978-79	1979-80	1980-81
Property Transfer Tax:					
Mean	Tk. 0.67	Tk. 0.82	Tk. 0.96	Tk. 1.24	Tk. 1.04
C.V. ^b	23.6	31.3	25.5	33.6	46.0
Range	Tk. 0.43-1.04	Tk. 0.24-1.35	Tk. 0.58-1.56	Tk. 0.78-2.68	Tk. 0.14-2.57
Local Rate:					
Mean	Tk. 0.10	Tk. 0.04	Tk. 0.03	Tk. 0.02	Tk. 0.04
C.V.	110.3	110.0	150.0	138.0	190.0
Range	Tk. 0.00-0.44	Tk. 0.01-0.16	Tk. 0.00-0.16	Tk. 0.00-0.09	Tk. 0.00-0.19
Rent, Profit and Sales Proceeds:					
Mean	Tk. 0.11	Tk. 0.11	Tk. 0.13	Tk. 0.14	Tk. 0.11
C.V.	114.1	113.4	91.6	122.1	65.8
Range	Tk. 0.01-0.43	Tk. 0.01-0.37	Tk. 0.03-0.45	Tk. 0.02-0.70	Tk. 0.02-0.25
Fees and Rates:					
Mean	Tk. 0.01	Tk. 0.01	Tk. 0.01	Tk. 0.01	Tk. 0.01
C.V.	138.0	118.0	119.6	131.0	102.4
Range	Tk. 0.00-0.03	Tk. 0.00-0.02	Tk. 0.00-0.02	Tk. 0.00-0.04	Tk. 0.00-0.03
Tolls on Roads, Ferries and Bridges:					
Mean	Tk. 0.03	Tk. 0.04	Tk. 0.05	Tk. 0.06	Tk. 0.07
C.V.	102.1	93.4	64.8	74.6	80.7
Range	Tk. 0.01-0.17	Tk. 0.01-0.13	Tk. 0.00-0.11	Tk. 0.00-0.13	Tk. 0.00-0.18

TABLE 4 (CONT.)

Revenue Source	Fiscal Year ^a				
	1976-77	1977-78	1978-79	1979-80	1980-81
Interest:					
Mean	Tk. 0.01	Tk. 0.02	Tk. 0.02	Tk. 0.03	Tk. 0.04
C.V.	81.8	116.5	108.6	82.9	90.9
Range	Tk. 0.00-0.03	Tk. 0.00-0.09	Tk. 0.00-0.09	Tk. 0.01-0.09	Tk. 0.01-0.11
Miscellaneous Revenue:					
Mean	Tk. 0.04	Tk. 0.05	Tk. 0.06	Tk. 0.09	Tk. 0.09
C.V.	93.0	82.5	136.3	93.2	136.6
Range	Tk. 0.00-0.12	Tk. 0.01-0.18	Tk. 0.00-0.38	Tk. 0.00-0.32	Tk. 0.00-0.54
Voluntary Contribution:					
Mean	Tk. 0.02	Tk. 0.001	Tk. 0.10	Tk. 0.10	Tk. 0.15
C.V.	--- ^c	--- ^c	140.8	102.7	33.6
Range	Tk. 0.02-0.02	Tk. 0.00-0.00	Tk. 0.00-0.20	Tk. 0.00-0.20	Tk. 0.01-0.19
Total Own Source Revenue:					
Mean	Tk. 0.91	Tk. 1.02	Tk. 1.20	Tk. 1.51	Tk. 1.34
C.V.	33.9	30.2	30.1	43.0	44.0
Range	Tk. 0.14-1.49	Tk. 0.23-1.44	Tk. 0.23-1.89	Tk. 0.29-3.48	Tk. 0.43-3.36
Total Own Source Revenues (Excluding Chittagong Hill Tracts):					
Mean	Tk. 0.96	Tk. 1.07	Tk. 1.25	Tk. 1.58	Tk. 1.37
C.V.	25.4	22.9	22.6	38.0	43.7
Range	Tk. 0.62-1.49	Tk. 0.66-1.44	Tk. 0.80-1.89	Tk. 0.99-3.48	Tk. 0.43-3.36

TABLE 4 (CONT.)

Revenue Source	Fiscal Year ^a				
	1976-77	1977-78	1978-79	1979-80	1980-81
Normal Grants:					
Mean	Tk. 0.11	Tk. 0.11	Tk. 0.10	Tk. 0.11	Tk. 0.10
C.V.	23.2	25.0	22.8	25.2	23.0
Range	Tk. 0.07-0.18	Tk. 0.08-0.17	Tk. 0.07-0.17	Tk. 0.08-0.17	Tk. 0.08-0.17
Works Programme Grants:					
Mean	Tk. 0.93	Tk. 0.70	Tk. 0.70	Tk. 0.95	Tk. 0.99
C.V.	174.0	89.6	94.3	90.6	140.3
Range	Tk. 0.38-6.53	Tk. 0.38-2.66	Tk. 0.04-2.21	Tk. 0.38-3.22	Tk. 0.11-5.26
Total Revenue:^d					
Mean	Tk. 1.78	Tk. 1.68	Tk. 1.89	Tk. 2.43	Tk. 2.128
C.V.	74.3	31.9	31.0	36.2	60.5
Range	Tk. 0.85-6.75	Tk. 0.99-2.97	Tk. 0.91-3.29	Tk. 1.43-4.57	Tk. 0.64-6.21

* Means and ranges in taka, coefficients of variation in percents.

^a Number of observations as shown in Table 1 (zero entries excluded). Where a minimum of zero is indicated, it is due to rounding.

^b C.V. refers to coefficient of variation.

^c Only one non-zero observation.

^d Total revenue excludes special grants.

SOURCE: Zilla Parishad Records.

between 1976-77 and 1979-80. The minor revenues remained quite stable in per capita terms throughout the period.

The per capita revenue data for the minor revenue sources display considerable variability as indicated both by the large ranges in values and by coefficients of variation that often exceed 100 percent, but this should be expected given their small means. On the other hand, the coefficients of variation for the property transfer tax and total own source revenues are not extremely large. What is surprising is the large variation in per capita grants, indicating that factors other than population play crucial roles in determining grant allocations.

Real Revenues Per Capita

While per capita data are more informative than totals, the fact that one taka revenue earned in 1980-81 could not purchase as much as could one taka in 1976-77 should also be recognized. It is, therefore, desirable to deflate the nominal revenues by some price index so as to obtain some indication of the growth (or lack thereof) in local government purchasing power.

Unlike many developing countries there is a wealth of price level information published by the Bangladesh Bureau of Statistics. Still, none of the published indexes directly measure the purchasing power of public sector funds.¹ We have used the consumer price index (CPI) for Dhaka Government Employees/Middle Income Class to deflate the nominal per

¹This is certainly not uncommon. For example, in the U.S. there is an implicit price deflator constructed for the state and local government sector; however, there are no price indexes constructed which directly measure the changing cost of purchasing a representative mix of public sector inputs.

capita amounts. This index is available on a consistent basis for the longest time span and, given the labor intensity of most governmental activities, seems to be a reasonable indicator of public sector purchasing power.¹

Real per capita revenues did, on average, keep pace with inflationary pressures, although a rather dramatic revenue decline occurred in 1980-81 (Table 5). That decline was due to the absolute decrease in total nominal immovable property transfer tax revenues. Many of the minor revenues have not kept pace with the twin forces of population growth and increasing prices. Likewise, per capita normal grants have not increased as rapidly as has the price level and RWP monies have remained almost constant in real per capita terms since the large decline between 1976-77 and 1977-78.

Annual Growth Rates in Real Per Capita Revenues

The previous analyses do not address the question of annual growth in revenues per capita. While revenue growth is desirable, budgetary planning is aided when revenues continue to grow on a fairly stable basis rather than fluctuating wildly from year to year. The data in Table 6 address this issue. The table shows mean annual growth rates in real per capita revenues in ZPs for which data are available in any two consecutive years.

¹Use of alternative price indexes would yield nearly identical results since, when 16 other price indexes were correlated with the Dhaka Government Employees CPI, none of the correlation coefficients were less than .967. Thus, the choice of the index does not play a crucial role in the determination of real variables.

TABLE 5
 MEAN ZILLA PARISHAD REAL PER CAPITA REVENUES, BY SOURCE,
 1976-77 - 1980-81
 (1976-77 taka)^a

Revenue Source	Fiscal Year ^b				
	1976-77	1977-78	1978-79	1979-80	1980-81
Property Transfer Tax	Tk. 0.67	Tk. 0.71	Tk. 0.76	Tk. 0.85	Tk. 0.63
Local Rate	0.10	0.03	0.02	0.01	0.02
Rent, Profit and Sale Proceeds	0.11	0.10	0.10	0.10	0.07
Fees and Rates	0.01	0.009	0.008	0.007	0.006
Tolls on Roads, Ferries and Bridges	0.03	0.03	0.04	0.04	0.04
Interest	0.01	0.02	0.02	0.02	0.02
Miscellaneous Revenue	0.04	0.04	0.05	0.06	0.05
voluntary Contribution	0.02	0.001	0.08	0.07	0.09
(Total Own Source Revenue)	(0.91)	(0.87)	(0.94)	(1.03)	(0.82)
Normal Grants	0.11	0.10	0.08	0.07	0.06
Works Programme Grants	0.93	0.61	0.55	0.65	0.60
Total Revenue ^c	1.78	1.46	1.49	1.66	1.39

^aReal taka amounts based on the CPI for Dhaka government employees (1976-77 = 100).

^bNumber of observations as shown in Table 2 (zero entries excluded).

^cTotal Revenue excludes Special Grants.

SOURCE: Zilla Parishad Records.

TABLE 6
MEAN ANNUAL GROWTH RATES IN ZILLA PARISHAD REAL PER
CAPITA REVENUES, BY SOURCE

Revenue Source	Fiscal Year			
	1976-77 to 1977-78	1977-78 to 1978-79	1978-79 to 1979-80	1979-80 to 1980-81
Property Transfer Tax	5.9% (16) ^a	20.8% (17)	14.3% (18)	-24.1% (19)
Rent, Profit and Sales Proceeds	25.8 (17)	67.7 (18)	10.8 (19)	59.8 (20)
Fees and Rates	-11.2 (13)	23.5 (12)	11.7 (14)	8.9 (15)
Tolls on Roads, Ferries and Bridges	- 2.8 (14)	17.2 (15)	-11.7 (16)	25.9 (18)
Miscellaneous Revenue	163.9 (17)	27.5 (18)	177.9 (19)	48.2 (20)
Own Source Revenue	2.3 (17)	7.9 (18)	9.1 (19)	-11.6 (20)
Normal Grants	- 9.4 (17)	-16.5 (18)	- 6.5 (19)	-15.2 (20)
Works Program	- 8.2 (14)	3.5 (14)	80.1 (16)	-24.1 (17)
Total Revenue Excluding Special Grants	- 1.4 (17)	5.5 (18)	12.5 (19)	-18.7 (20)
Total Revenue Including Special Grants	3.3 (17)	2.0 (18)	9.9 (19)	-14.3 (20)

^aNumbers in parantheses are the number of Zilla Parishads used to compute mean annual growth rates.

SOURCE: Computed by author.

The years 1977-78 through 1979-80 showed most revenue sources (other than normal grants) increasing while declines in the largest revenue sources--the property transfer tax and the RWP--were experienced between 1979-80 and 1980-81. The entries within a single row highlight the problem of uncertainty in budgetary planning. For example, over this five-year period the mean annual property transfer tax growth rate varied from -20 to +25 percent. The differences in growth rates over time for the minor revenues and for the major intergovernmental grant program, the RWP, were even greater. While there were sufficient compensating variations in the growth rates of the several revenues to provide a more stable growth in the total, the range from -18.7 to +12.5 percent (when Special Grants are excluded) suggest considerable revenue instability. Reforms to the revenue structure should consider stable revenue growth as nearly as important as growth itself.

One of the criticisms of the current revenue structure, often mentioned by ZP officials, is the uncertainty associated with RWP grants. Although allocations are announced early in the fiscal year, but after budgets are formulated, local bodies seldom receive the entire allocated amount.

Zilla Parishad Expenditures

The range of activities which the Local Government Ordinance, 1976 requires of zilla parishads extends from the promotion of public games and sports to the provision of roads, bridges and culverts.¹ Given the

¹These activities are discussed in some detail in Schroeder and Maniruzzaman, "Local Government Structure in Bangladesh."

small amount of per capita revenues available to ZPs, it is not surprising that the level and breadth of activity is less than that implied in the full compulsory and optional lists. The purpose of this section is to document the level and composition of spending activities in ZPs during the period 1976-77 through 1980-81 in order to observe if and how expenditure initiatives changed and grew. The measures used are similar to those above and include totals and per capita amounts in nominal and real terms.

Total Expenditures

Table 7 documents the mean levels of expenditures in several major functional areas of ZP activity as well as average total expenditures. While the totals here are comparable to the mean total revenues shown in Table 2, there is no necessity that average revenues exceed average total spending since local bodies in Bangladesh use cash accounting systems which record revenues and expenditures as the funds are obtained or spent. Since the data in both Table 2 and 7 exclude the opening and closing balances (if these balances were not excluded, the totals in the two tables would necessarily be equal), revenues may or may not necessarily be spent during the same fiscal year. In fact, in three of the five years analyzed (fiscal years 1976-77, 1978-79 and 1980-81) expenditures exceeded revenues while the interim years show a surplus. This suggests budgeting practices which respond to the current fiscal situation by cutting back on spending in the year following a "deficit."¹

¹Note that the term "deficit" does not mean that ZPs were required to borrow funds to balance its budget since opening and closing balances are not included in the table. Instead, when current revenues are

TABLE 7

MEAN ZILLA PARISHAD EXPENDITURES BY TYPE, 1976-77 - 1980-81
(in taka)

Expenditure Type	Fiscal Year				
	1976-77	1977-78	1978-79	1979-80	1980-81
Establishment	587,760 (17) ^a	617,151 (18)	934,468 (19)	942,140 (20)	1,076,995 (20)
Agriculture	20,983 (16)	26,163 (17)	16,933 (18)	26,153 (15)	41,358 (15)
Public Health	36,409 (16)	38,121 (16)	16,626 (15)	19,537 (13)	24,375 (15)
Education	572,553 (16)	426,996 (17)	351,274 (18)	393,846 (19)	345,094 (19)
Social Welfare and Culture	151,174 (8)	181,427 (8)	105,359 (11)	117,086 (11)	148,482 (11)
Public Works	3,117,814 (17)	3,851,235 (18)	4,490,141 (18)	4,479,295 (20)	5,149,511 (20)
Miscellaneous Expenditures	127,587 (17)	166,897 (18)	358,088 (19)	316,796 (20)	358,586 (20)
Works Programme	2,884,455 (13)	2,181,782 (13)	2,313,986 (15)	2,854,038 (16)	2,779,026 (16)

TABLE 7 (CONT.)

Expenditure Type	Fiscal Year				
	1976-77	1977-78	1978-79	1979-80	1980-81
Special Grants	462,416 (3)	2,174,099 (3)	3,405,911 (3)	2,079,257 (2)	3,372,584 (3)
Total Expenditures excluding Special Grants	6,712,363 (17)	6,735,517 (18)	7,796,155 (19)	8,492,822 (20)	9,267,117 (20)
Total Expenditures including Special Grants	6,793,966 (17)	7,115,867 (18)	8,333,931 (19)	8,700,747 (20)	9,773,005 (20)

^aNumber in parenthesis is number of Zilla Parishads used to compute means.

SOURCE: Zilla Parishad records.

While this is not uncommon behavior, it indicates that ZPs are operating at the edge of their fiscal capacity and that steps to improve revenue-raising abilities are called for.

Activities which dominate ZP spending are those on public works since both the category "Public Works" and the entry "Works Programme" refer to spending on functional areas which, in a broader sense, represent works-related activities such as roads, bridges. The relative importance of these types of expenditures is shown in Table 8. The aggregate proportion of ZP spending allocated to public works from the combined activities of the RWP and normal works are consistently about 80 percent of the total. Indeed, the overall percentage is amazingly constant throughout the five years. The large drop in RWP between 1976-77 and 1977-78 was fully compensated for by increased spending on normal works.

The other categories of spending are quite minor; however, there have been some changes of note. Education spending declined in relative importance throughout the period while establishment expenditures rose and subsequently fell until, in 1980-81, they accounted for about 10 percent of expenditures.

Per Capita Expenditures

After adjusting for inflation and population growth, one observes that spending (excluding Special Grants) remained fairly stable during the last half decade (Table 9). The data indicate a decline in some ZP

(cont.) exceeded by spending, balances are drawn down. In the following year a cutback in spending would allow the jurisdiction to build balances back to their previous levels.

TABLE 8
 PERCENTAGE DISTRIBUTION OF ZILLA PARISHAD EXPENDITURES,
 BY TYPE, 1976-77 - 1980-81
 (in percents)

Expenditure Type	Fiscal Year ^a				
	1976-77	1977-78	1978-79	1979-80	1980-81
Establishment	7.8	7.9	12.1	9.7	10.2
Agriculture	0.4	0.4	0.2	0.2	0.2
Public Health	0.6	0.6	0.2	0.2	0.2
Education	8.7	5.6	4.3	4.1	3.3
Social Welfare and Culture	1.2	1.3	0.8	0.8	1.0
Public Works	39.3	53.1	49.9	50.3	53.7
Miscellaneous Expenditures	1.8	2.6	3.6	3.7	3.8
Works Programme	40.2	28.6	28.8	31.1	27.6

^aTotal expenditures exclude special grants expenditures. The data are based on a common set of 13 zilla parishads which include the RWP expenditures in the District Fund and for which data are available for the entire 5 year period.

SOURCE: Computed by authors.

TABLE 9
 MEAN ZILLA PARISHAD REAL PER CAPITA EXPENDITURES,
 BY TYPE, 1976-77 - 1980-81
 (in taka)

Expenditure Type	Fiscal Year ^a				
	1976-77	1977-78	1978-79	1979-80	1980-81
Establishment	0.080	0.080	0.160	0.100	0.110
Agriculture	.003	.003	.002	.003	.004
Public Health	.005	.004	.002	.002	.002
Education	.070	.050	.040	.036	.030
Social Welfare and Culture	.017	.020	.013	.012	.011
Public Works	.420	.480	.470	.420	.440
Miscellaneous Expenditures	.017	.020	.032	.032	.034
Works Program	.640	.360	.340	.410	.420
Special Grant	.080	.320	.520	.270	.480
Total Expenditures excluding Special Grants	1.100	.900	.980	.920	.970
Total Expenditures including Special Grants	1.110	.960	1.060	.950	1.040

^aNumber of observations as shown in Table 8.

SOURCE: Zilla Parishad records.

spending activities while others were nearly constant in real per capita terms. The most important component of ZP activity, public works spending, fell during the period. Interestingly, while real per capita own source revenues were nearly constant during this period (Table 5), the decline in real per capita grants account for the spending decrease.

Even in nominal terms the totals reflected in the table are extremely small. For example, by 1980-81 mean nominal spending (excluding special grants) was only Tk. 2.56 per person. If one makes the liberal assumption that average annual incomes in these rural areas are approximately Tk. 2,400 (assuming US \$120 per person and an exchange rate of Tk. 20 = US\$1), Tk. 2.56 expenditures amount to an expenditure-income ratio of less than one-tenth (0.08) percent. This is a very small ratio for a governmental body responsible for such a wide range of activities.

Revenue Differentials

Documentation of ZP finances does not indicate why some zillas outperform others in mobilizing resources. To address this issue we review some hypothetical reasons for revenue differentials across governmental bodies and then statistically analyze the differentials found in the data described previously.

Revenue Effort

Given similar revenue structures (which is the case for all ZPs other than the Chittagong Hill Tracts), there are two general reasons for differences in collections--ability and willingness. Resource mobilization ability is related to the economic base of an area. In

general, the stronger the underlying economy, the greater the amounts of revenues that can be collected from a set of revenue instruments. That is, most revenue sources, e.g., the property transfer tax, are somehow related to some aspect of economic activity, e.g., the market value of transacted property.

Revenue potential is, however, not equivalent to revenue realization. There must also be a willingness to impose revenue instruments on local economic activity. Political decisions are necessary to impose revenue-raising devices; furthermore, the revenue instruments must be administered to the full extent of the law.

It is difficult to measure directly political or administrative factors responsible for differential revenue effort. The demand for public services, e.g., better roads, can influence political/administrative decisions to mobilize additional resources to fill these needs. The causal linkage is, of course, weakened considerably when decisionmakers are placed in office by the central government rather than through popular elections. Nevertheless, "good" local administrators may react to local pressures even in the absence of direct elections.

Another potential impediment to realization of revenue potential is intergovernmental aid. Intergovernmental grants can have two offsetting effects.¹ On the one hand, an increased flow of funds to local governments can stimulate resource mobilization efforts. This would occur if the grant augments local economic activity which, in turn,

¹The effects of government grants in Bangladesh are analyzed in considerably more detail in Bahl, "Intergovernmental Grants in Bangladesh."

generates additional local revenues. Likewise, if the grant is spent on new capital which the locality is forced to operate and maintain, additional resource mobilization pressures will be placed on the locality.

On the other hand, localities may substitute the central government aid for its own revenue. This is especially likely when the grant system includes no matching nor maintenance of revenue effort requirements as conditions for receiving the money.

Measurement of Revenue Effort

Ideally, revenue effort would relate local own-source revenues to some measure of the residents' abilities to pay, e.g., the ratio of revenues to local income. Income data are not available for districts in Bangladesh and it is not feasible to attempt to factor the district GDP estimates into their rural and urban components. Thus, we have used a simpler technique here which analyzes differences in ZP per capita own-source revenues. Per capita amounts are used to correct for variations in total revenues attributable solely to population differences.

¹This approach is taken in the several studies of tax effort differentials across developing countries. See Joergen Lotz and Elliott Norss, "Measuring Tax Effort in Developing Countries," IMF Staff Papers 14 (1967): 478-99; Roy Bahl, "A Regression Approach to Tax Effort and Tax Ratio Analysis," IMF Staff Papers 18, No. 3 (November 1971): 570-612; Harley Hinrichs, A General Theory of Tax Structure Change During Economic Development (Cambridge, Mass.: Harvard Law School, 1966); Alan Tait, Wilfred Gratz, and Barry Eichengreen, "International Comparisons of Taxation for Selected Developing Countries, 1972-1976," IMF Staff Papers 26, No. 1 (March 1979): 123-56; Roy Bahl, "A Representative Tax System Approach to Measuring Tax Effort in Developing Countries," IMF Staff Papers 19, No. 1 (March 1972): 87-124; Raja Chelliah, Hessel Baas, and Margaret Kelly, "Tax Ratios and Tax Effort in Developing Countries, 1969-1971," IMF Staff Papers 22, No. 1 (March 1975): 187-205.

The choice of independent variables for the analysis is greatly restricted by data availability. Since no up-to-date personal income data are available by district, proxy variables must be used. Two variables are employed for this purpose. The BBS has estimated district-wise gross domestic product (GDP) the period 1976-77 through 1980-81, and value added in agriculture for the same areas and time period. The former measure probably comes closer to an estimate of income within the area; however, it includes economic activity occurring within the urban areas of the district hence overestimates the size of the revenue base of the zilla parishad. Agricultural value added, on the other hand, should reflect rural economic activity but is limited to agriculture. Both proxies are used in the analysis with each measured in per capita terms.

While district GDP per capita may capture the effects of a flourishing trade sector associated with urban areas, the same is not true for value added in agriculture although we recognize that a healthy urban economy will probably affect land prices in the nearby rural areas. We have, therefore, included the proportion of the district's population residing in urban areas as a companion variable whenever value added in agriculture is used in the statistical relationship.

The effect of intergovernmental grants on resource mobilization is tested through the inclusion of per capita ZP normal and RWP grants in the estimating equations. If the level of per capita grants is negatively (positively) associated with per capita own source revenues, one would conclude that the grant system discourages (encourages) tax effort and, hence, the grant system is substitutive (stimulative).

To approximate, at least crudely, administrative/political factors involved in resource mobilization we include per capita current account opening balances in the analysis. It may be that fiscal decision-makers approach mobilization efforts with a short-term perspective. If the fiscal situation appears healthy, they relax their efforts and increase these efforts only when the situation appears bleak. Per capita opening balances are used to reflect the current fiscal situation.

Linear regression is used to estimate the cross-sectional relationship between per capita own source revenues and the independent variables mentioned. The agricultural value added, GDP and urbanization data come from BBS sources while the financial data are those described above.

Statistical Results

Table 10 shows the regression results for each year 1976-77 through 1980-81. The results are informative, but generally in a negative sense because little systematic relationship emerged between the explanatory variables and own-source revenue effort.

Four different specifications were used here. In only one instance (1978-79) was per capita GDP found to be statistically related to own source revenues and this may be a statistical artifact since the equation as a whole is not statistically significant at the 0.10 level. The general lack of a relationship between GDP and revenues could be due to the fact that GDP is measured for the district as a whole rather than only for the rural areas. Or, possibly, GDP does not directly affect land prices which serve as the primary economic determinant of the property transfer tax.

TABLE 10

PER CAPITA OWN SOURCE REVENUE REGRESSION RESULTS^a
 (absolute t-ratios in parentheses)

<u>Year</u>	<u>Independent Variables</u>					<u>F</u>	<u>R²</u>
	<u>Per Capita GDP^b</u>	<u>Value Added in Ag^c</u>	<u>Grants Per Capita^d</u>	<u>Urban Population^e</u>	<u>Open Balance^f</u>		
1976-77	300.93 (0.83)		0.14 (0.22)			0.46	.08
	298.19 (0.77)		0.11 (0.13)		-0.005 (0.07)	0.28	.08
		0.57 (0.76)	0.009 (0.01)	0.003 (0.32)		0.29	.08
		0.57 (0.71)	0.001 (0.001)	0.003 (0.26)	-0.002 (0.02)	0.19	.09
1977-78	237.75 (0.76)		0.15 (0.66)			0.56	.10
	61.36 (0.18)		0.25 (1.04)		0.20 (1.12)	0.80	.21
		-0.35 (0.80)	0.21 (1.00)	0.01 (1.89)*		1.52	.34
		-0.68 (2.90)**	0.36 (1.80)	0.01 (1.94)*	0.27 (1.92)*	2.40	.54
1978-79	549.91 (1.84)*		-0.10 (0.75)			1.91	.24
	543.30 (1.67)		-0.10 (0.69)		0.01 (0.07)	1.17	.24
		0.19 (0.41)	-0.08 (0.69)	0.02 (2.80)**		3.14	.46
		0.13 (0.26)	-0.07 (0.57)	0.02 (2.68)**	0.06 (0.31)	2.19	.47

TABLE 10 (CONT.)

Year	Independent Variables						F	R ²
	Per Capita GDP ^b	Value Added in Ag ^c	Grants Per Capita ^d	Urban Population ^e	Open Balance ^f			
1979-80	66.35 (0.10)		-0.16 (0.68)				0.24	.04
	3.69 (0.01)		-0.18 (0.73)		0.22 (1.04)		0.52	.12
		-1.14 (1.54)	-0.10 (0.54)	0.04 (2.80)**			3.26*	.45
		-1.21 (1.66)	-0.12 (0.61)	0.04 (2.72)**	0.20 (1.19)		2.88*	.51
1980-81	487.94 (0.85)		-0.004 (0.02)				0.37	.05
	179.10 (0.31)		0.09 (0.48)		0.57 (1.56)		1.07	.21
		-0.96 (1.92)	0.05 (0.46)	0.06 (5.37)**			10.27**	.72
		-0.98 (1.94)*	0.08 (0.67)	0.05 (4.39)**	0.19 (0.82)		7.66**	.74

* Denotes significant at .10 level (2-tail).

** Denotes significant at .05 level (2-tail).

^a In each regression the dependent variable is own source revenue per capita.

^b Per capita Gross Domestic Product (at current prices) of the district.

^c Per capita value added in agriculture within its district.

^d Normal and RWP grants per capita.

^e Percent of the district population residing in urban areas.

^f Opening balances per capita.

SOURCE: Computed by author.

Only in 1980-81 was value added in agriculture statistically related to own source revenues per capita; and, in that instance, the relationship was negative rather than positive as hypothesized. There are several possible reasons for the general lack of relationship between agricultural productivity and revenue effort: (1) If more, but lower-valued, transactions take place in districts with lower agricultural productivity, one would not detect the expected relationship. (2) The administration of the immovable property transfer tax may be so weak that the tax collections are essentially random. (3) Possibly, due to market imperfections, land sales prices do not fully reflect differential productivity levels. (4) Finally, the value added data may be not sufficiently accurate to discern a relationship between agricultural productivity and revenues. Without additional productivity or income data, these possibilities must all remain open.

The results suggest no relationship between the flow of intergovernmental grants and revenues per capita. Given the structure of grant programs and the degree of fiscal autonomy available to zilla parishads, this is not surprising.

The urbanization variable is the single consistent indicator of greater revenues per capita. Other than in 1976-77, a significant positive relationship exists between the urbanized percent of a district's population and own source revenues. Interestingly, the absolute size of that relationship increased over the period under study. The findings suggest that greater economic activity in more urbanized areas drives up land prices which is then reflected in immovable property transfer tax revenues.

Opening balances appear to have little effect on revenue effort. In the one year for which this variable was found to be statistically significant (1977-78), the result indicates a positive relationship between revenue effort and opening balances. But, again, that equation is not statistically significant.

The associated F and R^2 statistics suggest the dominant effect of the urbanization variable in these results. Only when urbanization is included do any of the equations explain more than about 25 percent of the interdistrict variability in per capita revenues. It must be recognized, however, that all of these results are based on relatively few observations, thus, a small number of zilla parishads which also happen to be more urbanized, e.g., Dhaka and Chittagong, can play a major role in producing these statistical outcomes. In general, there is a great deal of variability in revenue effort across the zilla parishads that simply cannot be explained by a statistical model.

The lack of strong statistical relationships between own source revenue effort and the several explanatory variables is not, on the whole, surprising. One overriding attribute of zilla parishad finances is a lack of autonomy in raising revenues. Local administrators have relatively little power to mobilize additional resources, even if they would desire to do so. In addition, the fact that the decisionmakers at the ZP level are administrators rather than politicians could also affect the results. With a maximum of three years tenure in a position, there may be little incentive for the DC and ADRB acting as ZP chairman and secretary, respectively, to attempt to increase revenues if the

additional spending available from those resources will benefit their replacements.

Another important factor that accounts for the poor statistical relationships is a general instability in revenues, even within a ZP. This instability is reflected in Table 11 which gives summary statistics--means, standard deviations and coefficients of variation--of ZP total own source revenues measured in real per capita terms for each ZP. Larger coefficients of variation mean that revenues are characterized by larger year-to-year fluctuations. This instability helps explain the poor quality of the cross sectional statistical results; but, more important is its implication for financial planning. If a ZP's revenues experience wide annual fluctuations, it is nearly impossible to plan spending initiatives effectively.

Potential Revenues of Union Parishads

The list of potential taxes, rates and fees which a union parishad (UP) can levy is identical to that of the ZPs but, as noted above, ZPs and UPs are not allowed to impose identical revenue instruments. The resulting revenue structure relies most heavily upon property-based taxes with a few fees and minor taxes constituting the remainder of own-source revenues. Union parishads also participate in several grant programs.

Own Source Revenues

There are five major types of own source revenues collected by union parishads--property-based taxes, other taxes, property income, fees and miscellaneous income. In addition, the local rate has produced some

TABLE 11

SUMMARY MEASURES OF ZILLA PARISHAD TOTAL REAL OWN SOURCE
REVENUES PER CAPITA FOR THE PERIOD 1976-77 - 1980-81
(in 1976-77 taka)

<u>Zilla Parishad</u>	<u>Mean^a</u>	<u>Standard Deviation</u>	<u>Coefficients of Variation</u>
Chittagong	Tk. 1.16 (5)	Tk. 0.09	7.6%
Chittagong Hill Tracts	Tk. 0.25 (5)	Tk. 0.16	64.0
Comilla	Tk. 0.88 (5)	Tk. 0.08	9.3
Noakhali	Tk. 1.14 (4)	Tk. 0.08	7.5
Sylhet	Tk. 0.92 (5)	Tk. 0.38	41.3
Dhaka	Tk. 1.61 (5)	Tk. 0.59	36.5
Faridpur	Tk. 0.80 (5)	Tk. 0.07	8.9
Jamalpur	Tk. 0.69 (2)	Tk. 0.09	13.5
Mymensingh	Tk. 1.03 (5)	Tk. 0.16	15.9
Tangail	Tk. 0.83 (5)	Tk. 0.12	14.5
Barisal	Tk. 0.62 (5)	Tk. 0.08	12.4
Jessore	Tk. 0.70 (5)	Tk. 0.06	9.0

TABLE 11 (CONT.)

<u>Zilla Parishad</u>	<u>Mean^a</u>	<u>Standard Deviation</u>	<u>Coefficients of Variation</u>
Khulna	Tk. 1.00 (5)	Tk. 0.06	5.8
Kushtia	Tk. 1.07 (3)	Tk. 0.14	13.0
Patuakhali	Tk. 0.95 (5)	Tk. 0.24	24.8
Bogra	Tk. 0.94 (5)	Tk. 0.09	9.3
Dinajpur	Tk. 1.03 (5)	Tk. 0.21	20.7
Pabna	Tk. 0.84 (5)	Tk. 0.18	21.1
Rajshahi	Tk. 1.23 (5)	Tk. 0.44	35.4
Rangpur	Tk. 0.65 (5)	Tk. 0.08	12.4

^aNumbers in the parentheses represent number of observations used to compute the entries.

SOURCE: Zilla Parishad Records.

small revenues during the past several years. Table 12 shows the components of these major revenue categories.

Both the holding tax and the chowkidari tax are levies against the value of buildings and land on which the building is situated. Each is subject to the same set of rules and regulations as specified in the Rules Under the Basic Democracies Order (Those Applicable to Union Councils).¹ Since the taxes are so similar, it is not surprising to find that many UPs do not attempt to differentiate between them in their accounts but, instead, show their aggregate as a single entry.

Statutorily, the two taxes are to be levied against the annual value of the property. For let-out properties the annual value is the gross annual rent less two months' rent allowed for maintenance expenses. Furthermore, if there is a mortgage on the property, the annual mortgage interest costs are also deducted from the annual value. The annual value of owner-occupied property is to be determined either in terms of values on comparable let property in the area or as 7.5 percent of the estimated capital value of the property, whichever is less. Owner-occupiers are also granted deductions of one-sixth of the value as a maintenance allowance plus one-fourth of the net value after the maintenance allowance is deducted plus any mortgage interest costs. The second of these deductions quite obviously provides a strong incentive for owner-occupancy status.

¹Government of East Pakistan, Rules Under the Basic Democracies Order (Those Applicable to Union Councils) (Dacca: E. Pakistan Government Press, 1969), pp. 17-22.

TABLE 12

SOURCES OF UNION PARISHAD REVENUES

Own Source Revenues:

Local Rate

Property Tax

Holding tax

Chowkidari (Village Police) tax

Arrears in holding tax

Other Taxes

Tax on professions and trades

Tax on vehicles

Tax on animals

Income From Properties

Pounds and Ferry

Lease of UP lands

Rent and profit

Interest on investment

Sale of UP trees

Fees

Court (Gram Adalat) fee

Market fee

License and permit fee

Fee from trucks

Marriage fee

Cinema fee

Nationality and birth certificate fee

Building fee, slaughter fee, certification

fee for ownership of animals

Boat registration fee

Miscellaneous

Forfeit money from election candidates

Contributions to defense party, libraries
and eye-clinic

Income from fines

Sale proceeds of reclaimed cattle in pounds

Octroi (extremely rare)

TABLE 12 (CONT.)

Intergovernmental Grants:

Normal Grants

Compensatory

Deficit budget

Increased development

Salary (subvention)

Honorarium

Miscellaneous:

- a. voluntary mass participation grant
- b. election grant
- c. seed grant
- d. test relief and family planning
- e. house building grant due to tornado,
flood, etc.

Works Programme Grant

Contingency

Project

SOURCE: Union parishad records.

According to the statutes, assessments are to be updated every five years. After new assessments are prepared, the list is to be published and any taxpayer dissatisfied with his assessment can apply for a review of the valuation. Subcommittees formed from the union parishad are to act upon these appeals. Subsequent appeals to the circle officer (development) and controlling authority are also possible.

Taxes can be paid on a quarterly installment basis. Additionally, the statutes provide a 5 percent rebate when the tax bill is paid prior to the payment deadline.

Finally, the statutes are clear on the methods whereby arrear taxes are to be collected. Fifteen days after publication of the list of arrears a UP may proceed to recover the amount due by distress and sale of movable property owned by the delinquent taxpayer.

This review of the statute suggests that a highly efficient property tax system is in place within the unions of Bangladesh. As is made clear below, this does not appear to be the case, at least in the sample of UPs included in the current study. Nevertheless, it is instructive to realize that the statutory arrangements necessary for a well-designed property tax system already exist implying that, if property taxes were to be emphasized in longer term local revenue reforms it would not be necessary to construct a new statutory structure.

Administrative procedures pertaining to the other taxes--on professions and trades, on vehicles and on animals--are also well defined in the statutes. Model tax schedules are also shown in the Rules but

are written in terms of maximum annual taxes rather than specific uniform rates. Furthermore, these Rules and the flat rates are more than 20 years old.

The tax on trades and professions is essentially a business license tax and includes professionals, e.g., bankers and lawyers, specific trades, e.g., paddy huskers and owners of scooters (for hire), as well as firms doing business within the union. Vehicle taxes can be levied against rickshaws, carriages and carts (whether for hire or privately owned) while the animal tax is statutorily limited to horses, donkeys, dogs and elephants.

Property income of UPs are relatively minor and parallel closely the property income sources of ZPs. Fees, on the other hand, are reasonably productive in generating local revenues.¹ From the standpoint of revenues one of the most important of these is the market fee. This fee is both a potential revenue source of the upgraded thana parishads and a productive UP revenue source; it therefore deserves special mention here.

Since September 1982 the administration of haats and bazaars have been under the administrative control of the Ministry of Local Government (previously control was held by the Ministry of Law and Land Reform). New rules governing the administration of these markets have been promulgated which permits local governments to lease haats and bazaars to private parties. The leases are granted to high bidders at public

¹Some of the "fees" listed in Table 12 could also be considered taxes, e.g., fees from trucks, marriages, cinemas and boat registration. It is indicative of the accounting practices of the UPs that there was no uniformity in titling these sources as fees or taxes in the jurisdictions visited during this project.

auctions. The auctions are administered by different levels of local government depending upon the size of the market: haats or bazaars earning less than Tk. 25,000 per year are auctioned by the thana; those earning more than Tk. 25,000 but less than Tk. 200,000 are auctioned at the subdivisional level; and the largest markets (those earning more than Tk. 200,000) are auctioned at the district level. The leases are for one year (other than the initial lease which ran for approximately six months, from October 1982 - April 1983) and coincide with the Bengali year (which begins on or about April 15).

Under the auction rules 50 percent of the lease proceeds are to be paid immediately with the balance due within one week of the auction. The revenues collected are to be divided as follows: 1 percent of the total is given to the Ministry of Law and Land Reform which is deemed owner of the public lands on which the markets are located while the remaining 99 percent is divided among the union parishad (45 percent); the haat or bazaar management committee (16 percent for purposes of developing the market and 4 percent for administering it); and the zilla bazaar committee (35 percent). If a market serves more than a single UP (as indicated by the residence of members of the management committee), the revenues are to be distributed among the participating UPs on the basis of population. The zilla bazaar committee is chaired by the DC and is to use its revenue for two purposes: 5 percent for inspections and audits of the markets with the remainder distributed on the basis of population among union parishads within the district which have no market or have one which generates less than Tk. 1,000 annually. Market revenues earned by a UP can be used for any purpose.

These new market regulations replace a scheme whereby the haat or bazaar management committee essentially ran the market. Rather than employ collectors, the Youth Complex (an organization of youth within the locality) had the responsibility to collect the market fees and retained 10 percent for their efforts. Under that scheme, UPs derived 35 percent of the total revenues earned by the haat or bazaar (less the 1 percent of the gross which was retained by the MI&LR). There were, however, considerable difficulties associated with that administrative arrangement.¹ Under the new procedures public bodies will only administer auctions and insure that private leaseholders do not overcharge market users and that sanitary conditions are maintained.

Intergovernmental Revenues

The UP derives both normal and Rural Works Programme grants. (This discussion excludes the Food-For-Work-Programme which is also a grant program; however, the proceeds of this in-kind grant do not appear in the Union Fund.) Table 12 lists the major normal grants received by nearly all UPs. Of particular interest is the deficit budget grant which apparently is provided to financially distressed UPs.

RWP grants flow through the overlying thana parishad and are not guaranteed to accrue to every union during each fiscal year. Instead, the allocation decision process has, at least prior to upgrading of

¹Mohammed Humayum Kabir, "An Analysis of the Management Crisis of Bashurhat Bazar," prepared for the Fourth Workshop Program on Problems of Rural Development Administration, January 21-28, 1982 (Dhaka) notes such problems as non-updating and non-display of toll rates, possible misappropriation of funds, discrepancies in the accounts, overcharging of tolls and non-issuance of receipts.

thanas, occurred at the thana parishad level which could allocate most of the funds to a few UPs or could spread the money across all or nearly all UPs in the thana.

Actual Revenues of Union Parishads

As with ZP revenues, we review UP revenues from several perspectives, including mean total revenues by revenue source, per capita amounts in both nominal and real terms and the annual growth in these amounts. Again, the data used have been collected directly from the financial accounts of the jurisdictions and are actual rather than budgeted amounts. In the case of the UPs the data constitute a sample rather than a census. The sample consists of 41 UPs in the districts of Faridpur, Rangpur and Sylhet.¹ It was more difficult to obtain a full five-year set of accounts in the unions than at the ZP level, thus, missing data problems are more severe. Likewise, at the UP level there is considerably more variability in the financial detail provided in the accounts. For example, while some UPs report the holding tax, chowkidari tax and arrears on each as separate account entries, these sources are aggregated in other jurisdictions. Since the bases of these taxes are identical, we have aggregated them in the analysis below. Even more complex is the case of the several fees levied in many unions (Table

¹see Schroeder, et al., "Collecting Local Government Financial Data in Developing Countries: The Case of Bangladesh," for a full discussion of the data collection techniques used and the jurisdictions included in the sample.

12). Again, since inconsistencies in reporting these fees were so great, we focus on aggregate fees.

Total Revenues by Source

Table 13 displays average total revenues by source for the sample UPs together with the number of observations on which the results are based and the number of UPs reporting no revenues for each specific source. The means are based only on non-zero entries.

The declining importance of the local rate is indicated by the increased number of UPs reporting zero revenues over the time period. All unions sampled show some form of the property tax as a revenue source; it is also the largest of all own source revenues. Other taxes, including taxes on professions and trades, vehicles and animals, are much less uniformly levied. By 1980-81 only about 70 percent of the sample jurisdictions were imposing these taxes. Similar non-uniformity occurred in the case of property income, fees and miscellaneous revenues. It must be recognized, however, that this apparent non-uniformity in revenue sources may be due purely to differences in bookkeeping procedures.

All UPs reported receiving normal grants; indeed, this was an especially important revenue source. Only a small number of these local bodies either received no RWP monies or kept them in a separate account.

Table 14 shows the relative reliance upon each revenue source for the 31 UPs in the sample throughout the five years. The relative decline in the local rate was expected whereas the decreased importance of the property tax was unexpected. The increased reliance on fee revenues is particularly pronounced. Normal grants consistently provided about a

TABLE 13
 MEAN UNION PARISHAD REVENUES BY SOURCE,
 1976-77 - 1980-81
 (in taka)

Revenue Source	Fiscal Year				
	1976-77	1977-78	1978-79	1979-80	1980-81
Local Rate	1647 (26, 8) ^a	815 (18,19)	1228 (10,28)	1610 (6,34)	2495 (6,35)
Property Tax	10131 (34, 0)	13322 (37, 0)	17920 (38, 0)	16299 (40, 0)	21319 (41, 0)
Other Taxes	1025 (20,14)	1356 (25,12)	1422 (26,12)	1595 (24,16)	1832 (29,12)
Income From Properties	855 (26, 7)	1036 (31, 5)	1570 (29, 8)	2934 (32, 8)	2192 (30,10)
Fees	505 (22,12)	1022 (27,10)	12127 (31, 7)	14573 (30,10)	10516 (32, 9)
Miscellaneous Revenue	2557 (23,11)	2423 (24,13)	1880 (21,17)	1438 (16,24)	1292 (19,21)
Normal Grants	6294 (34, 0)	18625 (37, 0)	17208 (38, 0)	18118 (39, 0)	21390 (40, 0)
Works Programme Grants	2045 (9, 3)	3565 (30, 1)	5692 (29, 1)	5967 (32, 1)	5356 (28, 3)
Total Own Source Revenues	14703 (34, 0)	17826 (37, 0)	31347 (38, 0)	31349 (40, 0)	33391 (41, 0)
Total Revenue	21538 (34, 0)	39337 (37, 0)	52898 (38, 0)	53787 (40, 0)	57917 (41, 0)

^aThe first number in parentheses represents the number of observations used to compute means; the second number represents the number of UP for which no revenues were collected for this source. The difference between 41 (i.e., total number of UPs considered) and the sum of the two numbers shown in parentheses represent missing data.

SOURCE: Union Parishad Records.

TABLE 14
 PERCENTAGE DISTRIBUTION OF UNION PARISHAD REVENUES
 1976-77 - 1980-81
 (in percents)

Revenue Source	Fiscal Year ^a				
	1976-77	1977-78	1978-79	1979-80	1980-81
Local Rate	6.16	1.12	0.53	0.05	0.54
Property Tax	48.30	34.30	33.89	29.21	35.48
Other Tax	2.92	2.18	1.83	1.66	2.00
Income From Properties	3.29	2.14	2.22	4.81	2.99
Fees	1.44	1.56	20.22	24.69	16.44
Miscellaneous Revenue	7.30	4.03	1.79	0.93	0.72
Normal Grants	27.81	47.04	31.49	30.14	35.75
Works Programme Grants	2.80	7.64	8.01	8.51	6.09

^aBased on the 31 union parishads for which data were available for the entire period.

SOURCE: Computed by authors.

third or more of UP finances but unlike the ZPs, the UPs did not rely heavily upon the RWP.

Table 15 focuses exclusively on own-source revenues. The extreme importance of the property tax and, in the later years, on fees stand out. When only own source revenues are considered, the property tax has not declined as greatly as might be implied from Table 14. Its relative decline in the revenue structure was due to the increased relative importance of grants.

The massive increase in fees between 1977-78 and 1978-79 was due to an unexpected increase in haats and bazaars income in only nine UPs, eight in Sylhet and one in Rangpur District. Table 16 shows the relative amounts of fee revenues earned within these nine UPs during the five year period. Market revenues constituted nearly all fee income from 1978-79 onward. Field work revealed that in each jurisdiction the market was a new and apparently the UP was the recipient of the market income. If these jurisdictions are removed from the sample, average fee income falls to Tk. 2083, Tk. 2595 and Tk. 2129 in the years 1978-79 through 1980-81 respectively--amounts much more in line with the means for the first two years of the sample period. Nevertheless, the findings do show that markets can be a productive revenue source for this level of local government in Bangladesh.

¹Local government public enterprises, especially markets, were also found to be a productive revenue source for local governments in the Philippines. See David Greytak and Ben Diokno, "Local Government Public Enterprises," in Local Government Finance in the Third World, edited by Roy Bahl and Barbara D. Miller (New York: Praeger Publishers, 1982).

TABLE 15
 PERCENTAGE DISTRIBUTION OF UNION PARISHAD OWN SOURCE
 REVENUE, BY SOURCE, 1976-77 - 1980-81
 (in percents)

Revenue Source	Fiscal Year ^a				
	1976-77	1977-78	1978-79	1979-80	1980-81
Local Rate	8.87	2.47	0.87	0.08	0.92
Property Tax	69.60	75.67	56.03	47.61	60.99
Other Tax	4.20	4.81	3.03	2.71	3.44
Income From Properties	4.74	4.73	3.67	7.85	5.14
Fees	2.07	3.44	33.43	40.24	28.26
Miscellaneous Revenue	10.52	8.89	2.96	1.52	1.24

^aSame 31 observations as used in Table 14.

SOURCE: Union Parishad Records.

TABLE 16
 PERCENTAGE DISTRIBUTION OF FEES IN NINE SELECTED UNION
 PARISHADS, 1976-77 - 1980-81
 (in percents)

<u>Sub-Component Fees</u>	<u>Fiscal Years^a</u>				
	<u>1976-77</u>	<u>1977-78</u>	<u>1978-79</u>	<u>1979-80</u>	<u>1980-81</u>
Licenses, Permits, Registrations and Animal Owner Certification Fee	61.2	68.1	0.3	2.0	4.1
Gram Adalat Fee	21.2	7.3	0.3	0.5	0.8
Market Fee	0.0	0.0	96.7	97.5	95.1
Other Fees	17.6	24.6	2.7	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0

^aIncludes only those Union Parishads which have market fees. There are 9 such union parishads, 8 in Sylhet District and 1 in Rangpur District.

SOURCE: Union Parishad Records.

Per Capita Revenues

Again, per capita amounts are more meaningful than aggregates; however, union population estimates are not available for the years encompassed in this analysis. Furthermore, union population counts from the 1981 census are currently not available, hence it is necessary to estimate union population indirectly. We have assumed that a union's population grew at the same rate during the 1974-1981 period as did its overlying thana. We applied this linear growth rate to 1974 union census data to derive the population estimates used here.

The data in Table 17 show that the sample UPs were collecting less than Tk. 2 per person from their own sources plus about Tk. 1.50 from intergovernmental grants. Property taxes consistently yielded around Tk 1 per person within these localities.

Even though the sample includes jurisdictions from only three districts, they exhibit great variability in per capita revenues collected. For many of the revenue sources coefficients of variation exceeding 100 percent were found. The variability was particularly pronounced for fee revenues, again due to the inclusion of significant amounts of hats and bazars income in the nine UPs noted above. Large deviations in per capita normal grants income again suggest that variables other than population play a role in grant allocations.

When viewed in real (1976-77=100) taka terms (Table 18), per capita total purchasing power of the UPs are seen to have remained at about Tk 2 from 1977-78 onwards (except for 1978-79). The property tax ranged from Tk 0.63-0.83 through the period and fees never exceeded Tk 0.66. As was the case for the ZPs, the purchasing power of per capita normal grants

TABLE 17

MEANS, COEFFICIENTS OF VARIATION AND RANGES IN UNION PARISHAD
PER CAPITA REVENUES BY SOURCE, 1976-77 - 1980-81

Revenue Source	Fiscal Year ^a				
	1976-77	1977-78	1978-79	1979-80	1980-81
Property Transfer Tax:					
Mean:	Tk. 0.65	Tk. 0.84	Tk. 1.05	Tk. 0.93	Tk. 1.19
C.V.:	54.5	64.5	77.9	56.6	70.3
Range:	Tk. 0.06-1.55	Tk. 0.19-2.43	Tk. 0.09-4.75	Tk. 0.25-2.70	Tk. 0.02-3.37
Local Rate:					
Mean:	Tk. 0.11	Tk. 0.05	Tk. 0.00	Tk. 0.11	Tk. 0.15
C.V.:	67.5	94.8	62.0	149.6	89.4
Range:	Tk. 0.01-0.31	Tk. 0.01-0.22	Tk. 0.02-0.14	Tk. 0.003-0.44	Tk. 0.05-0.40
Other Tax:					
Mean:	Tk. 0.07	Tk. 0.08	Tk. 0.08	Tk. 0.10	Tk. 0.11
C.V.:	105.6	93.4	111.0	135.8	149.3
Range:	Tk. 0.00-0.25	Tk. 0.00-0.30	Tk. 0.00-0.38	Tk. 0.01-0.57	Tk. 0.004-0.63
Income From Properties:					
Mean:	Tk. 0.05	Tk. 0.06	Tk. 0.10	Tk. 0.15	Tk. 0.12
C.V.:	118.8	86.8	132.0	163.1	92.0
Range:	Tk. 0.001-0.28	Tk. 0.00-0.23	Tk. 0.01-0.68	Tk. 0.002-1.33	Tk. 0.01-0.44
Fees:					
Mean:	Tk. 0.03	Tk. 0.06	Tk. 0.84	Tk. 0.93	Tk. 0.66
C.V.:	91.5	145.8	282.0	246.9	241.2
Range:	Tk. 0.00-0.11	Tk. 0.001-0.44	Tk. 0.00-12.15	Tk. 0.001-10.33	Tk. 0.00-8.45
Miscellaneous Revenue:					
Mean:	Tk. 0.15	Tk. 0.14	Tk. 0.10	Tk. 0.08	Tk. 0.08
C.V.:	83.5	113.9	160.5	125.1	155.8
Range:	Tk. 0.002-0.42	Tk. 0.01-0.74	Tk. 0.002-0.75	Tk. 0.002-0.36	Tk. 0.001-0.53

TABLE 17 (CONT.)

Revenue Source	Fiscal Year				
	1976-77	1977-78	1978-79	1979-80	1980-81
Total Own Source Revenues:					
Mean:	Tk. 0.94	Tk. 1.11	Tk. 1.94	Tk. 1.86	Tk. 1.93
C.V.:	41.1	52.2	123.2	115.7	89.4
Range:	Tk. 0.08-1.82	Tk. 0.27-2.74	Tk. 0.44-14.22	Tk. 0.29-11.83	Tk. 0.07-9.67
Normal Grants:					
Mean:	Tk. 0.39	Tk. 1.15	Tk. 1.03	Tk. 1.01	Tk. 1.21
C.V.:	52.6	31.9	30.5	58.6	44.4
Range:	Tk. 0.07-1.29	Tk. 0.06-2.27	Tk. 0.38-1.94	Tk. 0.20-2.68	Tk. 0.07-3.01
Works Programme:					
Mean:	Tk. 0.13	Tk. 0.21	Tk. 0.31	Tk. 0.33	Tk. 0.28
C.V.:	32.4	33.0	50.8	26.3	35.5
Range:	Tk. 0.06-0.20	Tk. 0.09-0.34	Tk. 0.14-1.02	Tk. 0.12-0.53	Tk. 0.07-0.40
Total Revenue:					
Mean:	Tk. 1.36	Tk. 2.43	Tk. 3.21	Tk. 3.10	Tk. 3.30
C.V.:	34.5	28.3	76.4	69.4	56.9
Range:	Tk. 0.37-2.38	Tk. 1.36-4.53	Tk. 1.17-15.62	Tk. 1.15-12.23	Tk. 1.25-11.69

^aNumber of observations is as shown in Table 14 (zero entries excluded). Where a minimum of zero is indicated, it is due to rounding.

^bC.V. refers to coefficients of variation.

SOURCE: Union Parishad Records.

TABLE 18
 MEAN UNION PARISHAD PER CAPITA REAL REVENUE BY SOURCE,
 1976-77 - 1980-81
 (in 1976-77 taka)

Revenue Source	Fiscal Year ^a				
	1976-77	1977-78	1978-79	1979-80	1980-81
Local Rate	0.11	0.04	0.05	0.08	0.09
Property Tax	0.65	0.73	0.83	0.63	0.73
Other Tax	0.07	0.07	0.06	0.07	0.07
Income From Properties	0.05	0.05	0.08	0.10	0.07
Fees	0.03	0.06	0.66	0.63	0.40
Miscellaneous Revenue	0.15	0.12	0.08	0.06	0.05
Normal Grants	0.39	1.00	0.81	0.69	0.74
Works Programme	0.13	0.18	0.25	0.23	0.17
Total Own Source Revenues	0.94	0.97	1.53	1.26	1.17
Total Revenue	1.36	2.11	2.53	2.12	2.01

^aNumber of observations is shown in Table 14 (zero entries excluded).

SOURCE: Union Parishad Records.

fell by 25 percent between 1977-78 and 1980-81 while real RWP per capita decreased by about 30 percent between 1978-79 and 1980-81. Again this suggests a general stagnation in the abilities of these smallest local bodies to meet the public service needs of their residents.

Revenue Growth

Table 19 shows the year-to-year average growth in real per capita revenues in jurisdictions for which data are available in consecutive years. With relatively small bases, small absolute changes result in large relative changes. Nevertheless, the extremely large percentage growth rates reflected in Table 19 indicate difficulties with fiscal planning in UPs. Total own-source revenues growth rates range, on average, from -2.9 percent to 54.7 percent, suggesting that it is extremely difficult to project the amount of resources that may be available in the following fiscal year.

Union Parishad Expenditures

Unlike the zilla parishads, which concentrate primarily upon transportation services, union parishads are involved in a variety of activities. Yet, the revenue analysis implies that none of these activities can be supported at a very high level.

Due to nonuniformity in accounting conventions and the extremely small amounts involved, we have aggregated UP activities into four major categories--establishment spending, construction and maintenance spending, miscellaneous spending and works programme spending. Table 20 provides some idea of the wide variety of activities included in these expenditure categories. While most of the subcomponents of establishment

TABLE 19

MEAN ANNUAL GROWTH RATES IN UNION PARISHAD REAL
PER CAPITA REVENUES BY SOURCE
(in percents)

Revenue Source	Fiscal Year ^a			
	1976-77 to 1977-78	1977-78 to 1978-79	1978-79 to 1979-80	1979-80 to 1980-81
Local Rate	-15.5 (15)	80.6 (3)	-52.2 (4)	-31.5 (3)
Property Tax	33.6 (33)	27.8 (36)	- 8.7 (37)	27.5 (40)
Other Tax	52.1 (18)	54.8 (23)	- 2.4 (22)	44.5 (24)
Income From Properties	244.6 (25)	103.7 (28)	68.5 (28)	130.7 (30)
Fees	699.9 (20)	3554.9 (25)	6129.7 (26)	2561.9 (28)
Miscellaneous Revenue	234.8 (15)	-20.1 (14)	-20.7 (12)	-27.6 (12)
Normal Grants	231.8 (33)	- 1.8 (36)	- 6.6 (36)	62.0 (39)
Works Program Grant	53.9 (9)	60.4 (27)	9.7 (26)	-18.7 (28)
Total Own Source Revenue	18.3 (33)	54.7 (36)	- 2.9 (37)	12.3 (40)
Total Revenue	73.1 (33)	17.4 (36)	- 8.2 (37)	2.9 (40)

^aThe numbers in parentheses are the number of union parishads on which the growth rates are based.

SOURCE: Computed by authors.

TABLE 20

TYPES OF UNION PARISHAD EXPENDITURES

Establishment Expenditures:
(including tax collection)

Salary
 Contingency
 Travel Allowance (TA) and Deerness Allowance (DA)
 Goods and Services (uniform cost; Oil and fuel expenses; election charges; meeting expenses; furnitures, newspapers, functions, etc.; electricity connection charges; audit and relief expenses)

Construction, Public Works and Maintenance:

Bamboo and Wooden Bridge
 Irrigation, Embankment and Canal Digging
 Road, Bridges and Culverts
 Building Construction (Mosque, office)
 Maintenance (repairing and developing Halls and Bazars)

Miscellaneous Expenditures:

Training of Chowkidars and Dafadars
 Return of Security Deposits of Tax-Collectors
 Ration Card
 Family Planning, Adult Education
 Swanivar, Cottage Industries
 Public Health and Sanitation
 Jungle Cleaning
 Youth Complex
 Rickshaw Plates, Fees on Crossed Check on Grant Money
 Zakat
 Contribution (Chada)
 Voluntary Development Program - Rally Cost
 Carrying Cost
 Tree Plantation

Works Programme Grant Expenditures

Contingency
 Project

SOURCE: Union Parishad records.

spending are common in all UPs (although not all UPS report them on a disaggregated basis), seldom would a UP expend funds on all of the activities listed under construction and maintenance or miscellaneous spending.

Total Expenditures

Table 21 reports mean total expenditures found in the sampled UPs. (Given the degree of aggregation used, the problems associated with zero entries were less severe on the spending side of the budget.) The totals are, of course, quite similar to the revenue totals found in Table 13; however, in two years (1979-80 and 1980-81) average total spending exceeded revenues. Again this was due to the cash accounting methods used in these jurisdictions and the exclusion here of opening and closing balances.

Table 22 shows the relative size of the four different spending categories. The single outstanding feature of the information shown there is the extremely large proportion of expenditures spent for purely administrative purposes. Establishment expenditures fell relative to the other categories after 1976-77, yet they always accounted for at least 60 paisa for each taka of spending. Even though such overhead spending is not totally unproductive, the results imply that local taxpayers are getting little in the way of development spending in return for their tax payments.

Per Capita Spending

After the initial rise in per capita spending between 1976-77 and 1977-78, real spending remained fairly constant in the following four years (Table 23). Real expenditures per capita for establishment

TABLE 21
 MEAN UNION PARISHAD EXPENDITURES BY TYPE,
 1976-77 - 1980-81
 (in taka)

Expenditure Type	Fiscal Year ^a				
	1976-77	1977-78	1978-79	1979-80	1980-81
Establishment	15675 (34)	26448 (37)	30238 (38)	33307 (40)	39832 (41)
Construction, Public Works and Maintenance	4373 (30)	6699 (37)	6513 (37)	17337 (37)	15929 (40)
Miscellaneous	1308 (27)	1420 (34)	2296 (31)	2582 (37)	3528 (36)
Works Programme	2041 (10)	3667 (30)	5825 (29)	6119 (31)	5034 (29)
Total Expenditures Excluding Works Programme	20572 (34)	35371 (37)	38452 (38)	51732 (40)	58470 (41)
Total Expenditures Including Works Programme	21173 (34)	38344 (37)	42898 (38)	56474 (40)	62030 (41)

^aNumber in parenthesis is number of union parishads used to compute means.

SOURCE: Union Parishad Records.

TABLE 22
 PERCENTAGE DISTRIBUTION OF UNION PARISHAD EXPENDITURES
 BY EXPENDITURE TYPE, 1976-77 - 1980-81
 (in percents)

Expenditure Type	Fiscal Year ^a				
	1976-77	1977-78	1978-79	1979-80	1980-81
Establishment	75.14	68.82	71.87	59.51	69.87
Construction, Public Works and Maintenance	17.03	16.87	13.11	28.63	19.89
Miscellaneous Expenditures	4.65	6.33	4.66	3.85	3.82
Works Programme Expenditures	3.17	7.99	10.36	8.01	6.42

^aAll entries based on 31 union parishads for which data were available throughout the five-year period.

SOURCE: Union Parishad Records.

TABLE 23

MEAN PER CAPITA UNION PARISHAD REAL EXPENDITURES,
BY TYPE, 1976-77 - 1980-81
(in 1976-77 taka)

<u>Expenditure Source</u>	<u>Fiscal Year^a</u>				
	<u>1976-77</u>	<u>1977-78</u>	<u>1978-79</u>	<u>1979-80</u>	<u>1980-81</u>
Establishment	1.00	1.43	1.43	1.32	1.37
Construction, Public Works and Maintenance	0.27	0.36	0.31	0.70	0.53
Miscellaneous	0.08	0.12	0.11	0.10	0.12
Works Programme	0.13	0.19	0.25	0.23	0.16
Total Expenditures Excluding Works Programme	1.31	1.90	1.81	2.05	2.00
Total Expenditures Including Works Programme	1.35	2.05	2.01	2.23	2.11

^aNumber of observations as shown in Table 21.

SOURCE: Computed by authors.

purposes fell slightly in 1979-80 while construction and maintenance spending was more than doubled. Nevertheless, aggregate expenditures on public works, miscellaneous and RWP never exceeded Tk. 1.51 per person even in nominal terms during this five year period. Interestingly, the amounts spent for establishment purposes have been quite constant in real terms throughout the period. What this may imply is a minimal level of overhead expenditures in all jurisdictions. If so then mobilization of additional resources would be allocated primarily to development oriented activities.

Union Parishad Revenue Differentials

Unlike zilla parishads, it is not feasible to perform sophisticated analyses of UP revenues since socio-economic data are not available for these smallest of local bodies in Bangladesh. Instead, we must be content to use cruder methods including some disaggregation of the data reported above together with reliance upon more subjective information obtained in the data collection process.

Interdistrict Revenue Differentials

Some information regarding differences in UP revenue collection efforts can be obtained by comparing revenues across the three districts from which the UPs were chosen. Tables 24-26 contain mean nominal per capita revenues by source for Faridpur, Rangpur and Sylhet districts, respectively. The data suggest that, during the final three years under analysis, UPs in Sylhet District outperformed those in the other two areas. These data, however, include the revenues earned from markets in eight Sylhet UPs which greatly exceeded the amounts collected

TABLE 24

MEAN UNION PARISHAD PER CAPITA REVENUES, BY SOURCE
1976-77 - 1980-81: FARIDPUR DISTRICT
(in taka)

Revenue Source	Fiscal Year ^a				
	1976-77	1977-78	1978-79	1979-80	1980-81
Local Rate	0.15 (5)	0.03 (5)	0.07 (1)	0.07 (1)	0.06 (2)
Property Tax	0.73 (6)	1.10 (6)	1.46 (7)	1.06 (8)	1.39 (8)
Other Taxes	0.0003 (1)	b	0.0003 (1)	b	0.04 (2)
Income From Properties	0.03 (3)	0.10 (4)	0.11 (4)	0.14 (4)	0.22 (4)
Fees	0.06 (2)	0.09 (2)	0.20 (4)	0.38 (3)	0.06 (3)
Miscellaneous Revenues	0.006 (1)	0.18 (4)	0.15 (1)	0.12 (2)	0.02 (2)
Normal Grants	0.42 (6)	1.17 (6)	0.30 (7)	1.37 (8)	1.10 (8)
Works Programme	0.14 (2)	0.16 (5)	0.45 (6)	0.39 (4)	0.29 (4)
Total Own Source Revenues	0.89 (6)	1.35 (6)	1.67 (7)	1.31 (8)	1.56 (8)
Total Own Source Excluding Fees	0.83	1.26	1.47	0.93	1.50
Total Revenues	1.35 (6)	2.65 (6)	2.95 (7)	2.88 (8)	2.80 (8)

^a Numbers in parentheses are number of observations from which means were computed.

^b No non-zero entries.

SOURCE: Union Parishad records.

TABLE 25
 MEAN UNION PARISHAD PER CAPITA REVENUES, BY SOURCE,
 1976-77 - 1980-81: RANGPUR DISTRICT
 (in taka)

Revenue Source	Fiscal Year ^a				
	1976-77	1977-78	1978-79	1979-80	1980-81
Local Rate	0.09 (7)	0.03 (7)	0.05 (7)	0.003 (2)	b
Property Tax	0.43 (11)	0.51 (12)	0.79 (12)	0.72 (13)	0.80 (13)
Other Taxes	0.04 (6)	0.05 (11)	0.04 (10)	0.04 (10)	0.04 (11)
Income From Properties	0.03 (9)	0.05 (11)	0.05 (11)	0.16 (12)	0.08 (11)
Fees	0.003 (4)	0.02 (7)	0.05 (8)	0.34 (9)	0.24 (9)
Miscellaneous Revenues	0.20 (10)	0.08 (9)	0.04 (8)	0.09 (4)	0.04 (7)
Normal Grants	0.35 (11)	0.95 (12)	0.84 (12)	0.93 (13)	0.97 (13)
Works Programme	b	0.19 (11)	0.27 (11)	0.34 (11)	0.32 (11)
Total Own Source Revenues	0.72 (11)	0.69 (12)	0.97 (12)	1.15 (13)	1.09 (13)
Total Own Source Excluding Fees	0.72	0.67	0.92	0.81	0.85
Total Revenues	1.07 (11)	1.81 (12)	2.05 (12)	2.37 (13)	2.33 (13)

^aNumbers in parentheses are number of observations from which means were computed.

^bNo non-zero entries.

SOURCE: Union Parishad records.

TABLE 26
 MEAN UNION PARISHAD PER CAPITA REVENUES, BY SOURCE
 1976-77 - 1980-81: SYLHET DISTRICT
 (in taka)

Revenue Source	Fiscal Year ^a				
	1976-77	1977-78	1978-79	1979-80	1980-81
Local Rate	0.09 (14)	0.09 (6)	0.13 (2)	0.20 (3)	0.19 (4)
Property Tax	0.77 (17)	0.97 (19)	1.07 (19)	1.02 (19)	1.37 (20)
Other Taxes	0.08 (13)	0.11 (14)	0.11 (15)	0.14 (14)	0.16 (16)
Income From Properties	0.08 (14)	0.06 (16)	0.14 (14)	0.15 (16)	0.13 (15)
Fees	0.04 (16)	0.08 (18)	1.30 (19)	1.32 (18)	0.94 (20)
Miscellaneous Revenues	0.11 (12)	0.18 (11)	0.14 (12)	0.07 (10)	0.12 (10)
Normal Grants	0.41 (17)	1.27 (19)	1.20 (19)	0.90 (18)	1.42 (19)
Works Programme	0.13 (7)	0.24 (14)	0.29 (12)	0.31 (17)	0.25 (13)
Total Own Source Revenues	1.09 (17)	1.30 (19)	2.66 (19)	2.56 (19)	2.62 (20)
Total Own Source Excluding Fees	1.05	1.22	1.36	1.24	1.68
Total Revenues	1.55 (17)	2.75 (19)	4.04 (19)	3.70 (19)	4.13 (20)

^aNumbers in parentheses are number of observations from which means were computed.

SOURCE: Union Parishad records.

from that source in all other UPs including other unions in Sylhet District. If one deletes fees from own-source revenues, the means are quite similar although unions in Rangpur District consistently earned the smallest per capita amounts.

Union parishads in Faridpur and Sylhet districts consistently had larger per capita property tax collections than Rangpur UPs. On the other hand, Faridpur UPs appear not to impose taxes on vehicles, animals and trades or professions to any significant degree (although it is possible that accounting conventions in Faridpur include these taxes among the miscellaneous revenue category). Interestingly, Rangpur jurisdictions also consistently earned the smallest per capita amounts from normal grants, suggesting a possible regional bias in the grant allocation mechanism.

Table 27 contains a slightly different approach to the question of interdistrict differences in UP own source revenue effort. Shown there are the BPS estimates of per capita GDP (valued at factor costs) together with the mean per capita own source revenues (excluding fees). The second panel in Table 27 indicates the ratio of per capita GDP in Rangpur and Sylhet relative to that in Faridpur while the fourth panel shows the ratio of per capita own source revenues in the two districts relative to Faridpur. Assuming that GDP constitutes the base from which local revenues can be mobilized, the ratio of the GDP relatives to own source revenue relatives would be unity if the UPs in each district were putting forth similar revenue efforts. As shown in the bottom panel in all but two cases (Sylhet in 1976-77 and 1979-80) neither Rangpur nor Sylhet UPs were exerting as large relative efforts as were UPs in Faridpur. In two

TABLE 27
DISTRICTWISE UNION PARISHAD RELATIVE REVENUE EFFORTS,
1976-77 - 1980-81

	<u>1976-77</u>	<u>1977-78</u>	<u>1978-79</u>	<u>1979-80</u>	<u>1980-81</u>
Per Capita GDP					
Faridpur	921	1108	1243	1468	1535
Rangpur	1121	1358	1405	1864	1980
Sylhet	982	1412	1451	1951	2152
Relative to Faridpur					
Rangpur	1.22	1.22	1.13	1.27	1.29
Sylhet	1.07	1.27	1.17	1.33	1.40
Union Parishad Revenues ^a					
Faridpur	0.83	1.26	1.47	0.93	1.50
Rangpur	0.72	0.67	0.92	0.81	0.85
Sylhet	1.05	1.22	1.36	1.24	1.58
Relative to Faridpur					
Rangpur	0.87	0.53	0.62	0.87	0.57
Sylhet	1.26	0.97	0.92	1.33	1.05
Tax Effort Relative to Faridpur ^b					
Rangpur	0.71	0.43	0.55	0.68	0.44
Sylhet	1.18	0.76	0.79	1.00	0.75

^aPer capita revenues excluding fees (Tables 24-26).

^bComputed as the ratio of the relative (to Faridpur) tax effort to relative GDP.

SOURCES: Bangladesh Bureau of Statistics, 1981 Statistical Yearbook of Bangladesh (Dhaka: Bangladesh Bureau of Statistics, 1982), pp. 363, 366 and 367, as well as data in Tables 24-26).

years, 1977-78 and 1980-81, the Rangpur effort was less than one-half that in Faridpur. While this analysis is based on some strong assumptions including that the sample UPs are representative of UPs throughout their respective districts and that the GDP data are accurate measures of the revenue base, it does suggest that there may be some systematic differences in the administration of local revenues across these three districts.

Impressionistic Analysis of Revenue Differentials

To address the question of systematic differences in administration we must rely upon the more subjective information collected in the questionnaires administered to chairmen and secretaries during the UP data-collection effort. The form of these data does not, however, lend itself to statistical analysis.

A review of the questionnaires indicates that the largest UP revenue sources, the holdings and chowkidari tax, is nowhere administered as indicated in the statutes. Rather than being a tax on the annual rental value of buildings and their lands, the UP property tax is administered as if it were a combination of income and wealth tax, albeit a tax which is assessed on an ad hoc basis. In nearly all unions it was admitted that the tax was assessed by taking into account the economic condition of the potential taxpayer. In answer to our question regarding the basis of assessed value we obtained responses: "wealth of the taxpayer," "economic condition of the taxpayer as determined by UP members," "paying capacity," etc. In several unions we learned that all potential taxpayers are divided into four groups according to their perceived

ability to pay and flat rate amounts are assessed to each group (with the poorest being tax exempt).

There were several UPs in which the respondent seemed to know the statutory base of the tax; however, even then there was a great deal of confusion as to whether the tax is based on annual rental value or the capital value of buildings and land. Furthermore, most respondents with a knowledge of the statutory base of the tax admitted that the particular economic situation of the taxpayer was also taken into consideration. Interestingly, the respondents in Sylhet district were most commonly familiar with the statutes whereas only two or three the respondents in Faridpur and Rangpur revealed any knowledge of the statutes. This implies a greater level of administrative skill in the Sylhet UPs. On the other hand, when one attempts to relate this knowledge of the supposed tax base to per capita revenues, no apparent relationship is detected. Indeed, while one UP secretary in Rangpur was very knowledgeable about the statutes, the UP in which he is posted consistently mobilized per capita revenues more than one standard deviation below the mean.

Total property tax revenues depend crucially upon the collection efficiency (the ratio of taxes collected to taxes due). Unfortunately, given the ad hoc nature of the tax assessment process, collection efficiency ratios are not very informative in terms of implying how successful a jurisdiction is mobilizing resources since, if tax assessments are quite low, there is a greater likelihood that more of the taxes will ultimately be collected than if the initial assessments are high. Table 28 shows estimated tax collection efficiency ratios in

TABLE 28

UNION PARISHAD PROPERTY TAX PERFORMANCE INDICATORS

<u>District</u>	<u>Union Parishad</u>	<u>1980-81 Property Taxes</u>		<u>Estimated Number of Distress Warrants Issued In Last 3 Years</u>
		<u>Per Capita Revenues</u>	<u>Collection Efficiency</u>	
Faridpur	Panch Khola	Tk. 0.27	---	None
	Chat Majhi	1.28	.60	None
	Jhoudi	2.91	---	2-3
	Alipur	0.80	.16	None
	Mizanpur	0.52	.52	None
	Ramkantapur	0.55	.16	None
	Kasiani	1.88	---	None
	Maheshpur	2.93	.65	100
Rangpur	Wlipur	Tk. 0.73	.31	58
	Gunafgach	1.24	.53	None
	Dharanibari	0.78	.45	None
	Holokhana	0.78	.30	None
	Kanthalbari	1.11	.40	None
	Eholahati	0.45	.48	None
	Ranchandrapur	0.40	.20	None
	Boali	0.79	.73	None
	Badiakhali	0.69	---	None
	Malbari	0.95	.58	10-15
	Kuptala	0.89	.67	None
	Darshana	1.01	---	None
Sylhet	Gopava	Tk. 1.38	.78	150
	Shanistaganj	0.54	.61	None
	Koorpur	0.92	---	None
	Plehi	0.45	.38	5-8
	Chadnighat	3.05	---	None
	Kamalpur	1.01	.50	None
	Mustafapur	2.80	---	8-9
	Akafkura	2.52	.27	None
	Flatuna	0.02	---	None
	Beaul Pazar	0.59	---	None
	Eulaura	0.62	.57	None

SOURCE: Union parishad financial records and personal interviews conducted during March-September, 1982.

1980-81 for 31 UPs in the three districts together with the per capita property taxes reported in each. The collection efficiency ratios range from 16 to 78 percent; however, they are obviously not closely related to per capita revenues from this tax. Also shown in the Table are the approximate number of distress warrants issued during the three years, 1978-79 through 1980-81 as gathered during the interview. While most jurisdictions never issued a distress warrant, several reported issuing as many as 100 during that period. (It should be recognized that we were not shown copies of the documents so the large numbers may have been reported mainly to impress the interviewer.) Again, however, there is no obvious relationship between the number of warrants issued and collection efficiency nor with per capita tax collections.

The conclusion that must be drawn from this impressionistic review of the local property tax is that it is very poorly administered and is little more than a random assessment of taxes with some possible linkage with the wealth and income of the taxpayer. Even then, however, we were told that quite often it is the wealthiest taxpayers who are most likely to be delinquent in their tax payments. Thus, the effective tax is most likely regressive in terms of income and, due to the ad hoc nature of assessments, is likely to contain major horizontal, as well as vertical, inequities.¹

The interviews also included questions regarding the administration of other taxes and fees levied at the UP level and also asked for

¹Horizontal equity refers to the equitable tax treatment of "equals" while vertical equity focuses upon equitable treatment of taxpayers in different economic circumstances.

subjective opinions about how revenues might be further mobilized. Many of the respondents recognized the weaknesses in the current holdings tax system; several indicated that in order to improve the tax, additional security should be provided to union tax collectors by the central government. With respect to the other taxes and fees, many respondents felt that higher rates should and could be levied. In addition, some respondents indicated that the unions should be allowed to impose taxes on the erection and re-erection of buildings. This suggestion is reasonable since this levy is quite easily administered at the union level and could be designed to fall more heavily upon wealthier taxpayers who are more likely to be engaged in such building activity. At the same time, it must be recognized that not all unions are currently imposing all of the levies at their disposal, thus additional revenue mobilization efforts should begin by making sure that all UP chairmen, members and secretaries are aware of these revenue powers.

Recommendations

Ideally, an empirical review such as this one would have shown a direct linkage between particular socioeconomic or administrative variables and fiscal performance. Given the lack of such linkages, it is easier to point out problems associated with local government resource mobilization than it is to design potential solutions to the problems. Nevertheless, some recommendations can be made. We consider first recommendations pertaining to zilla parishads and then turn to union parishad finances.

Zilla Parishads

Before focusing exclusively on zilla parishad finances, it is appropriate to consider the desirability of maintaining the zilla parishad as a local government entity in light of the recent efforts to upgrade the thana level of local government.¹ Currently the zilla parishad is not a local self-government given the lack of elected officials. If that situation were to continue indefinitely (and we would argue that it should not), one might ask if there is any need for a zilla parishad level of government. The alternative would be to turn over all revenues and spending activities to the thanas (or unions).

We would argue against such a change. The principal responsibility assigned to ZPs is the communications system, especially transportation, within the rural areas of the districts. This is a crucial service with the zilla roads system serving as the main road arteries. While one would hope that thanas would recognize the importance of these roads, it is quite possible that thana-level decisions would be narrower in scope and shorter sighted than decisions made at a district-level. For example, a thana may decide to devote a significant portion of its resources to a particular union road at the expense of improving and maintaining a portion of a zilla road which passes through the thana. Such spillover effects are classic within the public sector and constitute the primary theoretical reason for a layered approach to local government structure.

¹ Apparently there have been some discussions regarding the possibility of abolishing zilla parishads.

A second argument against abolishment of the ZP concerns personnel. Zilla roads are built to higher specifications than are thana or union roads thereby requiring greater technical expertise in supervision of their reconstruction and maintenance. It appears that, even though the cadre of engineers posted at the thana level has been upgraded, the technical expertise of these personnel is still below that necessary for complex projects.¹

Finally, there is a fiscal argument against the abolishment of the zilla while transferring its revenue sources to the thanas. The largest revenue source, the immovable property transfer tax, is dependent upon the sale of property within the jurisdiction. Since sales do not occur in a uniform fashion across space and time, narrowing the areal base of the tax is very likely to result in greater year-to-year fluctuations in revenues. Since revenue variability has been singled out in this paper as a major problem inherent at both the zilla and union levels, increasing that variability would be counterproductive.

Based on these arguments we recommend that:

1. The zilla parishad be maintained as a local government with its current spending responsibilities and revenue sources. Furthermore, in keeping with the decentralization efforts currently focused on the thanas, we recommend that elections be held in the zilla parishads so that they, too, can become truly local self governments.

Assuming that zilla parishad are retained as local governments there are several recommendations that can be made regarding ZP finances. One

¹This matter is discussed more fully in Larry Schroeder, "Upgraded Thanas: Structure and Financial Powers," Interim Report No. 9, Local Revenue Administration Project, Metropolitan Studies Program, The Maxwell School (Syracuse, NY: Syracuse University, 1980).

pertains to the recently recommended increase in the number of districts and hence in the number of zilla parishads. We feel that this policy should not be pursued. As stated above, any narrowing of the base of the immovable property transfer tax is likely to lead to even greater instability in transfer tax revenues. A significant increase in the number of ZPs means that each ZP will cover a smaller area and would result in greater annual fluctuations in own source revenues. Revenue instability adds to the difficulties of good fiscal planning and should be avoided whenever possible.

In addition, the lack of qualified personnel is already an issue associated with upgraded thanas. Increasing the number of zilla parishads would exacerbate this problem and should be avoided. Thus:

2. A large number of new zilla parishads should not be created.

The current thana upgrading process includes granting financial powers to these local bodies. The Ordinance issued in December 1982 provides several revenue sources to the thana; however, we are aware that discussions are currently taking place which would transfer to these local bodies the revenues of the IPTT. From the analysis here it is obvious that such a transferral would prove to be disastrous to the ZP, given their reliance upon this tax levy. Thus:

3. The immovable property transfer tax should remain a zilla parishad revenue source.

While not analyzed in detail here, we repeat the recommendation made in an earlier Interim Report¹ that property transfer tax rates be

¹Alm, "The Immovable Property Transfer Tax in Bangladesh."

increased. The analysis of the overall revenue structure as carried out in this paper has emphasized the extreme importance of this tax levy. If zilla parishads are to perform effectively, overall revenues should be increased. A tax rate increase to at least 2 percent of the value of transferred property would greatly improve the fiscal fortunes of most zilla parishads. It would also be in keeping with the opinions of the ZP personnel interviewed in the course of this study. Thus:

4. The tax rate of the immovable property transfer tax should be increased to at least 2 percent.

While we were unable to discern any statistically significant effects of grants on ZP revenue effort, the structure of the grants system is such that it contains no incentives to mobilize resources. At the same time, of course, it must be recognized that the ZP revenue structure provides little or no fiscal autonomy to these bodies, which probably accounts for the statistical findings. Under the assumption that zilla parishads become self-governments, resource mobilization efforts should be encouraged with some fiscal autonomy granted to the ZP. To that end we recommend:

5. Zilla parishad property transfer tax rates should be allowed to be set locally within some range, e.g., from 2 to 3 percent.

In tandem with fiscal autonomy should be an alteration in the grant system which gives the ZP an incentive to utilize this autonomy. For example, one easily administered incentive would be to provide larger per capita grants to those localities levying the IPTT at a 3 percent rate than ZPs imposing 2 percent rates. At the same time, the findings of

this paper suggest that the current grant system is far from systematic in its allocation of monies. Thus:

6. The grant system must be altered such that it is truly a system with allocation mechanisms known by all and containing built-in incentives to mobilize resources.

Union Parishads

The results of the analysis indicate that the revenue system of union parishads is dominated by taxes which are, for the most part, randomly assessed. This violates one major tenet of good taxation: certainty in tax administration. The question that then arises is whether the noldings tax can ever be administered in a certain manner given the administrative personnel available at the union level. The issue has major implications since poor administration of a local tax leads to erosion in the public's confidence in the public sector as a whole and elevates tax evasion throughout the system.

Two possible policies could be pursued--strengthen tax administration or abolish the levy. The review of the statutory basis of UP property taxes suggests that it is not overly complicated and, if administered in the prescribed manner, could be an effective resource mobilization device with no severe inequities. Still, the statutory tax must be administered in the manner prescribed. If the policy decision is taken to retain this levy, a large education and training effort must be undertaken. The training effort must include both technical aspects of tax assessment and administration as well as more purely educational efforts.

On the technical side, the findings of our survey suggest those carrying out tax assessments do not, for the most part, have any

specialized training in assessment practices and that, rather than reassess every five years as dictated in the statutes, reassessments occur annually but on the basis of the perceived wealth and income of the taxpayers. Furthermore, it is the local UP members who most often carry out these assessments. Good property tax administration is possible only if politics are removed as far as possible from tax assessment. An officer, trained in good assessment practices, could be stationed at the thana level and carry out reassessments in all UPs in the thana. Local politicians can then "blame" local taxes on this higher level of government which should reduce some political pressures. This officer could also assist the UP secretary in bookkeeping procedures to improve the accuracy of records of taxpayment and non-payment. Without such an effort, accurate assessments are unlikely to be transformed into more equitable and greater yields from the holdings tax.

Other education must go hand-in-hand with this technical training. Both politicians and taxpayers must be made aware of the importance of tax compliance. No one likes to pay taxes; but it is less painful if there is a recognition that one derives some benefit from the taxes that are paid. Likewise, political decision makers must be aware of the importance of being willing to collect the taxes levied and to implement techniques for improving tax compliance. The latter is possible both through formal legal methods of collecting delinquent taxes (according to our survey, when these methods are used, people do pay) and informal methods of encouraging compliance. Among the latter are campaigns which build upon a sense of community and the importance of everyone paying his

share to support projects undertaken by the local government. Again, the property tax technician can help carry out these educational efforts.

In the absence of an all-out effort to upgrade UP property tax administration, it may be preferable to abandon the tax entirely. While there were rumors of poor tax administration at the UP level, the work here has documented just how bad it is. If the tax were to be abolished, additional sources would have to be tapped or other sources made more productive. While we do not wish to recommend such drastic actions, it must be considered a possible alternative.

Under the assumption that the central government is serious about improving local government resource mobilization efforts, we recommend that:

7. The central government should train and post a "UP property tax officer" in each thana. This person would be paid by the central government but would provide assessment services to each union within the thana, would advise secretaries concerning tax record-keeping and would help coordinate tax campaigns and other tax education efforts in the unions.

With or without the availability of the holdings tax, further resource mobilization is desirable in union parishads. Our findings suggest that the bulk of the revenues are currently being spent for establishment purposes rather than to further development. Only with additional revenues can development efforts increase.

One source of UP revenue is from haats and bazaars. While the time period covered in this study was prior to the recent decision to put the Ministry of Local Government in charge of market administration, the evidence suggests that this can be an extremely important local revenue source which must be retained by the union parishads. Thus:

8. Local haats and bazaar revenues should not be transferred to the upgraded thana as indicated in the Local Government Ordinance (Thana Parishad and Thana Administration Reorganisation) 1982. To do so would further erode the already weak financial condition of the UPs and decrease their ability to carry out development initiatives on their own.

Thought might also be given to abolishing of the haats and bazaars management committee and turning its functions over to the local government. This is more feasible under the new arrangement whereby leases are auctioned to private individuals who operate the markets. With the local government directly involved in the administration of these enterprises, it may be less likely that leaseholders overcharge or, in other ways, engage in improper practices.

9. A thorough study of haats and bazaars should be undertaken to consider the feasibility of abolishing the market management committee with its functions transferred to union parishads. The study should analyze the financial impacts of such a policy especially the likely effects on investment in markets, revenue implications for unions with and without large markets, as well as administrative issues such as pricing policies and the possibility that local governments could operate haats and bazaars rather than leasing them.

Additional UP revenues could also be raised from fees and taxes other than the holdings tax. Taxes such as the vehicle tax and the tax on professions, trades and callings are most effectively administered within small communities where it is obvious that a new business has been established or that an existing enterprise has not paid. The rates of these levies are, however, flat rate amounts that do not increase with increases in prices or economic activity, therefore revenues grow slowly. While complex rates could be designed to improve tax buoyancy, such a policy would greatly increase administrative costs. Instead, the central

government should allow new higher rates and periodically update them. It is not reasonable to use a model flat rate tax structure that is over 20 years old.

10. Model tax rates for the vehicles tax and profession, trade and callings tax should be increased. Furthermore, a policy of updating these rates periodically, e.g., every 2-3 years, should be initiated.

Taxes on the erection and re-erection of buildings is allowed in the Local Government Ordinance; however, we did not find this tax levied in any of the sampled unions (it is, however, imposed in paurashavas). This tax (with rates greater than those specified in the Rules of from Tk. 1-5 for thatched roof structures and from Tk. 2-25 for corrugated iron roofing) can be effectively administered at the union level since inspection is easy. Furthermore, adding even 100 taka to the cost of a new structure would not greatly impede new construction and would fall on those with greater ability to pay as evidenced by the fact that they have the resources to construct the building. Thus:

11. Taxes on the erection and re-erection of buildings should be imposed at the union level. A new model tax schedule should, however, be devised prior to the imposition of this levy.

While the preceding UP recommendations have focused on own source revenues, a restructured grant system which rewards the mobilization of resources should be initiated. Furthermore, the grant system will need to recognize the importance of maintenance activities which must occur at the union level. Interesting experiments are currently being conducted in several unions which, if generalized to wider areas should aid in these efforts. Thus:

12. The grant system must be restructured to encourage local resource mobilization as well as maintenance activities.

This paper has reviewed the fiscal health of zilla and union parishads. It is obvious that the patient is not well; but we feel improvements are possible. The health will improve only through some strong efforts on the part of the central government to encourage local resource mobilization. These efforts must include revision of the rules regulating local bodies, investing in resources designed to improve local revenue mobilization and restructuring the grant system.