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Intergovernmental Grants In Bangladesh

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FOREWORD

This paper was the tenth in the series of Interim Reports issued from the Zilla Roads/Local Finance Project. Originally released in November 1983, the current version has been revised slightly to reflect changes in government structure that have occurred since then, to incorporate comments made on the original paper and to make the recommendations consistent with those contained in the Final Report (Vol. II).

The paper focuses on the key issue associated with local government reform in Bangladesh--intergovernmental grants. Central grants to local governments constitute a major portion of the finances of local governments and it is unlikely that this importance will decline significantly in the near future.

The paper includes a review of the structure and operation of major grant programs used to transfer resources from the central to local governments in Bangladesh. In the past these grants have included the Rural Works Program, Urban Works Program, normal grants and the Food-For-Work Program. Data collected from a variety of sources are used to analyze the major implications of each program. Finally, given the restructuring of local governments with its emphasis on the upazila parishad, the newly formed grants structure is analyzed.

Bahl indicates the sorts of policy choices which the BDG must make with respect to designing the grants system. The most important choice to be made involves the tradeoff between a relief and development orientation of the grants system. If the former is to be emphasized, reforms should include rationalization of the grants' formulae including better targeting on the needy. If the latter is to be emphasized, reform should move more in the direction of coordination grants, increased use of matching grants, improved monitoring of grant achievements and establishment of maintenance plans. Specific recommendations along these lines are presented.

The Local Finance Project is one component of the Bangladesh Zilla Roads Maintenance and Improvement Project (Project Number 388-0056) and is intended to assess and increase the capacity of local governments in Bangladesh to mobilize and effectively administer financial resources. The work is supported by the United States Agency for International Development, Washington, D.C. under a 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.

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EXECUTIVE SUMMARY

1. The Bangladesh grant system is in a state of flux. The view here is that most of the changes are in a positive direction, toward more of a development orientation and toward coordination. However, by its own admission, the BDG has not sorted out some of the detail as to how the system will operate, and has left some of the rationalization to be addressed before 1984/85. It is a good time to make some input to the process.

2. A comparison of the 1982/83 and 1983/84 systems is described below:

	1982/83 (in millions)	1983/84 (in millions)
Rural Works Programme	Tk 435	Tk 25
Rural Normal Grants	91	91
Urban Works Programme	70	50
Urban Normal Grants	8	8
Urban Special Projects	97	63
Octroi Compensation Grants	63	63
Development Fund Grant	---	1710
Subtotal	764	2044
Estimated Food-For-Work (taka equivalents)	1184	1164
TOTAL	1948	3208

As these data show, the new grant system provides a substantial increase in the amount of grant funding passing through local governments in Bangladesh.

3. Before 1983/84 there had been little real growth in the grant system. In fact, between 1974 and 1981, there was no growth in real per capita grants, and grants to local governments fell as a proportion of

GDP and as a proportion of total central government outlays. Nevertheless, local governments in Bangladesh have remained heavily reliant on central grants. Well over half of the revenues of rural local governments are received in the form of grants, as are about one-fourth of the revenues of urban local governments. Overall, the distribution of per capita grants favored urban over rural areas through 1982/83; by a ratio of 3.4 to 1. If FFW grants are counted, however, this advantage disappears.

4. The Rural Works Programme grant has long been a major source of infrastructure financing for local governments in Bangladesh. As of 1983/84, the Rural Works Programme has been abolished as a separate grant but will be included within the Upazila Development Fund grant. Because the Rural Works Programme grant will continue to exist "in character and magnitude", it is worth reviewing its considerable strengths and its weaknesses. It has been a strong generator of employment for the rural poor, and has resulted in a substantial amount of rural infrastructure activity. It would appear that the Rural Works Programme has been heavily involved in earthwork activity--perhaps two-thirds of RWP spending. On the other hand, the Rural Works Programme has not been a productive revenue source for local governments. The amounts allocated have not kept pace with the growth in population and prices in recent years. The spatial distribution of Rural Works Programme grants has been more or less on a per capita basis for unions but there has been a bias in favor of smaller populated zillas and thanas.

5. Urban grants include Works Programme, Special Projects, Octroi Compensation, and Normal grants. Again, there have been real declines in the amount of urban grants in recent years, hence we may not judge this to be a productive source of local government financing. While the grants appear to be distributed roughly on a population basis, it is worth noting that the Dhaka municipal corporation receives about 60 percent of total urban grants by comparison to its 37 percent of total urban population.

6. The FFWP has been primarily a relief program, and a very good one in that it is a powerful job generator in rural areas. Not surprisingly, however, it has not been equally effective in achieving other goals. It has not done as good a job of infrastructure development as would a grant program that involved more capital, less labor, larger projects and that made some provision for maintenance. Nor has it encouraged local government revenue mobilization as much as would a matching grant aimed at financing projects with localized benefits. A tradeoff between a development and a relief orientation has been made, in favor of the latter. There is now a swing toward more of a development orientation in the form of cash grants for appurtenant structures.

7. As a grant to local governments, there is room for improvement in the FFW program. Real per capita revenues have fluctuated considerably and the distribution of wheat, among thanas, is biased against local governments in areas where there are WDB projects, against local governments which must undergo CARE examination and in favor of those who participate most in the cash-appurtenant structures grant.

Such horizontal inequities need to be addressed by BDG policy in future improvements in the FFW program.

8. To date, grants in Bangladesh have behaved less as a system than as a set of uncoordinated programs. There has been very little coordination in the design of the major grant programs.

9. The most important reform issue is how much the Bangladesh grant system will retain its relief orientation and how far will it move toward the promotion of infrastructure development and the strengthening of the local government institution. If the development goal is to be emphasized, substantial reforms are called for. These reforms fall in six general areas: (a) rationalization of the distribution of all grants among upazilas, (b) a further coordinating of the Food-For-Work and Rural Works Programme grants, (c) the distribution of fewer but larger grants which are targeted on areas with greater development potential, (d) the requirement of a matching local government contribution--drawn from local resources--as a condition of receiving grants, (e) the institution of a system for monitoring grant achievements, and (f) the establishment of an effective maintenance plan for all works projects. In fact, changes in the FFW grant system and the new upazilla grant program have brought important improvements in each of these areas. More, however, remains to be done.

10. Our recommendations include the following:

> Recommendation 1: The BDG should follow up on its proposal to allocate the Development Fund grant by formula in 1984/85.

Recommendation 2: The cash grant for appurtenant structures under FFW and the Development Fund grant should be integrated in terms of their formula distributions.

Recommendation 3: An interministerial working committee should consider horizontal equity issues, i.e., the different grant treatment of similar upazilas.

Recommendation 4: The Rural Normal grants program should be gradually replaced.

Recommendation 5: Grant coordination should be promoted by creating an interministerial working group to develop a coordinated allocation formula and joint guidelines for project design and implementation.

Recommendation 6: If development rather than relief is to constitute the primary goal of the grant system, we would recommend a strategy calling for fewer but larger grants which are distributed partially on a basis of development potential.

Recommendation 7: We recommend the inclusion of a revenue effort measure in the grant allocation formula.

Recommendation 8: The BDG should set up a system to monitor the actual distribution of grant monies to all local governments, under all grant programs.

Recommendation 9: Maintenance should be financed from a combination of a first call on Development Fund revenues and from a specified percentage to be raised from own sources.

Recommendation 10: A Grants Commission to guide and coordinate these changes should be created. Among the initial tasks of the Commission would be: (a) to establish the annual total allocation of the Development Fund grant, preferably as a percent of some central tax, and to recommend this allocation to the Minister of Finance; (b) to rationalize and coordinate the distribution formulae for all grants; (c) to recommend and coordinate a monitoring system; and (d) to prepare coordinated guidelines for the use of grant funds.

INTERGOVERNMENTAL GRANTS IN BANGLADESH

Roy Bahl

It is a stated goal of Bangladesh government policy to strengthen the local government sector and to promote decentralization. Because local governments in Bangladesh are so dependent on central grants as a revenue source, an understanding of the structure and impact of the grant system is essential to the formulation of any program of local fiscal reform. One objective of this paper is to provide such an understanding by describing the system, evaluating its impact, and identifying the problems which have emerged. The other objective is to show how the system might be reformed to provide incentives for increased revenue mobilization by local governments.

The fundamental issue is clear. The Bangladesh grant system has been designed, primarily, as a relief program for the rural poor. Can it simultaneously achieve that goal, effectively develop a rural infrastructure, and promote governmental decentralization? The answer is that a single policy instrument cannot achieve all goals, and the Bangladesh grant system, not surprisingly, is quite successful in some areas and fails badly in others. The design of a "better" grant system, therefore, will be guided by the government's view as to which of these goals is most important.

In evaluating the Bangladesh grant system, the issues to be addressed are:

- Do central government grants in Bangladesh provide an adequate revenue growth for meeting local government public servicing needs?

- Are these grants somehow fairly and/or equitably distributed within the country?

- Are local governments made accountable for how they spend the grant money so that the central government's program objectives are achieved?

- Do grants stimulate local governments to increase their own revenue raising efforts or do they cause a substitution of central grants for what could have been higher local taxes?

- Is the grant system structured so as to help or harm budgetary planning by local governments?

- Is the grant system an effective way to generate employment in rural areas?

- Does a substantial portion of grants contribute to construction and maintenance of rural infrastructure?

- Are the various components of the grant system designed in a way that they reinforce one another, or do they have offsetting effects?

The Government's answers to these questions will go some way toward defining the future degree of governmental decentralization in Bangladesh. It is a particularly opportune time to be considering these issues, because the Bangladesh government (BDG) is in the midst of a complete reform of the existing grant system. Many important policy decisions about grant formulae distributions, coordination among programs, etc., are yet to be made.

In the next sections we describe the general features of the grant system and review its historical revenue importance. It is worth noting that much of the description presented here has not been written down in one place before, and most of the information and data used had to be pieced together from a variety of sources. This description alone, then, should contribute important background to a discussion of local government finance in Bangladesh. Following this descriptive work, we turn to a more

detailed analysis and evaluation of each component of the system, and finally to a broader view of the overall impact of the system and its problems. The paper closes by outlining a set of directions for reform.

Three statements of qualification should be raised at the outset. First, we are concerned here with intergovernmental transfers to the exclusion of many other issues central to the study of intergovernmental fiscal relations, e.g., the proper assignment of functions and taxes among levels of government. Second, we do consider the Food-For-Work Program (FFWP), because it is an important in-kind grant to local governments, and, because of its complementarity to grants for urban and rural local government development projects. Third, the reader is cautioned that an understanding of Bangladesh local government structure--a very complicated and changing affair--is necessary to follow this analysis. A thorough description of this structure is presented in earlier papers.[1]

The Bangladesh Grant System in 1982/83[2]

Local governments in Bangladesh may be divided into a rural and urban sector. Rural local bodies are the zilla (districts), thana (now upazila) and union parishads (councils). In 1982, there were 21 zilla parishads,

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[1]The structure of Bangladesh local government is described in Larry Schroeder and Maniruzzaman, "Local Government Structure in Bangladesh," Interim Report No. 1, Local Revenue Administration Project, Metropolitan Studies Program, The Maxwell School (Syracuse, NY: Syracuse University, November, 1982).

[2]Important changes in the grant system are taking place in 1983/84 (see pp. 92). Many of the features and much of the spirit of the present system, however, has been retained.

478 thanas and 4472 unions.[1] Each is entitled to receive a grant for development projects, called Rural Works Programme grants, and a set of "Normal" grants[2] which are primarily for employee compensation. In addition, a large portion of the FFW program is carried out through union and thana parishads. Under this program, local government development projects of the "earthmoving" type are financed with payments of wheat to laborers.

Urban local governments include 77 paurashava and two municipal corporations (Dhaka and Chittagong). These urban local bodies receive four types of grant: (a) a grant to compensate for the loss of the octroi tax, (octroi was abolished by the government in 1981); (b) Urban Works Programme grants for development projects; (c) Normal Grants which are primarily for compensation of employees; and (d) special project grants.

The relative importance of these grant programs may be seen from the revised estimates for 1981/82 and 1982/83, which are presented in Table 1.[3] Two dominant patterns seem to show up in these data (which exclude FFW grants). The first is the emphasis on Works Programme grants, which account for about 75 percent of the total. The other is the urban-rural split which shows that about 31 percent of all grants flow to the urban sector. On a per capita basis, however, there is a decided bias

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[1]Bangladesh Bureau of Statistics, 1981 Statistical Yearbook of Bangladesh (Dacca: Bangladesh Bureau of Statistics, 1982), p. 36.

[2]"Normal grants" is a term used in Bangladesh to refer to most of those grant programs which do not fall under the heading of public works. In the case of rural local governments, this is a group of seemingly unrelated grant programs.

[3]At the time of this writing, actual expenditures under these heads had not been reported for either year.

TABLE 1

COMPONENTS OF THE BANGLADESH GRANT SYSTEM:
REVISED ESTIMATES FOR 1981/82 AND 1982/83[a]

	Total (in thousand takas)		Percent of Total		Per Capita (in taka)	
	1981/82	1982/83	1981/82	1982/83	1981/82	1982/83
1. Urban Grants	171,254	238,372	100.0	100.0	17.12[b]	22.65[b]
a. Octroi Compensation	63,219	63,219	36.9	26.5	6.29	6.01
b. Works Programme	48,000	70,000	28.0	29.4	4.78	6.65
c. Special Projects (Dhaka)	51,735	96,853	30.2	40.6	14.23[c]	24.52[c]
d. Normal	8,300	8,300	4.9	3.5	0.83	0.79
2. Rural Grants	465,083	549,127	100.0	100.0	5.70	6.61
a. Works Programme	373,600	434,862	80.3	79.2	4.58	5.23
b. Normal	91,483	114,265	19.7	20.8	1.12	1.38

[a]Excluding FFW grants.

[b]Denominator is total urban population (municipal corporation plus paurashava).

[c]In computing this, only Dhaka Municipal Corporation (DMC) population was used because Special Projects grants are given exclusively to DMC. In calculating the per capita amounts for other urban grants, the entire urban population was used.

SOURCES: Octroi Compensation: Demands for Grants and Appropriations (Non-Development), Ministry of Finance and Planning; Finance Division, The People's Republic of Bangladesh, 1982/83 and 1983/84.

Normal Grants: Ibid; Appendix--Grants-in-Aid, Contributions, etc., included under the head "57 - Miscellaneous."

Works Programmes: Data Supplied by the Ministry of Local Government, The People's Republic of Bangladesh; September 1982, and May 1983.

Special Projects (Dhaka): Details of Demand for Grants and Appropriations (Development), Ministry of Finance and Planning, Finance Division, The People's Republic of Bangladesh; 1981/82 and 1982/83, and MLG (May 1983).

Population Data: Prepared by the Metropolian Studies Program of Syracuse University from the data obtained from 1980 Statistical Yearbook of Bangladesh, Tables 2.3 and 2.5, pp. 38-39; 1980 Statistical Pocket Book of Bangladesh, pp. 138-40; and A Preliminary Report on Population Census, 1981, BBS, Ministry of Planning, June 1981.

in favor of the urban sector. For every one taka grant per person flowing to the rural sector, 3.43 taka in grant is given to the urban sector.[1]

These data do not include the FFW program. To give some idea of relative magnitudes, the "local initiative"[2] portion of the FFW program (CARE, BDG, and an estimated 20 percent of WFP allocations) authorized the movement of 281,000 metric tons of wheat in 1982. At the January 1982 average retail price of wheat in Bangladesh, this translates to the equivalent of about Tk. 960 million, or an amount equal to 1.5 times the total amount of grants to local governments in the 1981/82 Budget,[3] and 2.26 times the amount budgeted under the Rural Works Programme. It is quite obvious that any serious consideration of the workings of the Bangladesh grant system would be incomplete without a consideration of the FFW program.

Trends in the Growth of Grants to Local Governments

There has been an erratic pattern in the growth of grants to local governments during recent years. Between 1973/74 and 1980/81 (the last year for which we have actual data), there was no growth in real per capita grants, and grants to local governments fell as a proportion of GDP and of

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[1] If Dhaka special grants are not considered, the urban advantage narrows considerably; and if FFW grants are considered, there is a per capita advantage to rural governments.

[2] We use the term "local initiative" to refer to that part of FFW activity which is carried out through the local government rather than directly by the Central Government.

[3] The January 1982 average retail price was 127.2 taka per maund (one maund equals 82 pounds). Source: Directorate of Supply, Distribution and Rationing (DFDR), Ministry of Food, Government of Bangladesh. Compiled by A.S.M. Jahangir, USAID/Bangladesh, April 6, 1982.

total central government outlays (see Table 2).[1] These patterns are graphed in Figure 1.

Why have grants to local governments not increased? To what extent does this reflect a failure of the overall tax effort of the central government to increase, and to what extent is it due to a smaller share of central government taxes being allocated to grants? The pattern from the mid-1970s to 1981, generally, is one of local grants not increasing with overall central government tax effort. That is to say, in years when central government resource mobilization increased, the local government sector was not typically awarded a commensurate share of this increase. Conversely, the grant share of total central taxes was sticky downward and did not appear to suffer noticeably when government resource mobilization fell off. Indeed, sizable increases in the local grant share of GNP came between 1974/75-1976/77, and 1978/79-1979/80, when central tax effort fell appreciably (see Figure 1). One might infer from this, that the grant needs of local government were viewed as more of a fixed amount than a "targeted" share of GNP.

The issue of the determinants of the growth in grants might be approached in a more systematic manner. We may define the grant in any year, G_t, by a simple algebraic expression,

$$G_t = \frac{G_t}{T_t} \cdot \frac{T_t}{Y_t} \cdot Y_t = g_t e_t Y_t \qquad (1)$$

[1]Food for Work grants are not included.

TABLE 2

TRENDS IN GRANTS TO LOCAL GOVERNMENTS IN BANGLADESH

Fiscal Year	Grants[a] as a Percent of GDP[b]			Grants[a] in Real[d] Per Capita Terms (in taka, 1977=100)			Grants as a Percent of Central Government		Central Government Taxes as a Percent of GNP[e]	Central Government Taxes as a Percent of GDP[b]
	Urban[c]	Rural[c]	Total	Urban	Rural	Total	Taxes	Expenditures		
1982/83[f]	0.051	0.199	0.250	6.81	3.35	3.74	3.20	0.88	8.09	7.81
1981/82[g]	0.047	0.198	0.245	6.50	3.34	3.69	3.03	1.47	8.35	8.09
1980/81	0.020	0.216	0.236	2.44	3.20	3.12	3.36	0.96	7.31	7.02
1979/80	0.024	0.242	0.266	3.05	3.63	3.57	3.75	1.31	7.87	7.10
1978/79	0.019	0.208	0.227	2.47	3.09	3.03	2.66	1.25	8.93	8.54
1977/78	0.020	0.189	0.209	2.70	2.84	2.82	2.63	1.23	8.31	8.95
1976/77	0.039	0.238	0.277	5.20	3.38	3.55	3.86[h]	0.91[i]	7.53	7.15
1975/76	0.036	0.210	0.246	5.20	3.14	3.33	3.29	1.19	7.91	7.49
1974/75	0.014	0.106	0.120	2.31	1.77	1.82	2.95	0.95	4.14	4.09
1973/74	0.029	0.215	0.244	4.70	3.34	3.46	5.83	1.61[i]	4.31	4.19
1972/73	0.146	0.339	0.485	22.21	4.60	6.03	12.26	2.59	4.02	3.95

[a]Urban grants are Works Programme, Normal and Octroi Compensation which began in 1981/82 (Special Projects grants which accrue exclusively to Dhaka are excluded). Rural grants include Works Programme and Normal grants.

[b]1982/83 GDP is provisional.

[c]A list of the various categories of Normal grants is presented in Table 11. Only two of these grants (Subvention and Compensatory) are shared by the urban and rural sectors and the others go exclusively to the rural sector. While the Subvention (Special Salary) grant is shared by only paurashava and zilla parishad (ZP), the Compensatory grant is extended beyond these two to union parishad (UP). It was indicated by the MLG (September 1982) that the former is divided in amounts Tk 1.8 million and Tk 0.7 million annually between paurashava and ZP, respectively, and the latter in amounts Tk 6.5 million, Tk 1.0 million, and Tk 7.0 million annually between paurashava, ZP, and UP, respectively. This suggests a 72/28 percent split for the subvention and 44.8/55.2 percent split for the compensatory grant between the urban and rural sectors. While the data on total grants were obtained from the Budget of Bangladesh as quoted above, the urban-rural shares from these totals for each year were calculated according to these ratios. Table 11 lists thirteen categories of normal grants. There are a few other very minor categories of normal grants provided to local governments in the form of compensations under various Acts and Ordinances (e.g., Bengal Ferries Act, Food Ordinance, Cattle Trespass Act, etc.). A list of these compensation grants can be seen in Demands for Grants and Appropriations (Non-Development), Ministry of Finance and Planning, Government of Bangladesh; 1982/83; pp. 29. However, there is no indication whether these are meant only for urban, or for rural, or for both type of governments.

TABLE 2 (CONT.)

[d]The deflator used in the calculation is the "CPI for Dhaka Government Employees/Middle Income Class". The reason for choosing this from among alternative indexes is that it exists for the longest time period, 1969/70 to the present. Moreover, it is found to be highly correlated with other price indexes available. A yearly CPI was available through 1981/82. 1982/83 was estimated as the average of eleven (July to May) monthly CPI.

[e]1982/83 GNP is provisional.

[f]Revised estimates.

[g]Revised estimates on Works Programme grants and actual on others.

[h]Tax figure used in the calculation is revised (actual was not available).

[i]Expenditure figure used in the calculation is revised (actual was not available).

SOURCES: Works Programme Grants (both urban and rural): Data Supplied by the Ministry of Local Government, Government of the People's Republic of Bangladesh; September 1982, and May 1983.

Normal Grants for 1972/73 - 1974/75: Demands for Grants and Appropriations, Ministry of Finance, Government of the People's Republic of Bangladesh, 1972/73 - 1976/77; Appendix--Grants-in-Aid included under the head "57-Miscellaneous." See also, footnote "c".

Normal Grants for 1976-1983: Demands for Grants and Appropriations (Non-Development), Ministry of Finance and Planning, Government of the People's Republic of Bangladesh, 1977/78 - 1983/84; Appendix--Grants-in-Aid included under the head "57-Miscellaneous", and MLG, May 1983. See also, footnote "c".
Octroi Compensation for 1981/82 and 1982/83: Ibid., 1982/83 and 1983/84; and MLG, May 1983.

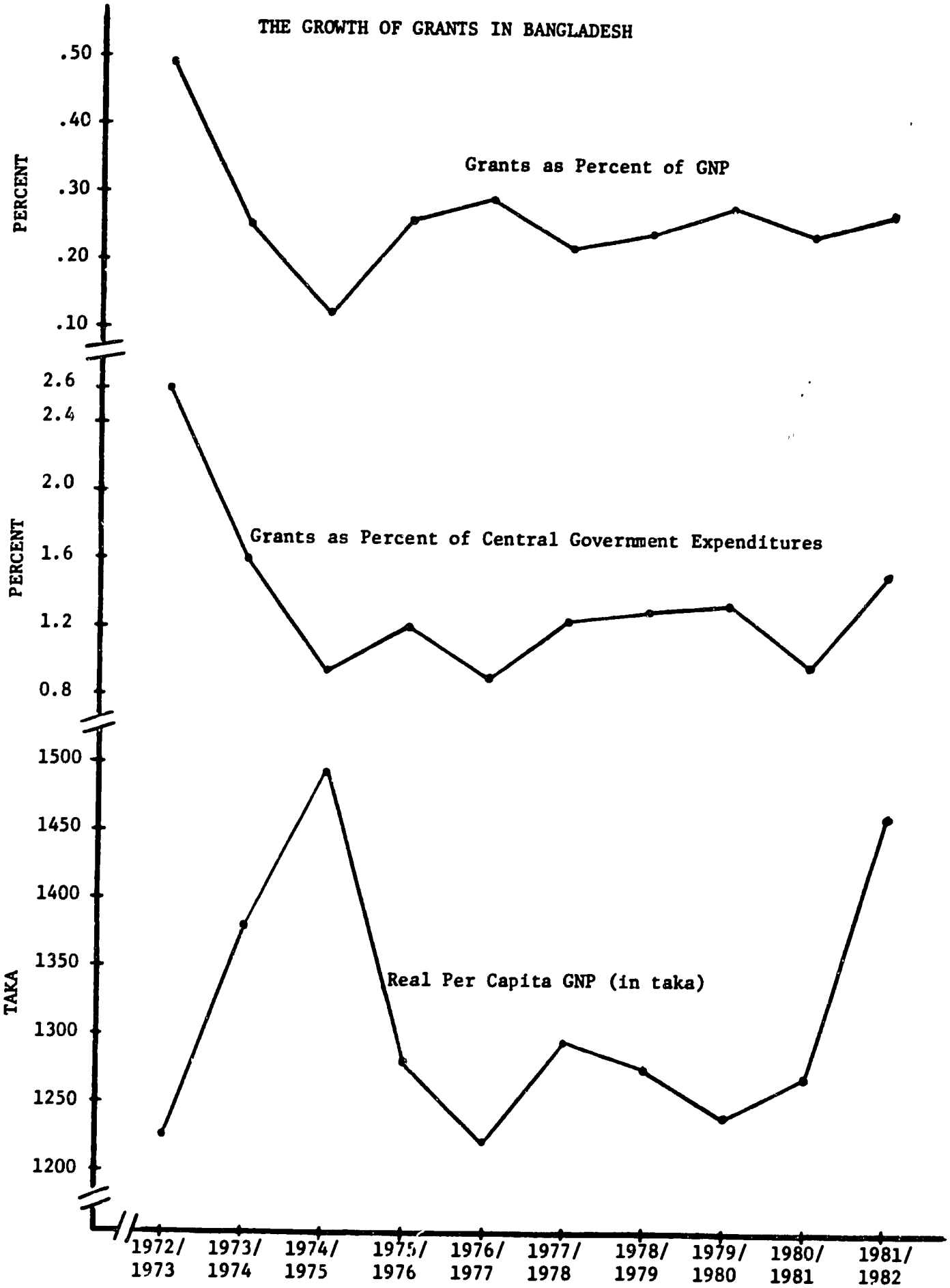
Central Government Taxes and Expenditures for 1972/73 - 1982/83: Budget Estimate, Ministry of Finance and Planning. Finance Division, Government of the People's Republic of Bangladesh, 1973/74 - 1983/84.

Population: Same as in Table 1.

GNP, GDP and CPI: Bangladesh Bureau of Statistics (July 1982 and January 1983), Monthly Statistical Bulletins of Bangladesh, Vol. XI, No. 7; Bangladesh Bureau of Statistics (June and August 1982 and June 1983), Economic Indicators of Bangladesh, Vol. IX and X, No. 6; and Bangladesh Bureau of Statistics, 1979, 1980, and 1981 Statistical Yearbook of Bangladesh.

FIGURE 1

THE GROWTH OF GRANTS IN BANGLADESH



SOURCES: See Table 2.

where

T_t = central government taxes in the year t

Y_t = GNP in the year t,

$g_t = G_t/T_t$,

$e_t = T_t/Y_t$.

The first term on the right of equation (1) is the share of central government taxes allocated to grants (g) and the second is tax effort (e).

Now the <u>change</u> in grants between any two years, dG, may be written as:[1]

$$dG = gedY + Yedg + Ygde \tag{2}$$

or, alternatively,

$$\frac{dG}{dY} = ge + Ye\frac{dg}{dY} + Yg\frac{de}{dY} \tag{3}$$

Equation (3) may be read as showing that the change in grants depends on (a) the growth rate in GNP, dY; (b) the size of the grant share of central taxes, g; (c) central government tax effort, e; and (d) how g and e respond to changes in GNP. An easier interpretation: <u>cet. par.</u>, the first term on the right side of equation (2) tells us how much of the change in grants is due to the growth in GNP; the second term measures the contribution of changes in the grant share of government taxes; and the third measures the contribution of changes in tax effort. We may evaluate equation (2) for the 1973/74-1982/83 period, in aggregate and on a year-by-year basis.

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[1]Assuming that the interaction terms become zero.

Estimates of these effects are shown in Table 3. For example, grants increased by 167 million taka between fiscal years 1981 and 1982. Ninty percent of this increase was due to GNP growth; tax effort growth, cet. par., would have caused grants to rise by an amount equivalent to 43 percent of the actual total increase; and if nothing else had changed, the declining grant share in central taxation would have caused grants to decline by an amount equivalent to 31 percent of the actual increase. Throughout most of the 1970s, an increase in grants was associated with an increase in the share of taxes allocated to grants. Increased tax effort and a higher GNP growth contributed relatively little. Since 1980 the pattern has changed, with GNP growth contributing substantially to the growth in 1980/81 and tax effort in 1981/82. Since 1980, then, the flow of grants to local governments seems to have been more responsive to factors increasing the availability of central government resources than to discretionary increases in grant programs by the BDG.

The important role of central government tax effort in determining the flow of grants to local governments deserves more attention. To give some idea of the local finance implications of Bangladesh's relatively low tax effort, we may estimate the grant share of GNP if BDG tax effort had reached an international "average" in 1981.[1] Our model suggests that a country with Bangladesh's per capita GNP and agricultural share of income would typically have a tax-GDP ratio of 9.88 percent. Bangladesh actually has a tax ratio of 7.88 percent, hence it's "tax effort" index is 7.88/9.88

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[1]See Appendix A.

TABLE 3

COMPONENTS OF CHANGES IN GRANTS TO LOCAL GOVERNMENTS, 1972/73 TO 1981/82

Years	Change in Grants (in million taka)	Percent of Change Attributable to: GNP Growth[c]	Change in Grant Share in Central Taxation[d]	Change in Tax Effort
1981/82[a] - 1982/83[b]	64.46	76	56	- 32
1980/81 - 1981/82	167.26	90	- 33	43
1979/80 - 1980/81	0.53	153	- 33	- 20
1978/79 - 1979/80	129.76	35	103	- 38
1977/78 - 1978/79	56.37	56	6	38
1976/77 - 1977/78	-18.79	-335	601	-166
1975/76 - 1976/77	26.71	- 16	166	- 50
1974/75 - 1975/76	112.62	- 37	20	117
1973/74 - 1974/75	-21.83	-467	534	33
1972/73 - 1973/74	-39.16	-247	384	-37
1972/73 - 1982/83	477.93	209	-199	90

[a]See footnote "g" in Table 2.

[b]See footnote "f" in Table 2.

[c]See footnote "e" in Table 2 applicable to 1982/83.

[d]See footnote "h" in Table 2 applicable to 1976/77.

SOURCE: Computed by author. See Table 2.

or 0.80. Bangladesh, then, makes an effort which is 20 percent below this estimated international norm.

Suppose central government taxes in Bangladesh were increased by the amount necessary to reach this international average, i.e., by an amount necessary to increase its tax effort index from 0.80 to 1.00. In 1981, this would imply an increase in the tax-GDP ratio from 7.02 (Table 2) to 9.88. At this level of central taxation, and with the grants share of central taxation held at its actual 1980/81 level of 3.36 percent, grants to local governments would have reached 0.33 percent of GDP. In other words, a low tax effort "cost" 187.24 million taka in local grants, or 2.09 taka per capita in 1980/81.

The tax effort situation may have changed somewhat since 1981, though only budget estimates of grant amounts are available. Central government taxation increased markedly between 1981 and 1982 (see Table 2), and since grants were not a major beneficiary of this increased effort, the grant share of GDP did not increase markedly.

Local Government Reliance on Grants

Unfortunately, there are little data available to document the extent of local government reliance on central grants. There is no central collection of local government financial statistics, and data reported by the Bureau of Statistics for zilla, paurashavas and unions do not appear complete.[1] Our own fieldwork, which has surveyed the finances of about 75

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[1]These data are reported in Bangladesh Bureau of Statistics, 1980 Statistical Yearbook of Bangladesh, (Dacca: Bangladesh Bureau of Statistics, 1981), pp. 378-79.

local governments, sheds some light on this question.[1] As may be seen from Table 4, union and zilla parishads are much more dependent on grants as a source of revenue than are paurashavas. Thana parishads had no own-source revenues and were totally dependent upon grants for their financing. In aggregate, it would appear that urban local governments receive about one-fourth of their revenues from this source while the comparable figure for rural local governments is much higher. However, recent elimination of the local octroi tax, and its replacement with a compensatory grant, has increased the urban government reliance on central assistance substantially.

Among the rural governments there is some variation in this dependence. Zilla councils are less dependent on grants than are other rural local governments. This is deceiving because the property transfer tax--which is reported as an own-source revenue--has its rate set at the central government level and its administration is a central government responsibility. In effect, the property transfer tax is a central government levy which is returned to the district councils on a derivation basis, i.e., it is another form of grant. If matters are viewed this way, the district councils are almost exclusively dependent on central government transfers. The second kind of local body, the thana parishad, was 100 percent dependent on central government grants--they had no own

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[1] The nature of this sample, the questionnaire administered, etc., are described in Larry Schroeder, "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 4

LOCAL GOVERNMENT DEPENDENCE ON CENTRAL GOVERNMENT GRANTS, 1976/77 TO 1980/81[a]

Level of Government	1980/81	1979/80	1978/79	1977/78	1976/77
Zilla Parishad[b]					
a. Normal Grants as a Percent of Total Revenue	(17) 5.2 (1.3-14.4)	(17) 4.5 (2.4- 7.8)	(16) 5.2 (3.2- 7.6)	(14) 6.3 (2.7- 9.3)	(14) 6.4 (1.2- 9.8)
b. Works Programme Grants as Percent of Total Revenue	(17) 31.6 (16.0-84.6)	(17) 34.4 (17.6-88.7)	(16) 31.5 (4.7-87.4)	(14) 35.9 (23.3-89.6)	(14) 36.6 (22.3-96.8)
TOTAL GRANTS AS A PERCENT OF TOTAL REVENUE	(17) 36.8 (20.3-85.9)	(17) 38.9 (20.4-91.1)	(16) 36.7 (12.3-90.6)	(14) 42.2 (28.6-92.2)	(14) 43.0 (27.3-98.0)
Per Capita[c] Total Revenue	(17) 2.44 (0.64-6.20)	(17) 2.57 (1.46-4.57)	(16) 1.97 (0.91-3.29)	(14) 1.79 (1.24-2.97)	(14) 1.95 (1.16-6.75)
Thana Parishad/TDC[d]					
1. Works Programme[e] as Percent of Total Revenue	(11) 90.6 (35.0-100.0)	(11) 93.8 (38.0-100.0)	(11) 97.7 (81.8-100.0)	(10) 86.1 (44.0-100.0)	(8) 91.2 (47.7-100.0)
a. Road, Bridge and Culvert as a Percent of Total Revenue	(11) 20.8 (2.2-73.8)	(11) 21.8 (9.3-43.3)	(11) 23.1 (5.6-44.9)	(10) 29.4 (11.5-72.6)	(7) 30.8 (4.1-82.6)

TABLE 4 (CONT.)

Level of Government	1980/81	1979/80	1978/79	1977/78	1976/77
Thana Parishad/TDC (cont.)					
b. Irrigation Projects of two types (TIP Normal and Ulashi), Drainage, Flood Control and Water Conservancy as a Percent of Total Revenue	(11) 38.7 (8.6-68.2)	(11) 40.8 (10.4-57.5)	(11) 49.0 (33.7-85.0)	(9) 32.1 (15.9-53.0)	(6) 33.0 (12.3-53.8)
c. TTDC and Union Complex as a Percent of Total Revenue	(4) 19.3 (10.0-36.4)	(4) 26.4 (5.3-46.0)	(2) 13.1 (5.6-20.6)	(8) 19.3 (6.1-46.9)	(3) 67.7 (48.5-96.1)
d. Derelict Tank as a Percent of Total Revenue	(7) 15.2 (6.4-21.1)	(10) 16.3 (3.7-24.5)	(10) 15.2 (3.8-23.2)	(3) 14.6 (6.4-27.4)	(3) 10.4 (1.0-26.9)
e. Technical and Logistic Support Including Salaries of WP Officers and Staff, T.A., D.A., Contingency Evaluation, Training, etc., as a Percent of Total Revenue	(7) 22.7 (4.5-73.7)	(7) 10.7 (5.3-19.4)	(7) 14.8 (5.6-26.9)	(7) 11.4 (4.4-15.7)	(4) 15.4 (2.5-33.0)
2. Occasional Special Project Grants as a Percent of Total Revenue	(4) 23.3 (1.3-64.1)	(2) 33.2 (6.6-59.8)	(2) 12.7 (7.3-18.2)	(4) 30.7 (16.8-56.0)	(2) 35.0 (17.8-52.3)
TOTAL GRANTS AS A PERCENT OF TOTAL REVENUE	(11) 99.1 (90.0-100.0)	(11) 99.8 (97.8-100.0)	(11) 100.0 (100.0-100.0)	(10) 98.4 (84.0-100.0)	(8) 100.0 (100.0-100.0)
Per Capita Total Revenue	(11) 2.87 (0.92-9.69)	(11) 1.96 (1.33-3.27)	(11) 1.66 (0.86-5.84)	(10) 1.33 (0.39-2.51)	(8) 2.73 (0.40-7.35)

TABLE 4 (CONT.)

Level of Government	1980/81	1979/80	1978/79	1977/78	1976/77
Union Parishad[f]					
1. Normal Grants as a Percent of Total Revenue	(27) 40.1 (2.3-88.0)	(31) 33.5 (8.9-63.9)	(29) 37.9 (18.7-64.3)	(30) 48.2 (2.36-70.9)	(9) 26.4 (14.4-38.2)
2. Works Programme Grants as a Percent of Total Revenue	(27) 10.8 (1.4-21.7)	(31) 13.4 (3.6-32.3)	(29) 12.1 (2.3-34.1)	(30) 9.2 (3.2-15.2)	(9) 8.9 (5.0-13.8)
TOTAL GRANTS AS A PERCENT OF TOTAL REVENUE	(27) 50.9 (15.9-94.6)	(31) 46.9 (16.8-76.0)	(29) 50.1 (21.0-76.1)	(30) 57.4 (9.4-81.2)	(9) 35.3 (20.2-49.7)
Per Capita Total Revenue	(27) 3.11 (1.36-11.69)	(31) 3.00 (1.15-10.71)	(29) 2.88 (1.39-8.37)	(30) 2.39 (1.43-4.53)	(9) 1.54 (0.97-2.28)
Paurashava[g]					
1. Normal Grants as a Percent of Total Revenue	(15) 5.8 (1.7-2.19)	(15) 6.8 (2.6-17.8)	(15) 6.8 (3.3-18.8)	(15) 10.6 (3.8-30.8)	(15) 8.2 (3.8-18.3)
2. Works Programme Grants as a Percent of Total Revenue	(15) 17.6 (3.6-35.6)	(15) 16.9 (5.1-41.8)	(15) 11.4 (2.8-29.0)	(15) 15.4 (2.7-33.7)	(15) 20.1 (5.6-47.6)
TOTAL GRANTS AS A PERCENT OF TOTAL REVENUE	(15) 23.5 (6.4-55.1)	(15) 23.7 (9.5-51.8)	(15) 18.2 (6.1-41.1)	(15) 26.0 (8.0-63.1)	(15) 28.2 (10.0-59.5)
Per Capita Total Revenue	(15) 31.24 (12.44-69.55)	(15) 24.97 (11.34-41.54)	(15) 23.09 (10.75-40.61)	(15) 21.30 (10.36-31.52)	(15) 19.45 (9.94-30.11)

TABLE 4 (CONT.)

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[a]Numbers in the upper parenthesis represent the sample sizes (i.e., number of local governments included) the middle number shows grants as a percent of total revenues, and the numbers in the lower parenthesis represent ranges (low-high) of values. FFW grants are not included.

[b]Includes revised estimates for Chittagong Hill Tracts, Rangpur, and Sylhet for 1980/81 only, and actuals for all other zillas for all five years.

[c]Population figure used for each zilla parishad in calculating the per capita amounts is its rural (i.e., total less urban) population.

[d]It may be noticed that the two categories of grants (i.e., Category 1 - Works Programme and Category 2 - Occasional grant) add up to more than 100 percent. This is due to different sample sizes used for the two categories.

[e]Excludes UP Works Programme which is divided among all UPs within each thana and thus already considered in the UP accounts.

[f]Includes revised estimates for four UPs for the year 1980/81 only, and actuals for all other UPs for all five years.

[g]Includes revised estimates for three paurashavas for the year 1980/81 only, and actuals for all other paurashavas for all five years.

SOURCES: Financial (grants and revenues) data: ZP, TP, UP and paurashava accounts. Population data: Same as in Table 1.

source revenues.[1] In the rural sector, then, only the union councils have any appreciable level of autonomous financing. This pattern is described in Figure 2.

The System of Rural Works Programme Grants

The rural works program in Bangladesh has been referred to by the government as "...a unique experiment in grass roots planning and the mobilization of energies of the people for projects of local importance."[2] The program is based on the concept of putting underutilized labor resources to work on projects that have identifiable, localized benefits and drawing out some voluntary labor and material contributions from beneficiaries. The strategy is to generate public enthusiasm by allowing project selection, implementation and administration to be handled at the local government (zilla, thana or union) level. In this sense, the Works Programme is a highly decentralized approach to rural development.

The Government sees four objectives for the Works Programme grants:[3]

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[1] A few thana parishads obtain some own source revenue in the form of rent from Twin Quarters, Office Building, TIP Storage Godowns, BADC Storage Godowns, etc.; and rents on land, ponds, trees, etc. But all these taken together constitute only a small portion of total revenue. This has, of course, changed with the creation of upazila parishads.

[2] A.B. Chowdhury, Performance Report on Works Programme, 1977-78 (Dacca: Ministry of Local Government), p. 1. Additional background material regarding the RWP is given in Shcroeder and Maniruzzaman, "The Structure of Local Government in Bangladesh."

[3] See, Chowdhury, Performance Report on Works Programme, 1977-78, p. 3.

FIGURE 2

REVENUE DEPENDENCE BY TYPE OF LOCAL GOVERNMENT[a]

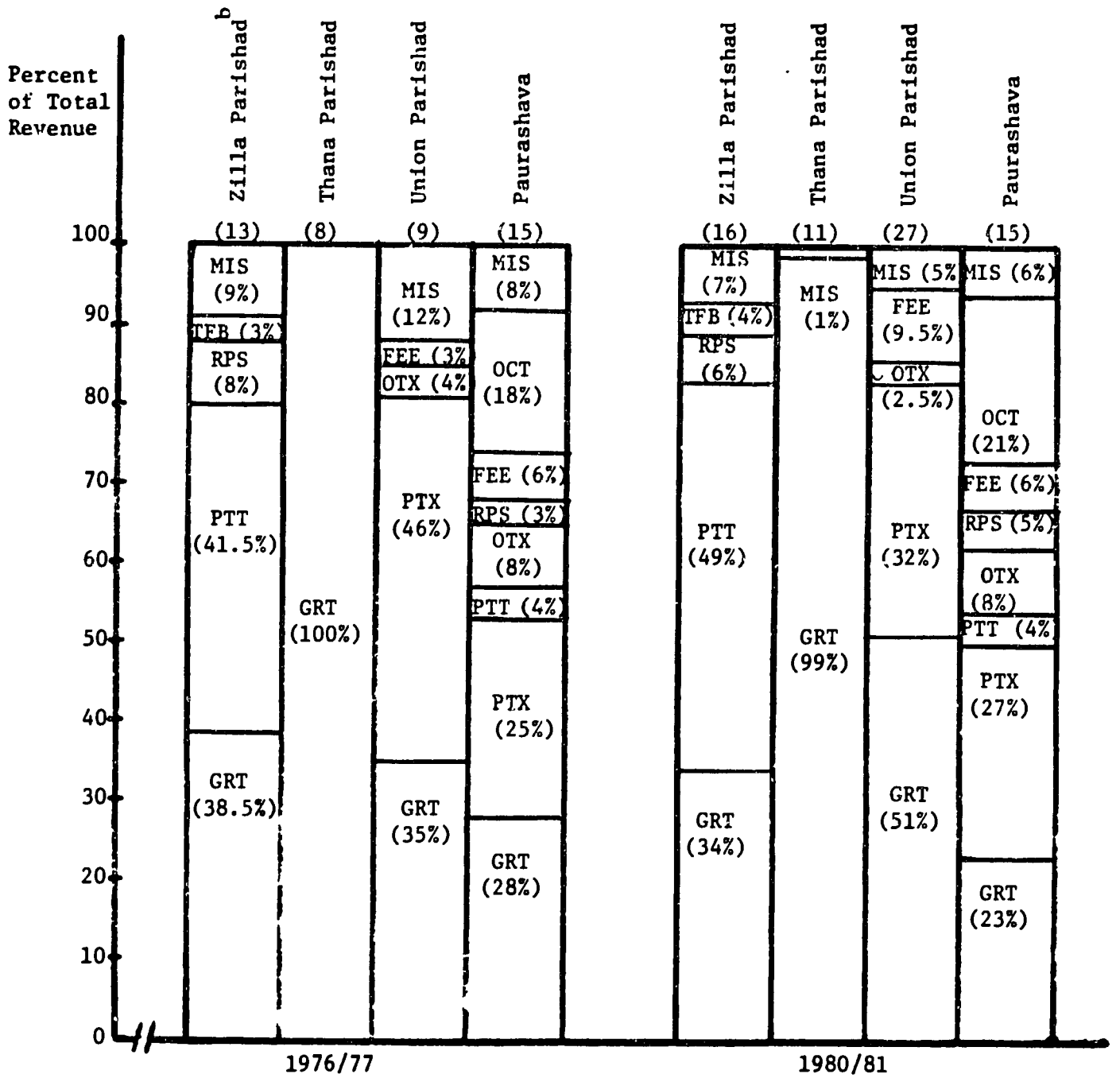

FIGURE 2 (CONT.)

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[a]Although the number of union parishads for which the financial data were available for all five years is 31, it was not possible to use data for all 31 unions for all categories of revenues in every year. In particular, data on grants were missing for certain years for varying numbers of unions. In computing Figure 2, those unions which had missing data on either category of grants were excluded from the sample. As a result of this exclusion rule, the union sample size dropped from 31 to 27 in 1980/81 and to as low as 9 in 1976/77. The same strategy was adopted for zilla parishads, thana parishads and paurashavas.

[b]The number in the parentheses beneath each level of local government represents the number of observations used to compute the results.

GRT = Grants (Normal plus Works Programme)
PTT = Property Transfer Tax
RPS = Rent, Profit and Sales Proceeds
TFB = Tolls on Ferries and Bridges
MIS = Miscellaneous Revenue
PTX = Property Tax
OTX = Other Taxes
FEE = Fees
OCT = Octroi Tax

SOURCES: Financial (grants and revenues) data: ZP, TP, UP and paurashava accounts. Population data: prepared by the Metropolitan Studies Program of Syracuse University from the data obtained from 1980 Statistical Yearbook of Bangladesh, Tables 2.3 and 2.5, pp. 38-39; 1980 Statistical Pocket Book of Bangladesh, pp. 138-40; and A Preliminary Report on Population Census, 1981, BBS, Ministry of Planning, June 1981. Zilla parishad data excludes Chittagong Hill Tracts which does not receive Property Transfer Tax.

- The development of rural infrastructure for transportation, irrigation, flood control, community development;
- The creation of off-season employment opportunities for the poor and for landless farmers;
- Nation-building goals which are achieved through local participation in development projects and through local leadership in carrying out these projects;
- Strengthening the capacity of rural local government institutions to lead rural development.

The questions at hand would seem to be whether these objectives are being reached, and if not, how should the grant program be restructured. Before addressing these important questions of impact, it is necessary to give some understanding of how the system actually works.[1]

Components of the Program

The type of works carried out under the Rural Works Programme, and the local government units responsible for implementation are described in Table 5. This compilation shows a substantial amount of overlapping responsibility--particularly for roads and buildings--and therefore a need for coordination among local governments. As will be noted below, the thana level plays a key role in this coordination.

Another way to view the composition of the Rural Works Programme is in terms of the amount spent on each type of project. While the total Rural Works Programme is implemented through local governments, we may view the Programme as having a regular component which is primarily funded by the Government of Bangladesh and a "special project" component which is heavily

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[1]Our understanding of the system comes from interviews with BDG officials, studying official documents, and from field interviews with recipient local governments.

TABLE 5

RURAL WORKS PROGRAMME COMPONENTS AND IMPLEMENTING RESPONSIBILITIES

Type of Work	Local Government or Local Government Institution Involved			
	Zilla Parishad	Thana Parishad	Thana Development Committee	Union Parishad
Road construction and repair	x		x	x
Re-excavation and excavation of canals for irrigation and drainage			x	x
Reclamation of derelict tanks			x	
Repair of embankments			x	x
Construction of community buildings (TTDC)[a]		x		
Construction and reconstruction of bridges and culverts	x		x	x
Development of rural haats and bazaars		x		
Construction of workshops and godowns		x		
Training for rural development		x		

[a]Thana Training and Development Center.

SOURCE: This information was compiled from Chowdhury, Performance Report on Works Programme, 1977-78, pp. 1-14; Ministry of Local Government, Rural Development and Co-operatives, Performance Report on Works Programme, 1973-74 - 1976-77, Government of Bangladesh, pp. 1-27; and information supplied in interviews with officials in the Ministry of Local Government during May, 1982.

supported by foreign aid. As may be seen from the data in Table 6, the government's regular program is heavily weighted towards rural roads and irrigation projects and provides a substantial amount of support for staff salaries. In total, the government-supported share in 1981/82 accounted for about 80 percent.[1] The Rural Works Programme, then, is very closely tied to the availability of domestic resources.

Operation of the Program

Because more than 5000 local government units are potentially involved, the administration of the Rural Works Programme is quite decentralized. Its operation involves substantial local participation in project selection and implementation, but central government direction in the distribution of the grant amounts. Unlike grant systems in many countries, the Bangladesh system gives a substantial amount of operational discretion to local officials, as is made clear in the discussion below.

Project Identification and Approval.[2] In theory, the identification of projects for the Rural Works Programm is a highly decentralized process. Suggestions for projects originate in ward meetings and initial planning and project rankings are done at the union parishad. This meeting is also attended by technical staff from the thana level. The union then formalizes its proposal and passes it to the Circle Officer-Development for preliminary examination and cost estimates. The CO brings the proposal before the thana parishad for consideration, since the thana parishad is

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[1]The ratio of BDG to total contributions, (307.9)/(373.6), is 82.4 percent (see Table 6).

[2]The description contained here is of the RWP prior to 1983/84; however, to the degree that decentralized planning is to be emphasized in the upazila, it is likely that similar procedures will be used.

TABLE 6

COMPOSITION OF RURAL WORKS PROGRAMME EXPENDITURES
(in millions of taka)

Project	Total Scheme Allocation, 1981/82				Revised ADP[a] Allocation 1981/82			
	Total	Percent	Government of Bangladesh	Project Assistance	Total	Percent	Government of Bangladesh	Project Assistance
Regular Rural Works Programme	1602.93	(19.8)	1602.93	---	136.65	(36.6)	136.65	---
Irrigation	472.68	(29.5)			33.65	(24.6)	33.65	
Drainage and Flood Control	319.80	(20.0)			20.00	(14.6)	20.00	
Rural Roads	523.90	(32.6)			38.00	(27.8)	38.00	
TTDC	117.93	(7.4)			15.00	(11.0)	15.00	
Staff Salaries	168.63	(10.5)			30.00	(22.0)	30.00	
Four-District Special Public Works Programme	182.71	(2.3)	60.29	122.42	30.60	(8.2)	8.00	22.60
100-thana Rural Works Programme (feasibility study)	11.29	(0.1)	---	11.29	4.50	(1.2)	---	4.50
100-thana Investment Project	5372.76	(66.5)	---	5372.76	21.10	(5.6)	---	21.10
Haats and Bazaars	190.00	(2.4)	190.00	---	10.65	(2.9)	10.65	---
Small Irrigation Project	25.00	(0.2)	---	25.00	---		---	---
Food Godowns at Sub-thana Level	314.60	(3.9)	314.60	---	150.10	(40.2)	150.10	---
Zilla Road Maintenance	151.30	(2.0)	23.81	127.49	16.00	(4.3)	2.00	14.00
Southwest Rural Development Project	168.73	(2.1)	42.00	126.73	---		---	---
Land Use Development Project	64.43	(0.7)	17.11	47.32	4.00	(1.1)	0.50	3.50
TOTAL	8083.75		2250.74	5833.01	373.60		307.90	65.70

TABLE 6 (CONT.)

Project	Actual Disbursements as a Percent of Revised Allocation in 1981/82	Budgeted ADP Allocation in 1982/83			
		Total	Percent	Government of Bangladesh	Project Assistance
Regular Rural Works Programme	100.0	175.07	(35.1)	175.07	
Irrigation	100.0	48.07	(27.4)	48.07	
Drainage and Flood Control	100.0	29.00	(16.6)	29.00	
Rural Roads	100.0	49.00	(30.0)	49.00	
TTDC	100.0	19.00	(10.9)	19.00	
Staff Salaries	100.0	30.00	(17.1)	30.00	
Four-District Special Public Works Programme	52.7	31.60	(6.3)	12.00	19.60
100-thana Rural Works Programme (feasibility study)	100.0	4.59	(0.9)		4.59
100-thana Investment Project	29.6	92.18	(18.5)		92.18
Haats and Bazaars	100.0	26.30	(5.3)	26.30	
Small Irrigation Project	---	10.00	(2.0)		10.00
Food Godowns at Sub-Thana Level	100.0	54.40	(10.9)	54.40	---
Zilla Road Maintenance	0.0	82.90	(16.6)	19.20	63.70
Southwest Rural Development Project	---	19.80	(4.0)	2 10	17.70
Land use Development Project	40.2	1.50	(0.3)	0.26	1.23
TOTAL	87.2	498.34		289.33	209.01

[a]Annual Development Plan.

SOURCE: Data supplied by MLG, May and September 1982.

the approving body for union projects. The thana technical committee works out the final plans for approved projects.

Schemes also originate at the thana parishad level. These projects are presented at a meeting which includes all of the union chairmen (who are members of the thana parishads), the thana technical staff, and certain officers from line ministries. The projects considered are either larger (than union) schemes[1] or they involve projects whose benefits are not localized to a single union (e.g., inter-union roads). Thana parishad projects must be approved at the district level. Zilla projects originate in a district level meeting chaired by the deputy commissioner. The assistant district commissioner and the engineering staff are also present. This group establishes priorities, plans projects, and presents the proposal to the approving Divisional Board.[2]

Though project selection is highly decentralized, constraints are placed on the establishment of priorities. These begin with the approval process. Project approval at the next highest level is required to assure interregional (inter-thana, inter-union, inter-district) coordination of projects. Moreover, there are some criteria given for project selection, which are meant to guide local selection of schemes. The first priority is the maintenance of completed schemes, to which 25 percent of the "normal"

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[1] Circular Five (page 6) indicates that unions implement schemes whose cost is less than Tk 50,000 while thana parishads execute schemes whose cost does not exceed Tk 300,000.

[2] This approval process is discussed in greater detail in Schroeder and Maniruzzaman, "Local Government Structure in Bangladesh."

budget must be assigned.[1] The completion of ongoing schemes has second priority and the initiation of new schemes has third priority. With respect to the latter, Circular Five gives the following priorities for ranking schemes under the Rural Works Programme:[2]

1. Schemes which provide greater employment opportunities, particularly those which increase agricultural or fish production;

2. Schemes which are supplementary or complementary to completed or ongoing schemes;

3. Schemes which generate production for export;

4. Schemes, such as earthmoving, which may provide employment for the most disadvantaged groups;

5. Income generating projects for local governments;

6. Schemes which ensure utilization of local resources.

There are some other constraints on project selection. Projects at the union and thana levels must be consistent with the Thana Plan Book and the central government lays down a detailed set of specifications for the construction and design of projects.

In short, the Works Programme is a decentralized strategy for rural development, but it possesses some important elements of central direction.

Project Implementation. Works Programme schemes are implemented through

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[1]The MLG interpretation is that the "normal" budget is revenues raised from own-sources plus "normal" grants. If 25 percent of the normal budget is not sufficient to accommodate maintenance needs, then 10 percent of Works Programme grants may be assigned to this purpose. As will be discussed below, there is debate over the interpretation of the 25 percent requirement.

[2]Ministry of Local Government, Rural Development and Co-operatives, English Version of Circular No. 5 of 1980-1981 on Different Aspects of Rural Works Programme (Dacca: Government of Bangladesh), p. 1.

the local bodies, and usually monitored by the approving authorities. Union and thana schemes involving earthworks are implemented through the union/ward project committees. Each committee selects a secretary who is charged with organizing the labor, disbursing payments, etc., for which he receives compensation equivalent to 2 percent of the amount of the project.[1]

Projects are monitored according to the guidelines set out in the Manual for Rural Works Programme. The thana technical staff monitors the union projects while the thana parishad projects are monitored and approved by the executive engineer's office. All pucca construction work above Tk 20,000, and all zilla parishad schemes are executed through approved contractors. Monitoring at the district level is done by the executive engineer.

Determination of Grant Amounts

There are three factors which determine the grant amount that flows to each local government: (a) the total allocation made to each category of public works (e.g., roads, irrigation, etc.) by the central government, (b) the distribution of that amount among types of local government (i.e., some percent to zillas, some to thanas, etc.), and (c) the distribution of that amount among individual local units. The first decision is made by the Planning Commission of the Ministry of Finance in consultation with the Ministry of Local Government. As is shown in Tables 7 and 8, total

[1]According to Circular No. 5 (page 8) "the secretary of the project committee is selected by the ward project committee from amongst the unemployed who is an honest and literate person and knows accounts keeping. He is paid out of the project at the rate of 2 percent of the estimated work...".

allocations were made in 1982 for five "regular" categories of rural works support: rural roads, irrigation, drainage, TTDC, Union Community Center construction. A separate allocation was made for haats and bazaars. Roads, drainage and irrigation projects are taken up by all levels of government while TTDC are thana parishad schemes. Rural roads and irrigation projects were clearly emphasized in the 1980/81 and 1981/82 budgets.

The distribution of these totals across types of local government is a MLG decision. In the case of some functions, a first decision is how to split the total available amount among types of local government. By convention there is an approximately 45/25/30 percent split in rural roads funding among zilla, thana, and union, as shown in Tables 7 and 8; and a 50/50 split in drainage assistance between thana and union. These allocations reflect the various service responsibilities of the local governments, and history, but no formula basis is evident. The overall sharing of Works Programme grants shows about 60 percent going to the thana parishad level.

The final step in the process is the distribution of these amounts among individual zilla, thana, and union parishads. Distributions to zillas for rural road projects are made by formula: two-thirds according to population and one-third according to land area.[1] The full amount of the thana <u>and</u> union allocations for roads, irrigation and drainage are made

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[1]It is not completly clear which land area and population numbers are used in the final allocations. The basis is the 1974 Census, but each District Commissioner is written every year, asking him for the latest estimates for his district, thanas, and unions. These are "taken into account."

TABLE 7

REVISED ALLOCATION OF WORKS PROGRAMME GRANT COMPONENTS FOR 1981/82[a]
(in million takas)

	Zilla	Thana	Union	Total
Rural Roads	17.10 (45%)	9.50 (25%)	11.40 (30%)	38.00[b]
Infrastructure for Rural Irrigation Planning, Training etc.		33.65 (100%)		33.65
Drainage, Flood Control and Water Conservancy		10.00 (50%)	10.00 (50%)	20.00
TTDC		8.03 (100%)		8.03
Union Community Center		6.97 (100%)		6.97
Haats and Bazaars				10.65[c]
TOTAL[d]	17.10 (14.6-16.0%)	68.15 (58.1-67.5%)	21.4 (18.2-27.3%)	117.30

[a]According to MLG (May 1983), the revised 1981/82 amounts are also the actuals for 1981/82.

[b]Approximately Tk 2.0-2.5 million of this Tk 38.0 million was not distributed but, instead, was used to pay customs duties on imported purchases.

[c]Haats and bazaars funds are distributed to the sub-division level and are then allocated among haats and bazaars at either the union or thana level.

[d]The smaller percentage excludes the haats and bazaars amount while the larger percentage includes it.

SOURCE: MLG, May 1982 and May 1983.

TABLE 8

REVISED ALLOCATION OF WORKS PROGRAMME GRANT COMPONENTS
FOR 1982/83
(in million takas)

	Zilla	Thana	Union	Total
Rural Roads	24.12 (45%)	13.40 (25%)	16.08 (30%)	53.60
Infrastructure for Rural Irrigation Planning, Training, etc.		41.90 (100%)		41.90
Drainage, Flood Control and Water Conservancy		13.03 (50%)	13.03 (50%)	26.06
TTDC		19.00 (100%)		19.00
Technical and Logistical Support				40.00
TOTAL	24.12	87.33	29.11	180.56

SOURCE: MLG, May 1983.

by the same formula. The thana parishad allocation is passed to the SDO who acts as the disbursing agent. The allocations to be made are prepared in Dhaka and reported in Circular No. 5. The union allocation is passed through the thana parishad with the instructions to allocate set amounts for the various functions and to distribute among unions on a basis of population and land area. This means, at least in theory, that every local government unit receives a grant earmarked for each of the three specified purposes. The implication of this design is that the [illegible]s schemes are meant to be quite small.

The salary and contingency portion of the Rural Works Programme grants are allocated in a different fashion. The approved staffing and salary levels are known (at the Ministry) for all levels of the Rural Works Programme. The salary and contingency allocations are made on a pure cost reimbursement basis. This component amounted to a significant share of the Rural Works Programme grants in 1981/82 (see Table 6).

Evaluating Rural Works Programme Grants

One might assess the impact of Rural Works Programme grants by asking whether the desired objectives have been achieved, i.e., whether the program has generated increased employment, by how much it has stimulated rural infrastructure construction and maintenance, whether it has drawn out substantial local participation, and whether it has strengthened local government institutions. One might also ask if it has some of the other features of a "good" grant program: Is it administrable at a reasonable cost? Has local government financial planning been enhanced or harmed? Has the revenue flow been adequate for development activities? Has the program given local governments an incentive to increase their own

revenue mobilization? Are the distributions among local governments somehow fair?

These questions are not easily answered, because of data shortcomings and because there is a paucity of careful research on these issues in Bangladesh. Moreover, there is the prior question of the norm against which we are evaluating Bangladesh grants, e.g., against a different type of grant system, more direct central government involvement, greater local government financial autonomy, etc. The question isn't just whether the present grant system gets the job done, but also whether there is a "better" way to achieve the same objectives.

Rural Infrastructure Development. To what extent does the Works Programme grant contribute to the development of a rural infrastructure? One might start such an evaluation by asking for an audit of the actual project accomplishments during the past few years.

Unfortunately, statistics on the outcome of Works Programme grants are not adequate to carefully evaluate the physical accomplishments of the Programme. There is a Performance Report on Works Programme[1] which shows project activity and manpower usage for local governments, but it is not clear that one can use these data for purposes of evaluation. It is reported in the Preface to the Work Programme Report that all participating local governments have not filed reports and are therefore not included. A quick examination of these data confirms this problem. A combination of these reporting problems in the Performance Reports and the fact that the

[1]Published volumes are available for 1973-1978. At the time of this writing the 1979 and 1980 volumes were still in press.

latest available issue is for 1977/78, dissuaded us from analyzing these data to measure the total physical accomplishments of the program.[1]

It is important to recognize, however, that the RWP is oriented toward small projects and is quite labor-intensive. To better understand the activities carried out under this Program, we administered a nationwide mail questionnarie and received 132 responses from thana parishads. The questionnaire is reported in Appendix B.[2] The results of the analysis are described in Table 9. As may be seen from these data, RWP activities are heavily involved in earthworks. Of 862 schemes reported in these thanas, 56 percent were for kutcha roads, kutcha irrigation, embankments and reexcavations. Nearly 53 percent of total expenditures went for these same projects. The average scheme was about Tk 15,000 and the average thana received about Tk 100,000. It is difficult to estimate a capital-labor ratio in these projects, but the labor component is obviously high given that Kutcha and embankment or excavation schemes are almost entirely labor projects (Table 9). The 1978 Performance Report showed that about 70 percent of all RWP expenditures were for labor, suggesting a low capital-labor ratio.

Another approach to evaluating project success in developing rural infrastructure is to ask whether the design of the grant is conducive to meeting this goal. This raises the following kinds of issues: whether there is a likelihood that grant monies will be siphoned off for

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[1]We did attempt to study the time trend in the number of schemes and the expenditures per scheme as reported in these documents, but the trends were so erratic that we cannot confidently use these results.

[2]The sample is nationwide, with at least one thana from every district. The average population of a thana included in the sample is 202,000, compared to a nationwide average population of 184,000.

TABLE 9

COMPOSITION OF RURAL WORKS PROGRAMME PROJECTS:
FOR 132 THANAS IN 1980/81 TO 1981/82

Type of Project	Number of Thanas Reporting Schemes	Number of Schemes Reported	Taka Received as a Percent of Taka Allocated	Percent Distribution of Taka Received
Roads:				
Semi-Pucca	3	4	79	0.4
Kutcha	48	119	73	11.2
Bridges:				
Wooden	39	67	74	6.1
Pucca (culverts)	93	261	80	25.3
Embankments (Bundh) for Flood Control	41	84	74	9.9
Embankment-Cum-Roads	9	27	76	2.0
Reexcavation of Canal (Khal), Tank, River and Char	63	136	71	16.1
Drainage for Irrigation:				
Pucca	6	13	85	2.0
Kutcha	43	93	85	13.4
Mixed Projects (Road/Bridge/ Culvert/Embankment/Drainage)	12	15	81	1.9
Water Reservoir	1	6	100	0.8
Sluice Gate, Lock Gate, and Regulator	13	16	87	4.8
Deep Tube Well	3	10	92	1.1
TIP Workshop and Godown	2	2	88	1.3
Twin Quarters	1	1	90	1.7
Building Haat Sheds	1	1	80	1.1
Hill Cutting	1	2	98	0.02
Unclassified Projects	1	5	96	0.6
TOTAL		862	78	100.0

SOURCE: Mail Questionnaire responses from 132 thanas in Fall 1982. See Appendix B.

non-development purposes, whether adequate provision is made for maintaining completed projects, and whether the level of funding is either insufficient to carry out capital projects or too large for local government units to absorb.

The issue of whether Works Programme grant funds get spent for other purposes (e.g., general government compensation) does not seem to raise a problem in the Bangladesh case. One can be reasonably sure that the funds are spent for capital project development, for three good reasons. First, the Works Programme grant funds are highly visible. Second, employee compensation is already provided for in the grant program, in a separate budget line. Third, there is little else for local government to do with these funds since they have few other functions. If decentralization proceeds in Bangladesh and if local governments are given some additional service responsibilities, the "displacement" of capital funds could become a problem. In anticipation of such a problem, an effective means of tracking and monitoring Works Programme activities needs to be developed.

The maintenance problem is more bothersome. There is a provision that 25 percent of 'normal' budget revenues be spent for maintenance. Local governments, however, have interpreted this in various ways. Some have taken it to mean 25 percent of total local government income, some as 25 percent of budgeted works expenditures, and some as 25 percent of average works expenditure during the past two years. In any case, local governments have few resources beyond that provided in the RWP grant, hence, the amount for maintenance will be 25 percent of a very small base. Moreover, whatever the interpretation, there does not seem to be any monitoring of whether the requirement is being met, or better yet, whether

the maintenance is being carried out to an adequate level. If one were to seriously monitor the maintenance provision, he would have to face the underlying problem of how one defines "maintenance" and get around the very fine distinction between maintenance and reconstruction.

Another question which arises is whether the grant amounts are somehow "right". Ideally, they must be large enough to enable construction and maintenance, but small enough to be absorbed by small local government units. For thanas and unions, the grant amounts are quite small, and the evidence is that most of these local governments are able to spend the funds for works projects. On the average, during the 1976/77-1980/81 period, the local governments spent the full allocation with little left over (an inability to absorb the funds would be indicted by a ratio greater than unity in Table 10). On the other hand, the ranges presented in Table 10 suggest that local government absorption capacity does vary widely.

Finally, one might ask whether more could be accomplished by targeting the funds on fewer jurisdictions, and pushing "bigger" projects. This would perhaps produce a more permanent project, permit a tighter maintenance schedule, and it would make effective use of short materials and skilled engineering resources. On the other hand, such a strategy would 'cost' a spreading of Works Programme employment benefits across all rural areas. Again, the issue brings us back to asking whether the grant program has primarily relief (distributional) or development goals.

Employment Generation. Perhaps the major objective of Works Programme grants is to generate jobs for unskilled workers in rural areas. Unfortunately, there are neither accurate nor current data that enable us

TABLE 10

RATIO OF WORKS PROGRAMME GRANTS TO WORKS PROGRAMME EXPENDITURES REPORTED BY RURAL LOCAL GOVERNMENT BODIES, 1976/77 TO 1980/81

Level of Government	1980/81	1979/80	1978/79	1977/78	1976/77
Zilla Parishad[a]	(16) 0.97 (0.20-1.40)	(16) 1.06 (0.67-1.60)	(15) 1.02 (0.85-1.30)	(13) 1.03 (0.60-1.40)	(13) 0.87 (0.41-1.30)
Thana Parishad/TDC	(11) 1.10 (0.60-2.97)	(11) 1.07 (0.36-2.49)	(11) 1.22 (0.66-4.13)	(10) 0.99 (0.81-1.25)	(8) 1.00 (0.73-1.47)
Union Parishad	(27) 1.15 (0.82-4.71)	(31) 1.00 (0.33-1.62)	(29) 1.01 (0.68-1.88)	(30) 1.02 (0.30-2.43)	(9) 1.00 (1.00-1.00)

[a]See footnotes (a), (b) and (c) in Table 4.

SOURCES: Same as in Table 4.

to make a firm estimate of the job generation benefits of Rural Works Program grants. Some very optimistic estimates reported that in earlier years, the Rural Works Programme generated direct employment for between 600,000 and 1 million persons per year.[1] The World Bank has reported an estimate of 223,000 workers in 1970/71[2] and between 28,000 and 68,000 man-years per annum between 1971/72 and 1976/77.[3]

Our own very rough estimates would agree with the latter assessment. Using the partial data from the 1978 Performance Reports to make a first approximation, we may estimate that some 35 mandays of work was created for every 1000 taka spent.[4] Assuming a continuation of this pattern and that 316 man-days is the equivalent of a single full time calendar year job, the Tk 324 million actually spent on the Works Programme created about 36 thousand jobs in 1982. This amount is equivalent to about 1.3 percent of the economically active population. If we consider only the off-season (say 60 days), then nearly 200,000 jobs annually might be created through the program. In percentage terms the amount is not so great, but in the absolute it is clearly a substantial relief program.

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[1] J.W. Thomas, "The Rural Works Programme in East Pakistan," in W.P. Falcon and G. Papanek (eds.), Development Policy II-The Pakistan Experience (Cambridge: Harvard University Press, 1971).

[2] M. Alamgir, The Experience of Rural Works Program in Bangladesh (Stockholm: Institute of International Studies, 1977).

[3] Daniel Asplund, "The Public Works Program in Bangladesh and Swedish Aid Objectives," February 1979, p. 25.

[4] This number was obtained by dividing mandays by total expenditures for rural local governments for those schemes shown on pages 12-14 of the 1978 Performance Report.

One is hard-pressed to argue against this kind of accomplishment, especially in a country so impoverished as Bangladesh. Moreover, the other avenues open to job generation in rural areas are not clearly better. Consider the alternatives. The government could provide direct tax relief in amounts equivalent to the size of the Works Programme Grant. This would inject the same amount of taka into the spending stream, but it seems clear that the same amount of money would not be devoted to generating rural employment opportunities, and multiplier effects would likely be smaller. The taxpayer relief would fall to higher income families, a substantial amount would go to the urban areas where taxpaying capacity is greater, and much of the urban to rural redistribution of income could be lost. A second possibility would be for the central government to undertake much larger projects in rural areas, also on a labor intensive basis. This would generate the employment benefits, but these would be concentrated rather than spread around the country. Moreover, there is the question as to whether the costs of administration would be greater under the larger project or under the present decentralized scheme.

Building Local Government Institutions. Does the Works Programme strengthen local governments as an institution? The answer here depends on how one defines "strengthen." We suggest two definitions: (a) increased citizen participation in local projects, and (b) increased local government fiscal autonomy. On the first count the Rural Works Programme grant would appear to be a success. On the second, it would not.

The decentralized approach to project selection and implementation clearly involves local residents and local officials. The fact that the approval process is decentralized--rather than at the central government

level as in many countries--heightens this local involvement. However, one must draw a distinction between "involvement" and responsibility. For all their involvement in project selection and implementation, local governments are not accountable to the central government for how well these projects are carried out or maintained, or to local residents for how their contributions are spent.

Another side of the issue is whether the Rural Works Programme grant encourages fiscal autonomy, i.e., whether local governments are encouraged to become more self-reliant. This is accomplished in many countries by structuring the grant program to require local governments to mobilize own-resources (taxes, fees, charges, voluntary contributions) as a condition of receiving and spending the grant. The Bangladesh Works Programme grants have no such "matching" provisions, and do not provide an incentive for local governments to increase their revenue effort. This lack of incentive, together with the minimum tax sources which have been allocated to the local sector, have resulted in little mobilization of revenues by local governments. They are still very much financial appendages of the central government. This situation gives rise to the question of how much local "involvement" really takes place when no local revenue effort is involved in financing the projects.

Revenue Adequacy. Has the flow of revenues from Works Programme grants been adequate to meet infrastructure needs? Adequacy requires us to define these "needs," i.e., to determine if grants are increasing at as fast a rate as needs. Ideally, we would like to define expenditure needs in an objective way, e.g., how much would it cost to maintain the current level of local public services provided, or how much does it cost to build and

maintain a mile of rural road. Unfortunately, the measurement of expenditure needs is well beyond the present scope of work[1] and we will use only the more general indicators of the increase in need for grant funds: the growth in population and in prices.

One might argue that a growth in Rural Works grants that kept pace with population and prices (constant real per capita grants) would satisfy increasing needs for public services but would make no contribution to catching-up the backlog of rural infrastructure needs. At best, a constant real per capita performance characterized Rural Works grants. The growth in real per capita amounts has been erratic, and quite slow, as may be seen in Table 11. Certainly, the amounts allocated[2] have not increased faster than population and the general price level in recent years; for example, the real per capita amount of budgeted Works Programme grants is the same in 1982 as it was in 1976, while the per capita allocations have fallen. The trend in these per capita real amounts is described in Figure 3.

Another approach to measuring the adequacy of revenue growth is to treat Works Programme grants as a tax, and to evaluate its income elasticity, i.e., does its yield increase at least in proportion to GNP? For the 1974-1982 period, for every 1 percent increase in GNP, there has been a 0.96 percent increase in Work Programme grant revenues. Works Programme grants have not quite kept up with income growth. If one takes

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[1] Indeed, the measurement of public expenditure needs is still a new frontier of research in public finance economics.

[2] In this discussion, we use the term "allocated" to refer to the revised budget estimates. This amount may still differ markedly from the amount actually distributed.

TABLE 11

GROWTH IN RURAL WORKS PROGRAMME GRANTS

Fiscal Year	Total Budgeted Amounts (in millions) Current Taka	Total Budgeted Amounts (in millions) In Real 1977 Taka[b]	Per Capita Budgeted Amount in Real 1977 Taka	Total Amounts Allocated (in millions) Current Taka	Total Amounts Allocated (in millions) In Real 1977 Taka	Per Capita Allocations in Real 1977 Taka	Amount Allocated as a Percent of Amount Budgeted	Amount Spent (in million taka)	Amount Spent as a Percent of Amount Budgeted	Amount Spent as a Percent of Amount Allocated
1982/83	498.341	255.560	3.08	434.862[a]	223.006	2.68	87.26	---	---	---
1981/82	404.335	218.206	2.68	373.600[a]	201.619	2.47	92.40	---	---	---
1980/81	335.697	204.320	2.55	324.523	197.519	2.47	96.67	323.758	96.44	99.76
1979/80	321.086	218.873	2.79	319.431	217.744	2.77	99.48	318.876	99.31	99.83
1978/79	251.150	197.760	2.58	226.324	178.208	2.32	90.12	226.324	90.12	100.00
1977/78	172.360	149.618	1.98	176.577	153.279	2.03	102.45	179.265	104.01	101.52
1976/77	237.150	237.150	3.20	205.000	205.000	2.77	86.44	216.902	91.46	105.81
1975/76	192.830	193.994	2.68	207.156	208.406	2.88	107.43	270.572	140.32	130.61
1974/75	173.700	162.946	2.30	114.932	107.816	1.52	66.17	103.299	59.47	89.88
1973/74	---	---	---	132.812	201.230	2.90	---	113.847	---	85.72
1972/73	---	---	---	127.245	267.884	3.94	---	101.587	---	---
1971/72	---	---	---	98.282	---	---	---	89.322	---	---

[a]Revised estimate (actual was not available).

[b]Same as footnote (d) in Table 2.

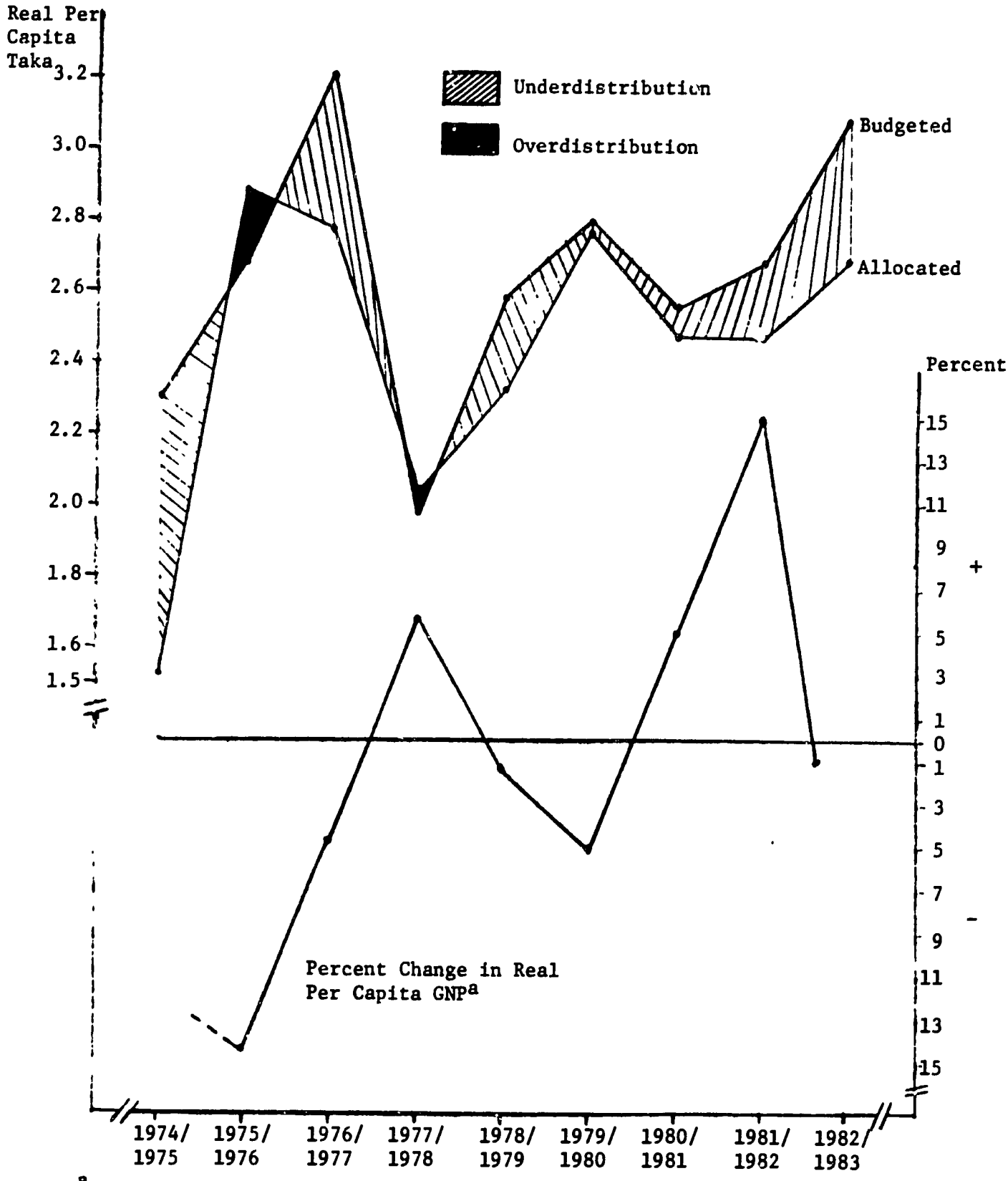
--- Not Available.

SOURCES: Works Programme Budgeted for 1979-1983, Revised for 1983, Actual Allocations for 1972-1981 and Amount Actually Spent for 1972-1981: Data supplied by the MLG (September 1982 and May 1983).

Works Programme Budgeted for 1974-1978: Details of Demand for Grants and Appropriations (Development), Ministry of Finance and Planning, The People's Republic of Bangladesh; 1975-76 - 1982-83, 64-Development (Rural Development).

FIGURE 3

PER CAPITA REAL BUDGETED AND ALLOCATED RURAL WORKS PROGRAMME GRANTS AND PERCENT CHANGE IN REAL PER CAPITA GNP (in 1977 taka)



[a]See footnotes "d" and "e" in Table 2

SOURCE: See Tables 1 and 2.

income growth as a rough indicator of the increased demand for local public services, we might again question the adequacy of growth in Rural Works grant revenues.

One might take yet another view: that Works Programme grants are for construction purposes, and that we should relate the growth in grant revenues to the growth in construction costs. Between 1973/74 and 1980/81, grant revenues increased by 144 percent, but the general index of building construction[1] increased by 171 percent. In other words, whereas a given amount of Works Programme grants would purchase 100 units of "construction" in 1974, they would purchase only 84 units in 1981. To further question this result, we might take the view that such a comparison is invalid because Rural Works Projects do not rely on skilled labor such as carpenters and make little use of building materials, and therefore the general building index grossly overstates the cost increase. If, as an index of construction cost increase, we take the average wage of unskilled agricultural workers,[2] we find a 152 percent increase over the 1973/74-1980/81 period. Even by this quite conservative measure, one might conclude that whereas Works Programme grants bought 100 units of construction labor in 1973/74, they bought only 95 units in 1980/81.

No matter how one measures the revenue adequacy of the Rural Works Programme grant, the answer would appear to be that there has been a declining emphasis on this program.

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[1] 1981 Statistical Yearbook of Bangladesh, pp. 419.

[2] Ibid., pp. 421.

Financial Planning. Financial planning at the local government level in Bangladesh is not well developed. There are Planbooks but no capital budgets or long-term plans for generating funds to maintain public works projects. Since local governments are so heavily dependent on central government grants, their fiscal planning is almost wholly dependent on their ability to predict central grant receipts. The question at hand is whether the annual flow of Rural Works Programme grants provides enough certainty to enable effective financial planning. Again, the key questions are timing and certainty, i.e., can local bodies plan ahead with some confidence about how much Works Programme grant funds will be received?

There are two potential problems with grant programs in all countries in this regard. The first is that actual allocations by the Central Government may not match the amounts budgeted. This creates an important problem because the budgeted amount is the target used for planning purposes by the local government. The second is that the releases of the allocated amounts may not be timely, thereby resulting in delays in project implementation. To some extent, both of these problems plague the Rural Works Programme in Bangladesh, but the first is potentially the more serious.

The total allocation to this program has been somewhat erratic, as may be seen from Table 11. The pattern in Figure 3 shows that undistributed grant amounts have been the rule rather than the exception during the past decade, and that they have increased markedly in years when real GNP was

not growing.[1] The resulting fluctuations in grant allocations are not unusual in grant systems where the total amount is determined on an ad hoc basis each year. As other national priorities emerge, and as Central Government budgets grow tight, local government grant distributions are often an early casualty. On the other hand, in years when unplanned budget surpluses are available, grants to local government are often a beneficiary. Unfortunately, this kind of cyclical pattern means that local governments face difficulties in planning their budget activities. The difficulty is compounded because these local units have virtually no resources of their own on which they may fall back. Multiyear fiscal planning is discouraged by this uncertainty and, as a result, it is difficult to gain much continuity in works program activities.

Another potential source of uncertainty, also arising in many developing countries, is that the central government may release a grant amount which is far less than what it had originally budgeted for that fiscal year. In other words, the fourth quarter release by the central government may be delayed until the following year because of some budget exigency. The result is that local governments, planning with the budgeted amounts as expected, face serious fiscal shortfalls. It is difficult to know how much of a problem this is in aggregate, because there are little good data. Though the data in Table 11 suggest a pretty good record (relative to other countries) of distributing 90 percent or better of amounts budgeted, the problem can be a very serious one for individual local governments. For example, from our data on 132 thana parishads, it

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[1] In this case, "undistributed" refers to the difference between the revised and the budget estimates.

was reported that an average of 79 percent of amounts allocated were actually received.[1] It should be emphasized that even the "average" shortfall of 10 to 20 percent indicated here can be a very serious problem for local governments with very little of their own revenue raising powers to fall back on.

Grant Distributions. The distribution of Rural Works Programme grants is e result of a complicated mixture of government decisions about project emphasis, the choice of which level of government to emphasize, a population and land area formula, the choice of a population number for use in the formula, and ad hoc decisions about special needs.[2] Is the resulting allocation somehow appropriate or fair? Of course, one may not define 'fair' without making some sort of normative judgement. We might take the two most common rules for the distribution of grants--equalization of resource capacity and straight per capita distribution--and compare these against the present distribution in Bangladesh. In effect, we ask the question, regulations aside, as to whether there is de facto either an equalizing (of taxable capacity) or a per capita distribution of grants. If the answer is affirmative in either case, then we may say there is a kind of 'fairness', or at least objectivity, in the distribution.

To investigate this question, we have developed a simple test with the data drawn from our fieldwork in 16 zillas, 11 thanas, and 27 unions. Simple correlations between population size and Rural Works Programme

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[1] If we exclude from this estimate the six thanas which reported 100 percent received for every project, the average drops only to 78 percent.

[2] See the discussion "Determination of Grant Amounts" on pp. 30.

grants have been estimated, separately, for this sample. As may be seen from Table 12, the simple correlation between Rural Works Programme grants and population size is significant at the .05 level only in the case of unions ($r = 0.76$).

A separate question is whether there is a population size bias in the distribution of grants. If grants were distributed without a population bias, the correlation between per capita grants and population would be zero, i.e., there would be no significant difference among local governments in the per capita amounts received. As may be seen in Table 12, smaller zillas and thanas tend to receive significantly greater amounts of per capita Works Programme grants.

Ideally, we would also like to determine whether wealthier jurisdictions receive less in grants per capita, i.e., whether the grant system is somehow "equalizing". Unfortunately, there are no data on personal income or wealth that will allow us to make such a computation. What we have done, however, is examine the relationship between per capita revenues raised from own sources, and per capita grants, on grounds that the former variable is a general indicator of financial capacity. Carrying out such an analysis for unions--since unions are the only local government body with any appreciable amount of autonomy in mobilizing own source revenues--indicates no significant relationship for any of the years between 1977 and 1981.

From this evidence, we might conclude that grants are distributed more or less on a per capita basis for unions, and that there is a bias in favor of less populated zillas and thanas.

TABLE 12

SIMPLE CORRELATIONS OF GRANTS AND POPULATION SIZE: BY TYPE OF LOCAL GOVERNMENT AND TYPE OF GRANT FOR 1980/81

	Per Capita Grants			Total Grants		
	Works Programme	Normal	Combined	Works Programme	Normal	Combined
Zilla (16)[a]	-0.49*	-0.43	-0.49*	-0.10	0.88*	-0.03
Thana (11)	-0.68*	--[b]	-0.57[c]	0.12	--[b]	0.35
Union (27)	0.26	-0.43*	-0.38*	0.76*	0.25	0.47*
Paurashava (15)	-0.29	0.17	-0.26	0.98*	0.66*	0.88*

*denotes significance at .05 level.

[a]Excludes Chittagong Hill Tracts which does not receive any property transfer tax.

[b]Not applicable because thana parishads do not receive any Normal grants.

[c]This correlation coefficient is for the Rural Works Programme Grants combined with other occasional special project grants (such as those included in category two under TP/TDC in Table 4). This category includes grants received for such purposes as haats and bazaars, food godowns, workshops, farmers training, etc.

Normal Grants for Rural Development

A second type of grant to rural local governments is referred to as "normal" grants. Rather than a single program with a single objective, this is a set of 12 specific grants which are allocated in various ways and earmarked for various purposes. In aggregate, these grants are important, accounting for an amount equivalent to about one-fourth of total Works Programme grants. The total amount allocated under these programs, however, has been declining in real terms (see Table 13, bottom row).

Components of Normal Grants

The three largest of these programs are special purpose grants, grants to union parishads for member honorariums and officers' salaries, and grants to union parishads for rural police force salaries. The special purpose grant is allocated, by historical tradition, 45 percent to municipalities, 7 percent to zilla parishads, and 48 percent to union parishads. It is then distributed through the subdivisions on a per capita basis. The total national amount of the grant is fixed on an ad hoc basis, and has been declining. A second large component of "normal" grants is the honorarium paid to chairmen, council members, and secretaries in about 4500 union parishads. One-third of the Chairmen's (1982) 300 taka per month honorarium, one-half of the members' 100 taka per month honorarium; and one-half of the salary of the secretaries is paid by government grants.

The third major component of normal grants is shown in the budget as a grant to union parishads for half the salary of the rural police force. In fact, in recent years, nearly half of this amount (about 10 million taka) has been allocated amongst union councils as a general budget deficit

TABLE 13

THE COMPOSITION OF NORMAL GRANTS: BUDGET ESTIMATES FOR 1983/84, REVISED ESTIMATES FOR 1982/83, AND ACTUALS FOR 1981/82, 1980/81 AND 1979/80[a]
(in million takas)

	1983/84	1982/83	1981/82	1980/81	1979/80
Augmentation Grants to Zilla Parishads	0.55	0.55	0.62	0.71	0.55
Special Salary (Subvention) Grants for Local Government Employees	2.50	2.50	2.51	2.69	2.50
Compensatory Grants for Special Purposes	14.50	14.50	17.92	14.49	16.64
Grants to Zilla Parishads in Lieu of Landlord Share of Cesses	4.00	4.00	5.16	4.56	5.00
Grants to Zilla Parishads for Increased Development Activities	1.30	1.30	2.22	1.50	1.60
Grants to Thana Development Committees	0.58	0.58	0.84	0.65	0.58
Grants to Union Parishads	3.76	3.76	4.64	4.18	4.37
Grants to Union Parishads for Chairmen's Honorariums	5.22	5.22	6.89	5.84	6.86
Grants to Union Parishads for Members' Honorariums	33.95	33.95	33.25	35.26	36.15
Grants to Union Parishads for Salaries of the Secretaries	7.82	7.82	8.60	8.38	7.70
Grants to Union Parishads for Salaries of the Rural Police Force	45.54	45.54	48.44	26.14	25.61
Grants for Union Parishad Seminars	2.60	2.60	3.27	---	---
Grants to Adarsha Gram (Model Village)	0.60	0.60	---	---	---
Total to Urban Governments	8.30	8.30	8.30	8.43	9.26
Total to Rural Governments	114.62	114.27	130.52	95.97	98.30
Grand Total	122.92	99.78	99.78	104.40	107.56
Grand Total in Real Terms (1977 Constant Prices)[b]	56.62[c]	62.09	75.75	63.54	73.32

TABLE 13 (CONT.)

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[a]A description of how the components of Normal grants are divided between the urban and rural sectors appears in the footnote "c" in Table 2.

[b]Deflator used is the same as in preceeding tables. See footnote "d" in Table 2.

[c]See footnote 1 on page 63.

--- Not applicable.

SOURCE: Demands for Grants and Appropriations (Non-Development), 1981-82 - 1983/84, Ministry of Finance and Planning, Finance Division, Government of the People's Republic of Bangladesh; and information supplied by the Ministry of Local Government (September 1982).

grant. The allocation is made on a population basis with the subdivision passing the grant funds through to the unions. The remainder is also distributed by the subdivision to the unions based on the number of union parishad policemen and their salaries.

Most of the remainder are small, general purpose grants. The total allocations are not growing, and the formulas for sharing amongst local governments could not be determined from interviews in the Ministry of Local Government. In most cases, there appeared to be a continuation of historical practices.

Evaluation of Normal Grants

Though there are no clearly stated government policies as to the objective of the normal grant allocations to rural local governments, the intent is clear. These grants are meant to support the general operations of the local government sector, i.e., they are in some sense a substitute for general revenues that might be locally generated. In evaluating these grants, many of the same issues as above may be considered:

- Has revenue growth been adequate?
- Have local governments been induced to mobilize more resources?
- Are the grant distributions among local governments fair?
- Is the program costly to administer?

Take first the question of incentives for local government resource mobilization. In theory, some components of this program of normal grants provide such an incentive. By paying only a portion of the salary of local officials, it has a built-in requirement that local governments must mobilize matching resources on their own. Though the grant amount, and

therefore the potential impact, is small, this is one component of the Bangladesh grant system that would seem to encourage increased local government revenue effort. In practice, the grant program is much less stimulative of local revenue effort than it is in theory. One problem is that local governments are not required to match the government contribution as a condition of receiving the grant. As a result, the local share may simply go unpaid. Our local level interviews suggest that this is sometimes the case. Moreover, while the salary grants carry a matching provision, many of the other normal grants do not, hence, they tend to offset the local resource mobilization impacts of salary grants. In particular, a deficit grant is given to cover general budgetary shortfalls.

Second, consider the allocation of normal grants across local governments. The distribution of some components of the grant system are "fair" in the sense that allocations are made on a basis of approved salary levels. However, most other components are distributed on an ad hoc or uncertain basis. Our sample data suggest that, in total, normal grants are distributed among zillas according to population, and are distributed among unions with a bias in favor of unions with smaller populations (see Table 12).

Third, the revenue adequacy test is not passed. Normal grants have not grown in real per capita terms, hence one might argue that they have not increased adequately to meet either the general subsidy or special purpose needs of rural local governments.

There is one final, important disadvantage to normal grants. Because it involves so many programs, it is likely to be costly to administer, and

the possibilities for coordination are less than would be the case with a smaller number of grant types.

In sum, there is little to recommend the Normal Grants Programme. It is a collection of categorical grants which provides some earmarked support for local activities. It is a transfer that probably does not stimulate local revenue effort, it has not grown to keep pace with population or inflation, and it is distributed according to several different criteria.

Urban Development Grants

Central grants to urban local governments--paurashavas and municipal corporations--are of three types: Urban Works Programme grants, Urban "Normal" grants, and Octroi Compensation grants. As may be seen in Table 1, the Works Programme and Octroi Compensation grants account for over half of total grant revenues, and special project grants to the Dhaka Municipal Corporation count for almost all of the remainder. Though the urban sector receives less than half as much as the rural sector in total grant allocation, it receives about four times more in per capita terms.

Urban Works Programme Grants

The general objective of the Urban Works Programme grants is the same as that for the Rural Works Programme grants: to generate jobs and to promote development projects. There are a few differences in procedure. First, the approving authority for Class I paurashavas is the Ministry level and for all others it is the division level. Second, the paurashava's own technical staff implements and oversees the works projects. Third, the allocation of grants across paurashavas is made

according to population, rather than population and land area as in the case of Rural Works Programme grants.

As may be seen in Table 14, there has been little growth in real revenues under the Urban Works Programme grant since the mid-1970s. Moreover, an important change in the 1984 budget will reduce the grants substantially in real terms. The amount to be allocated will rise from 70 to 100 million taka, but only 50 million taka will be allocated to urban works (the remainder will go to those upazilas which were formerly "urban thanas" and which were upgraded in December of 1983). On the other hand, the DMC was excluded in the 50 million taka allocation to urban governments. In any case, the result of this change will be a 30 percent reduction in total urban works grants.[1]

By comparison to rural local governments, paurashavas tend to be less reliant on works programme grants (see Table 4). Moreover, the BBS has estimated that the trend, though erratic, is in the direction of a reduced reliance on Works Programme Grants. Our estimates show that paurashavas received about one-fourth of their revenues from Works Programme grants in 1980-81, about the same percentage as in 1976-77. However, in that this reliance had dipped to only 11 percent in 1978-79, one might say that reliance has increased in very recent years The design of the Urban Works Program grant does not encourage a reduced reliance on grants, since there is no matching required of urban governments.

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[1] Information supplied by MLG personnel, July 1983.

TABLE 14

TREND IN REVENUES FROM URBAN WORKS PROGRAMME GRANT

Fiscal Year	(in million takas) Budgeted	Revised Estimate	Actual	Actual in Real 1977 Taka[a]	Actual as Percent of the Budgeted	Actual Per Capita in Real 1977 Taka
1983/84	100.00[c]	--	---	---	---	---
1982/83	70.00	70.00	---	---	100.0[b]	---
1981/82	50.00	48.00	---	---	96.0[b]	---
1980/81	30.00	30.00	30.00	18.26	100.0	1.91
1979/80	31.40	24.00	31.40	21.40	100.0	2.35
1978/79	18.50	---	18.50	14.57	100.0	1.69
1977/78	15.75	17.20	17.20	14.93	109.2	1.82
1976/77	26.70	35.00	35.00	35.00	131.1	4.47
1975/76	10.00	30.00	30.00	30.18	300.0	4.07
1974/75	10.00	10.15	10.15	9.52	101.1	1.31
1973/74	---	---	12.40	18.79	---	2.80
1972/73	---	---	63.39	133.45	---	21.97
1971/72	---	---	13.05	---	---	---

[a]The deflator used in the calculation is the "CPI for Dhaka Government Employees/Middle Income Class." The reason for choosing this from among alternative indexes is that it exists for the longest time period, 1966/70 to the present. Moreover, it is found to be highly correlated with other price indexes available. A yearly CPI was available through 1981/82. 1982/83 was estimated as the average of eleven (July to May) monthly CPI.

[b]Revised estimate as percent of budgeted amount.

[c]Note that only 50 million of this amount will be allocated to Municipal Corporations and paurashavas. This is also reflected in Table 22.

[d]The Works Programme budget figures for 1979-83 were available in both sources quoted here (i.e., the MLG as well as the Bangladesh Budget) and there was discrepancy between the two for some of the years. But for the sake of consistency the former was chosen because this source provided most of the Works Programme data used in other tables.

--- Not available.

SOURCE: Works Programme Budgeted for 1979-1983,[d] Revised for 1983, and Actuals for 1972-1981: Data Supplied by the MLG, Government of Bangladesh (September 1982 and May 1983).

Works Programme Budgeted for 1975-1978, Revised for 1975-1982: Details of Demand for Grants and Appropriations (Development), Ministry of Finance and Planning, Finance Division, The People's Republic of Bangladesh; 1975-76 - 1982-83, 64-Development (Rural Development).

Urban "Normal" Grants

Urban "normal" grants are a relatively small component of paurashava budgets, as may be seen in Tables 1 and 4. In general, they are a collection of small grant programs earmarked for certain salary subventions and some general purpose assistance. They account for less than 5 percent of total revenues, and have been declining in real terms.

Urban Special Project Grants

Special capital grants to the Dhaka Municipal Corporation account for a significant share (about 40 percent) of total grants to urban areas (see Table 1). These are multiyear schemes, submitted for approval to the MLG and the Planning Commission, and ultimately included in the ADP. These projects are not directly foreign-aided, and most are financed from grants rather than loans. Those loans which have been made to the DMC carry a 5-year forgiveness, a 12-year repayment schedule, and an 11 percent interest rate. In effect, however, these are grants since "repayments" supposedly will come from reduced future allocations from the ADP. All Special Project grants presently flow to the Dhaka Municipal Corporation, though the Chittagong Municipal Corporation has applied for funding for a sanitation scheme. Special project schemes are maintained locally. The current list of special projects is itemized in Table 15.

Octroi Compensatory Grant

The government abolished the octroi tax effective at the beginning of 1981/82. These revenues were replaced with a compensatory grant equivalent to 75 percent of 1980/81 octroi collections: 1980/81 collections were estimated at about Tk 8.5 crores and the grant proposed in the 1981/82 budget was Tk 6 crores. The 6 crores was distributed across municipalities

TABLE 15

SPECIAL PROJECT ASSISTANCE TO DHAKA MUNICIPAL CORPORATION
(in lakhs of taka)

Project	1982/83 Revised Allocation	1983/84 Budgeted Amounts	Grant or Loan
Improvements to Roads and Drains	240.0	295.00	G
Road Traffic Signals	2.5	---[c]	
City Roads	260.0	200.00	G
City Street Lights	25.0	40.00	L
Widen City Roads	138.0[a]	125.00	G
Periphery Roads	2.5	2.50	L
Mirpur Area Roads	100.0	83.58	L
Bus Terminal Renovation	200.0[b]	200.00	--[d]
Mosquito Control	new in 1983/84	50.00	G
		996.08	

[a]Original allocation = 175.0 lakh; revised in January.

[b]Received only 100.00

[c]Turned over to Dhaka Metropolitan Police, July 1, 1983.

[d]Not yet decided.

SOURCE: Information supplied by Chief Engineer, Dhaka Municipal Corporation, July 1983.

in proportion to actual 1980/81 octroi collections. The Ministry of Local Government has requested a 20 percent annual increase in this amount, but the budgeted level has remained at 6 crores.

Evaluation of Urban Grants

In evaluating urban grants, one might look to three factors: whether revenue growth has been adequate and certain, whether the distribution among urban governments is somehow fair, and whether local government resource mobilization has been stimulated. On the first count, there has been no real growth in either Works Programme or Octroi Compensation grant amounts. Indeed, if we assume an inflation rate of 10 percent,[1] we can estimate a real decline of about 34 percent in these two programs between revised 1982/83 and budgeted 1983/84.[2] Urban Special Project grant funding, by virtue of its constant taka amount between 1982/83 and 1983/84, will also decline in real terms.

Urban grants are actually distributed according to three different criteria: Urban Works according to population, Octroi Compensation grant on a derivation basis and according to previous collection level, and Urban Special Project grants to Dhaka. The first would seem to favor the most needy, the second would seem to favor the wealthiest, and the third favors Dhaka. To better understand the relationship between the first two of

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[1]The price index used throughout this paper is the "CPI for Dhaka City Government Employees." This index for 1983/84 was not available. So the above inflation rate was estimated as the average of the previous two years' (1981/82 and 1982/83) rates.

[2]While the initial 1983/84 budgeted amount on Urban Works Programme grants was Tk 100 million, the actual allocation will be Tk 50 million. So we included Tk 50 million on Works Programme. See also footnote "c" in Table 14.

these criteria, we have estimated a simple correlation between population size and 1980/81 octroi collections for our sample of 16 paurashavas. The results show an almost perfect correlation, whether the DMC is included or excluded.[1] Almost exactly the same relationship may be observed across paurashava for the relationship between population and Works Programme grant revenues (Table 12).

Another question of fairness has to do with the distribution of urban grants as between Dhaka and the rest of urban Bangladesh. As may be seen in Table 16, the DMC receives a disproportionate share of total urban grants, i.e., it has 37 percent of the urban population, but receives about 60 percent of total urban grants. Most of this, however, is due to its receipt of all grants for urban special projects.

The Food-For-Work Programme

Food-For-Work (FFW) seems a logical approach to rural development in Bangladesh: make use of surplus labor in rural areas to carry out public works projects and compensate this labor with wheat. At once this program would seem to provide jobs for the rural poor, distribute food, and improve the infrastructure. In fact, FFW turns out to be an effective relief program. It produces a substantial number of rural jobs for unskilled workers in the season of high unemployment. On the other hand, FFW is not without problems, as is the case with all large construction projects in Bangladesh. At least some of these stem from the fact that, until

[1]The simple correlation is 0.979 including the DMC and 0.984 excluding the DMC.

TABLE 16

DISTRIBUTION OF URBAN GRANTS BETWEEN DHAKA AND REMAINDER OF URBAN BANGLADESH

	Dhaka as Percent of Total Urban 1982/83
Population	37
Works Programme Grants	25
Octroi Compensation Grants	38
Special Project Grants	100
Normal Grants	34
Total Grants	60

recently, there was some uncertainty about whether the primary goal was development or relief.

Proper reform of the Bangladesh grant system cannot be taken apart from consideration of the Food-For-Work Program. There are a number of reasons for this. First, the local initiative portion of FFW is in fact a grant to local governments. Second is the sheer size of the FFW program--in 1982/83 it was considerably larger than the Rural Works Programme grant. Third, there is a complementarity between the two programs--Rural Works and FFW are both used for rural public works projects, both contain a heavy employment generation element, and there is some evidence that they are alternative sources of support for projects already in the Thana Planbook. Fourth, both carry the same stated objectives: infrastructure improvement and rural income subsidy.[1]

The consequence of not considering FFW in redesigning the balance of the Bangladesh grant system will surely compromise the reform. For example, it is conceivable that the desired impact of any change in grant distribution formulae designed to target general development funds on more "needy" jurisdictions could be offset by the FFW grant distribution, and vice versa. Moreover, what is most important to recipient local governments is not the adequacy or timing of the flow of only FFW grants,

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[1]There is much current evidence on the desire to move this program toward a more development orientation. See "Preparation of Schemes, 1983/84, For Implementation Under the WFP-FFW Programme for Thana Infrastructure Development" (memo of April 28, 1983 from M. Faizur Razzaque, Ministry of Food); "Construction of Appurtenant Structures on FFW Infrastructure in 1982-83" (memo of February 20, 1983 from K.M. Shehabuddin, Ministry of Food); and WFP, "World Food Programme Assisted Food-For-Work Programme in Bangladesh," November 1982.

but that of all rural development grants. The issue here is that all Bangladesh grants have to be viewed as a system. The interest of the BDG and of all donors must be in assuring that the various parts of the grant system work in a mutually reinforcing way to accomplish specified objectives. This would seem to be a necessary ingredient to any strategy of integrated rural development.

Components of the Program

There are three FFW programs operating in Bangladesh, or at least there are three sources of financing (wheat) for the government's program: The World Food Program (WFP), the USAID financed/CARE administered Program (referred to hereafter as the CARE program), and the BDG program (financed by various bilateral donors and the BDG). In total the estimated 1982 disbursements were:

BDG - 166,860 MT[1]
CARE - 90,754 MT[2]
WFP - 121,512 MT[1]

If we assume that all BDG and CARE distributions are "local initiative," that 20 percent (24,300 MT) of the WFP is "local initiative,"[3] and that wheat could be properly valued at Tk 127.2 per maund in 1982,[4] then we may place the value of the local initiative FFW program at Tk 960 million in

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[1]Data supplied by Ministry of Food, Relief Division, May 1982, July 1983.

[2]Data supplied by Ms. Lizette Echols, CARE, July 1983.

[3]As reported in WFP, "World Food Programme-assisted Food-For-Work Programme in Bangladesh," November, 1982.

[4]One Maund = 82 pounds. The January 1982 price of wheat is taken from "average retail price of coarse rice and wheat in Bangladesh." Complied by USAID/Bangladesh from Directorate of Supply, Distribution and Rationing, Ministry of Food, April 6, 1982.

1982.[1] This is more than twice the budget estimate for the Works Programme grant in 1982.[2] FFW is clearly the major component of Bangladesh's rural development program.

An analysis of FFW, then, requires consideration of the three different wheat distribution programs and the cash structures program. While there is donor cooperation and some BDG coordination among these various programs, there remain areas where the program objectives and grant design diverge substantially. We try to note these similarities and differences in assessing the impact of FFW as a grant to local governments. In the sections below, we take up a general description of each grant component, but then try to assess the viability of the FFW grant program as a whole.

Operation of the Program

The FFW Program involves substantial community participation in project identification and implementation, and has been changing in the direction of even more decentralization. Before 1983, the procedure was as follows: a project implementation officer (PIO) was appointed to work at the thana level as the representative of the Ministry of Food. He reported to the CO, SDO and his SD ministry representative. Along with union parishad officials and thana technical staff he was a member of the thana committee which considered alternative projects to be financed from the

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[1] In addition, 75,000 MT was converted to cash for the "appurtenant structures" program in 1983 and 70,000 MT is programmed for this purpose in 1984.

[2] At the time of this writing, actuals on Rural Works Programme expenditures were not available.

Food-For-Work Program. Ultimate approval of the projects, however, rested with the Ministry.

CARE provides technical assistance to and monitoring of projects carried out under the USAID program. This activity includes assistance in scheme preparation, book audits of proposed schemes, on-site evaluation of proposals, and post-project audits of physical accomplishments. While approval rested with the Ministry of Food, CARE had the authority to reduce inflated wheat requirements and reject schemes that were either technically unsound or that faced land disputes.

Considerable decentralization in the project approval process has been taking place. Prior to this year, approval authority was passed to the subdivision, and this remains the case in the thanas which have not yet been upgraded. As of the time of the upgrading of thanas and the creation of upazillas in 1982 and 1983, even more authority was passed to the local level. In the upazilas, the TNO replaces the SDO as the approving official and may issue the delivery order to remove grain from the local supply depot. The CARE role remains much the same as before, with three exceptions: the monitoring of the appurtenant structures program, an improved system of measuring and reporting project and employment accomplishments, and project review in more of an advisory than an approval/rejection role.

Project Selection

There are criteria about what kinds of projects are acceptable and priorities are established by the requirement that the projects be drawn from the Thana Planbook. As of 1983/84, the Ministry of Food had instructed local bodies to prepare WFP and USAID/CARE schemes only for

earthwork on roads, embankments and simple drainage canals. Tanks and irrigation canals would not be considered.[1] Accordingly, most projects are of the reconstruction nature--substantially upgrading existing alignments including reconstruction and resurfacing of rural roads, reexcavation of canals for irrigation and drainage. There is relatively little new construction, in part because of problems of land acquisition.

Still, there is often a fine distinction between "upgrading and reconstruction" on the one hand, and "new construction" on the other. Though no brick surfaces are involved, the FFW projects may lead to a substantial upgrading of a roadway over a period of years, e.g., from an embankment-pathway for walking to a surface with a large enough dimension to carry a rickshaw. In the long-run, such upgraded embankments may be linked together as part of the area road system.

Distribution Across Thanas

The distribution of FFW wheat is done on a combination of a formula basis, and an assessment of project accomplishments. In contrast to what had been the practice in recent years, the present method of allocation across thanas is fairly objective and the distributions under the three programs are integrated.[2] The first step in the procedure is the establishment of a notional allocation for the overall distribution among

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[1]Ministry of Food memos of March 17, 1983, and April 20, 1983, respectively.

[2]Before 1983, the allocation of funds across thanas was not done by any specified formula. In a May 1982 interview, the Joint Secretary in the Ministry of Food reported that about 80 percent of the allocation was done on a straight population basis with the remainder depending on disasters, special needs, etc. However, no data could be obtained to examine the pattern of the actual distributions.

thanas. This is done according to the following formula: 0.1 maund per capita based on 1981 thana population with an additional 10, 25, and 50 percent depending on the degree of distress. The measure of distress has been arrived at on a basis of judgement and familiarity with individual thanas, rather than on a basis of straightforward statistical manipulation. Factors considered in deriving the degree of distress include the level of rice prices, unemployment, and "susceptibility to disasters." These distress measures have been accepted by the BDG and the donors as reflecting relative levels of distress.

After the notional distribution is established, it remains to divide the allocation to each thana into CARE, WFP (local initiative and Water Development Board) and the general government allocation. This involves several steps:

- the WDB projects are selected, country-wide, on a basis of project-worthiness.
- CARE allocates its wheat on the formula basis, reducing the amounts in thanas where WDB projects are operative. CARE operates in 14 districts.
- WFP allocates 20 percent of its wheat on the formula basis for the local initiative program it operates in five districts. In some cases, reductions are made to account for heavy WDB activities.
- The difference between the notional allocation, and the sum of the CARE, WFP local initiative, and WFP-WDB allocations, becomes the government's general allocation.

The final distributions may not match the notional allocation for two reasons. The first is that good information on WDB projects may be late in coming and cannot be "plugged into" the formula. The second is that CARE allocations may not match CARE disbursements. Actual disbursements against these initial allocations depend on post audits of project completion,

earth moved, etc. In any given year, the thana-wise distribution of final disbursements may differ markedly from the thana-wise initial allocation. For example, in 1981, the average disbursement among 373 thanas was only 85 percent of the proposed amount.[1]

The distribution of FFW grants among unions turns out to be a much more subjective matter. Our interviews at the union and the thana levels in Faridpur, Rangpur and Sylhet turned up many different views on how FFW projects are selected. In some cases they were said to be distributed among local governments on a population basis, in others on a basis of project worthiness, in others on a "political" basis, and some thought it was simply based on the previous year's allocation.

The Cash Structures Program

An important shortcoming of the FFW program has been that it has been primarily an earthmoving program with little or no hard currency for the purchase of materials and/or equipment. As a result, project accomplishments have been constrained and more relief- than development-oriented. Beginning in 1983, the CARE/USAID program has made cash disbursements to a pilot group of thanas to address this problem.

Assessing FFW as a Grant Program

There is much to say in an assessment of the FFW grant to local governments. Indeed, there is more than we can say, given the time and resources we have devoted to the subject, and more than we need to say, given our mandate. The concern here is simply with how FFW measures up as

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[1]Derived from thana-wise data supplied by CARE. There was no correlation between the ratio of disbursements to allocations, and population size.

an intergovernmental transfer. In assessing this performance, we consider the same criteria as were considered above for the Rural Works Programme grants: (a) employment generation, (b) infrastructure development, (c) development of local government institutions, (d) distributional equity, (e) revenue adequacy, (f) conduciveness to improved local fiscal planning, and (g) coordination with other intergovernmental grant programs.

Employment Generation. The primary objective of the FFWP has been to generate employment for the rural poor. An evaluation of the job creation success of this grant program would ask two questions: (a) Have significant numbers of jobs been created? (b) Could another design of the FFW grant, or even another type of grant program, have done a better job?

On the first question, it is hard to come by good data on the job creation power of FFW projects. The projects are accomplished during a six-month work season and the size of the work crew varies from day to day. Since wheat is distributed according to cubic feet moved rather than per hour or per day of work, it is very difficult to get a firm estimate of the number of jobs created. Based on data generated by CARE and by the WFP, however, one might make a rough estimate of the employment impact of FFW.

A first approach is straightforward deduction. Assume that 20 percent of the WFP and all of the BDG and CARE allocations are distributed as grants to local governments. Valuing this 281,000 MT at Tk 127.2 per maund, the total local initiative program may be placed at Tk 960 million in 1982. Assuming that the average worker could have earned about five kilos of wheat per day[1] (17 taka per day), the program could have generated

[1]Estimate supplied by CARE.

about 350,000 jobs during the 1982 season.[1] This is equivalent to about 57 mandays per 1000 taka of FFW resources.[2]

Second, we may rely on USAID/CARE data showing a thanawise distribution of FFW wheat for 1981. According to these data, one maund of wheat purchased 13 mandays, and 53 cu. ft. of earth was moved per manday purchased. This report of mandays of work generated (for the CARE program only) taken with an assumed six month, 158 working day season, suggests that this program alone generated 320,000 seasonal jobs. If this estimate of 320,000 jobs is taken as correct and applied to the 53 percent of the local initiative portion operated by BDG and WFP, the total estimated jobs would be about 600,000 per season. The World Bank has estimated more than 500,000 jobs in 1982. By all of these estimates, the FFW is a powerful job generator. FFW would seem to buy a significant number of rural jobs--most of them during the off-season.

A different question is whether FFW is more effective than alternative ways of generating employment through grants to local governments, e.g., than the Rural Works Programme. The 1978 Performance Report indicates that about 35 mandays of work is created for every 1000 taka spent on the Rural Works Programme. This is far less than the 57 mandays estimated above under FFW. Again, the answer seems clear: there is no readily identifiable program in the Bangladesh grant system which can provide the level of employment benefits as are provided under FFW.

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[1] Assuming 158 working days in a six month season.

[2] Valuing wheat at its January 1982 market price. Note that women are active participants in the FFWP.

Project Accomplishments. Has the FFW Program led to a substantial improvement in the rural infrastructure? The question is a very difficult one to answer. One can point to the number of schemes completed per year, or to the cubic feet of earth moved. This, however, does not provide good information on how the quality of the rural infrastructure has been improved, e.g., whether the schemes were originally sound in design and construction, whether they were the "right" projects to enhance development, and whether they have been adequately maintained. Some evidence of good development impact may be obtained from a recently completed evaluation of the FFWP.[1] The study concludes, on a basis of respondent interviews and field visits, that the FFWP "...appears to have stimulated rural development in positive social and economic directions since 1980 through major improvements in local transportation and communications."[2]

While there can be no question but that FFW projects have enhanced rural development in Bangladesh, one may still ask whether more might have been accomplished with an equal taka investment in the RWP grants. The answer may well be affirmative. Though RWP and FFW share problems of being small scale projects and primarily earth-moving, the former has two decided advantages as a development grant. First, there is some provision for cash amounts to purchase materials and, second, there is some provision for project maintenance. Both of these features suggest more of a permanence to the schemes and, at least in theory, more of a public works orientation.

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[1] Abt Associates, The Development Impact of Title II, Food For Work Roads in Rural Bangladesh (Draft Report), January 1984.

[2] Ibid., p. 51.

The above-mentioned survey reinforces this conclusion with its recommendations for a further strengthening of the development potential of FFW roads: to expand the emphasis on construction of bridges and culverts, to construct more semi-pucca roads, to coordinate the selection of project sites with other rural infrastructure development programs, and to target projects to unions with adequate maintenance funds.[1]

Where this leads is to the not-so-surprising conclusion that the FFWP, in achieving its employment generation goals, has sacrificed some development potential in its projects. This shortcoming has led to two important adjustments in the program. The first is a pilot program to monetize wheat assistance in order to make cash grants for appurtenant structures. The second is the BDG initiative to reduce the number of schemes in each thana in order to improve the technical design and implementation of each scheme. Moreover, the BDG has also moved to limit the earthworks component of the Rural Works Programme. These steps are in the direction of a development orientation, and further underline the need for closer coordination between FFW and Rural Development grants.

Development of Local Government Institutions. Like the Rural Works Programme grants, FFW has required no matching contribution from the local government. As a result, FFW has not stimulated the mobilization of more local resources nor has it led to increased local government fiscal autonomy. The FFW grant has been seen by local governments as a general subsidy, i.e., as a substitute for what they might have raised locally to finance development projects.

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[1]Ibid., pp. 51-52.

So long as FFW was primarily a relief program, a no-matching block-grant was an appropriate strategy. Improving the income position of the rural poor is not a proper responsibility of local governments and not the sort of activity for which their residents would likely be willing to tax themselves. Now that the objectives of the FFW program have turned more toward development, a matching requirement is desirable. Local residents who realize greater economic benefits from the projects may have a greater capacity and, perhaps, willingness to pay. Again the tradeoff is evident. FFW as a relief program could not contribute substantially to a strengthening of local government fiscal autonomy. FFW as a development program, on the other hand, has such potential.

A first step in the direction of using FFW to develop local government financial performance has come with the program of cash grants to be used for construction of appurtenant structures such as bridges, culverts, etc. Each thana is required to match the cash-FFW allocation with an amount equivalent to 5 percent of that allocation. For 1984-85, the matching share will rise to 10 percent. Unfortunately, the general idea behind this matching provision may be better than the actual practice. Three caveats are apparent. First, the matching amounts are quite small and will not in any case lead to a substantial mobilization of local tax resources. Second, if the local match can be drawn from the the central government Development Assistance grant, no <u>local</u> resource mobilization will be required. Finally, up to this year, thanas (upazilas) had no own-source revenue, hence, the matching requirement has either been aimed at union councils or was an attempt to draw some RWP funds into the FFW program. In sum, one cannot yet say that the FFW Program has played an effective role

in strengthening the financial position and capabilities of local governments in Bangladesh. With the appurtenant structures program in place and with upazila revenue autonomy, however, such a potential now exists.

Increased resource mobilization is not the only way the local institution can be strengthened. Under FFW there is substantial local participation in project selection, design and implementation. As a result, local governments do build on their ability to carry out works projects of this type, and important nation-building goals are furthered.

Fairness of FFW Distributions. One might raise the question as to whether the Food-For-Work grant distributions are made on a "fair" basis. The question is quite difficult to answer. We can note that the distributions are made on a somewhat objective basis--some combination of population, level of distress, and the merit of projects. Does this system lead to any biases, e.g., in favor of the poorest thanas, or against the smallest thanas? The population allocator does not give a particular preference to the poorest thanas, the distress measures would seem to provide such targeting on the poor, and a project-worthiness criteria would seem to favor the thanas most able to plan and implement a technically sound project. In fact, there is no evidence of a population bias in this distribution, the simple correlation between per capita allocation and population size is not significant.

There are, however, two biases in the distribution system which may result in a differential treatment of some local governments. One is the fact that where WDB projects are located, the local government will receive a significantly smaller share. In the 1983/84 allocations, the average

maunds per capita received in those 210 thanas which have no WDB project is 0.1075 whereas the average in those 213 thanas which do have WDB projects is 0.0466. As a result, the project accomplishments by these local governments may be low by comparison with local governments in the rest of the country.

The second bias is that only 12 districts are covered by the CARE program and subject to monitoring of project accomplishment, hence, actual disbursements may depart from the BDG "notional" allocations in these districts. In order to determine whether this potential bias is important, we must study ex post data. Two sets of data, have been analyzed. The first is the 1981 estimates of CARE allocations and reimbursements across 373 thanas. The simple correlation between reimbursements and population size is significant,[1] indicating that CARE/USAID reimbursements are distributed in proportion to population size. We might also use this sample to ask how CARE's reimbursements are related to its proposed initial distribution. This sample of data showed that 85 percent of the proposed 1981 allocation was distributed. About 47 percent of the thanas received 90 percent or more of the proposed allocation, and 25 percent received less than 70 percent.[2] The simple correlation between the amounts initially allocated, and that actually reimbursed, is 0.89.[3] We could not find

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[1]The simple correlation coefficient is 0.18, and that between per capita reimbursements and population size is -0.29, which are significant at 0.01 level.

[2]Estimated from data supplied by CARE.

[3]Significant at 0.01 level.

evidence of any particular biases by type of thana, in the monitoring process.[1]

Can we say that this program leads to a "fair" distribution? Certainly forcing the total to a BDG notional allocation is a major step in the right direction, but there remain important biases. Local governments in some districts receive less because of WDB projects, in other districts they receive less because projects are more closely monitored for reimbursement. These would not seem objective ways to distinguish among thanas.

Revenue Adequacy. On the question of the revenue adequacy of FFW grants, one must ask whether the overall flow of FFW revenues has exceeded the rate of growth in prices and population. To make such an estimate, we must convert wheat allocations to taka amounts, deflate, and analyze the trend.

The results, shown in Table 17, show that the real per capita amounts have fluctuated considerably and declined by nearly 17 percent between 1980/81 and 1981/82. There are, of course, caveats to this kind of

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[1]We estimated the following relationship:

$$PCT = a + b_1P + b_2A + b_3D_1 + b_4D_2 + b_5D_3 \qquad (4)$$

where

PCT = the percent of total allocation reimbursed
P = population
A = land area (in square miles)
D_1 = very high distress (dummy variable)
D_2 = high distress
D_3 = above average distress.

None of the independent variables were significant at the .05 level and a significant amount of the overall variation could not be explained. The results suggest no particular bias in the CARE monitoring process.

TABLE 17

FOOD-FOR-WORK LOCAL INITIATIVE PROGRAM DISBURSEMENTS

Fiscal Year	Total Metric Tons Disbursed[a]	Wheat Price Per Maund (in taka)	Total Program Value (in million taka)	Real Per Capita Amount (in 1977 taka)
1975/76	150,500.2	90.40	365.35	5.07
1976/77	115,648.0[b]	78.00	242.02	3.27
1977/78	115,316.6	94.80	293.31	3.37
1978/79	314,140.0	96.80	815.87	8.36
1979/80	208,479.0	131.60	736.10	6.39
1980/81	275,898.2	124.00	917.89	6.98
1981/82	256,960.4	127.20	876.95	5.80
1982/83	---	153.44	---	---
1983/84	272,000.0[c]	---	---	---

[a]Sum of 20 percent of WFP disbursements, BDG general allocation disbursements, and CARE reimbursements.

[b]Excludes 17,337 MT distributed under FFW Rainy Season Program.

[c]Programmed amount.

--Not Available.

SOURCE: Wheat price: Economic Indicator of Bangladesh, Bangladesh Bureau of Statistics, January 1982; and Directorate of Supply Distribution and Rationing, Ministry of Food, Government of Bangladesh. BDG disbursements provided by Ministry of Food; WFP disbursements by WFP; CARE reimbursements by CARE.

measurement. First, WFP disbursements are sometimes not fully made in the year shown, lending some irregularity to this pattern. Second, cash disbursements under the appurtenant structures program are not shown. Third, the disbursements are made in wheat, not taka, terms hence the wheat price may not affect the amount of work done.

Still, if the wheat price rises, the value of the local government works program rises and the parity with RWP wage rates changes. Moreover, these data give some feel for the amount of money flowing through the local government budget.

Certainty of Receipts. In the past, the FFWP has created some problems in terms of certainty of receipts. The problems were of two types. First, there is a planning issue which stems from local officials not knowing the total amount to be expected in a given year. This problem may have been at least partly solved by the division of districts into either CARE or WFP and by the BDG distribution of a circular describing its notional allocations to thanas. Under the present approach, most thanas would know the planned allocations by March or April.

A second problem is that in some cases, the full amount of allocation is not been received during the fiscal year, and therefore the completion of some projects is delayed or cancelled.

Coordination. Finally, there is the issue of coordination. Especially in a country like Bangladesh where resources are so scarce, different grant programs should reinforce rather than offset one another's impacts.

In the 1983/84 season, the BDG has gone a long way toward coordinating the three FFW programs. The idea of a "notional" allocation is a good step in that it forces the program toward the kind of national distribution

which the government desires. There remain, however, coordination problems--the treatment of local governments in WFP districts, the closer scrutiny of projects in the CARE districts, the need to make the cash grant program uniform on a nationwide basis.[1]

Perhaps of even more importance is the need for more coordination among grant programs. Heretofore, the two largest grant programs in the country, Food-For-Work and the Rural Works, have not been integrated. The former is run out of the Food Ministry and the latter from the Ministry of Local Government. Allocation formulae are not coordinated, even though the programs are meant to serve quite similar goals. As far as could be learned, the two responsible Ministries do not scrutinize each other's lists of approved projects in order to achieve conformity. In short, there would appear to be little building on either grant program by the other.

One might raise a question of why these grant programs should be coordinated since they serve quite separate purposes: In the past, FFW has been a relief program that paid labor in kind for earthworks while RWP involved cash payments some of which were used for materials. Such a characterization of the two programs is quite oversimplified. In fact, information gained in field visits, from the questionnaire and from the Ministries of Food and Local Government suggests the conclusion that local units see FFW and RWP as two different methods of financing quite similar projects. In both cases the projects are supposed to be drawn from the

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[1]As of July 1983 it was still uncertain as to whether the cash grant program would be carried out in WFP and BDG districts.

same thana planbooks, the local planning and implementation committees are similar groups, the constituencies are the same and even the same local labor pool is used. One approach to examining the complimentarity between these programs is to study the activities undertaken. The survey of 132 thanas has yielded the description of FFW activities shown in Table 18. A comparison with the RWP activities reported in Table 9 reveals a quite similar set of activities.

We may also use the sample of 132 thanas to estimate the relationship between the distribution of the RWP and FFW Program distributions. The results of estimating this relationship show:

$$RWP_p = 0.4344 + \underset{(6.02)}{4.3404}\ FFW_p - \underset{(-1.68)}{0.0001}\ POP$$

$$\bar{R}^2 = 0.30$$

where

RWP_p = per capita Rural Works Program grants

FFW_p = per capita Food-For-Works Program grants (in maunds)

POP = population

(t-statistics in parenthesis).

We may conclude that, <u>after</u> adjusting for population size, thanas which receive more per capita from the RWP also receive more from FFW on a per capita basis. In fact, a 1 maund per capita higher level of Food-For-Work grant tends to be associated with a 4.34 taka per capita higher RWP grant.

We have repeated this experiment for a sample of 437 thanas, examining the relationship between 1982/83 per capita RWP allocations and the per capita notional 1983/84 allocational of FFW wheat. The results show

TABLE 18

COMPOSITION OF FOOD-FOR-WORK PROGRAMME PROJECTS:
FOR 132 THANAS IN 1981/82

Type of Project	Number of Thanas Reporting Schemes	Number of Schemes Reported	Maunds Received as a Percent of Maunds Allocated	Percent Distribution of Maunds Received
Kutcha Roads	120	549	89	69.4
Embankment (bundh) for Flood Control	32	53	92	6.6
Embankment-cum-Road	34	91	94	10.9
Reexcavation of Canal (Khal), Tank, River and Char	68	151	79	12.1
Earth-Filling on Fields, Playgrounds, School Compounds and Bus Terminal	16	25	80	0.7
Kutcha Drainage for Irrigation	1	1	100	0.05
Water Reservoir	1	1	99	0.09
Hill Cutting	1	1	100	0.06
TOTAL		872		100.0

SOURCE: Same as in Table 9.

$$RWP_p = 1.743 + \underset{(1.31)}{2.501}\ FFW_p - \underset{(-9.22)}{0.00405}\ POP$$

$$\bar{R}^2 = 0.18.$$

The fit is not significant, or as strong as above, but the direction of the relationship are the same --thanas that receive more in FFW per capita tend to receive more in RWP per capita.

Summary

What is to be said about FFW as an intergovernmental grant? It has been a very good relief program: a powerful job generator in rural areas. Not surprisingly, however, it may not have been equally effective in achieving other goals. It probably does not do as good a job of infrastructure development as could a grant program that involved more capital, less labor, larger projects and that made some provision for maintenance. It does not encourage local government revenue mobilization as much as would a matching grant aimed at financing projects with localized benefits. Moreover, there is some evidence that the targeting of FFW grants on more distressed areas probably "costs" the FFWP some of its positive development impact.[1] A tradeoff between a development and a relief orientation appears to have been made, in favor of the latter.

There is now evidence of a swing toward significantly more of a development orientation, in the form of cash grants for appurtenant structures. While this is an important program and was still a pilot in 1982/83, its continuation and expansion to over 2000 structures a year raises some important issues of coordination:

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[1]Abt Associates, The Development Impact...., p. 50.

- Should not this program be formally coordinated with the Rural Works component of the Development Assistance grant, since the programs have quite similar objectives?

- The matching provision needs to be rethought and coordinated with the matching requirement under the competing Development Assistance grant.

- Restricting the program to CARE districts would accentuate the existing disparity in emphasis on local government development with the FWP and BDG-general allocation districts.

The biggest problems with the FFW program have been the ambiguity about whether it will be a development or a relief program, and the failure, so far, to coordinate FFW in an effective way with the other government grant programs.

Evaluating the Grant System

More important than an assessment of each grant's impact is an assessment of the impact of the entire grant system on rural development.[1] Again, we may fall back to an evaluation based on what the evidence suggests about how well the system has accomplished the many diverse goals which have been set for it. It is necessary to set this context before turning to a consideration of the major intergovernmental grant changes which have been introduced for 1983/84.

Urban-Rural Bias

Since the focus of this paper is on rural local governments, we will be concerned primarily with the Rural Works Programme, Food-For-Work, and

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[1] A discussion of the criteria for evaluating the Bangladesh grant system is presented in Appendix C.

Rural Normal grants. It is important, however, to begin this evaluation by suggesting how the Urban Works Programme fits into the larger scheme. In particular, one is interested in whether the grant system has an urban bias.

A first important question is whether the grant system redistributes central government funds from urban to rural areas. In terms of the distribution of all grants, our accounting for 1981/82 suggests a bias in favor of the urban areas. For every one taka distributed to rural area local governments, 3.4 taka was distributed to urban local governments.[1] If special project grants are excluded from the urban sector, and if Food-For-Work grants are included in the rural sector, then the bias in the distribution of grants shifts toward rural local governments--for every one taka per capita received by urban governments, rural governments receive 1.4 taka. Even with this bias in the distribution of grants, however, one can conclude that the fiscal system leads to a net transfer of resources from the urban to the rural sector. This is certainly true in the Bangladesh case because the contribution to central taxes made by urban areas far exceeds the amount they receive back in the form of grants.

The Rural Grant System

To what extent have rural grants--RWP, Normal grants, and FFWP--operated as a system to achieve specific targeted results? A first point to emphasize is that the program is primarily designed for relief,

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[1]We made this calculation as follows: (a) per capita rural grants are the sum of Rural Works Programme, Rural Normal and local initiative FFW grants divided by population outside of paurashavas; (b) per capita urban grants are the sum of Urban Normal, Octroi Compensation and Urban Works grants divided by paurashava and municipal corporation population, and all urban grants including special project grants are divided by the entire urban population.

and it has generated considerable employment for the rural poor. Using the rough estimates of FFW and RWP as discussed above, it is conceivable that the two programs together generated as many as 90 jobs per 1000 taka expended on each during the 1982 work season.

We also may estimate the total flow of rural grants to local governments by combining data presented above in Tables 2 and 7. As shown in Table 19, there has not been a marked growth in the overall grant flow to local governments in recent years. Even if we monetize the FFW grant, there appears to have been a decline in per capita real grants since 1978/79.

Some estimate may also be made of the distributional impact of the overall rural grant system. We have converted proposed 1983/84 FFW wheat grants into a taka equivalent, combined it with RWP grants in 1982/83, and studied the resulting distribution. The results, described in Table 20, show the following:

(a) About one-half of the variation in per capita grants received may be attributed to population, land area, or degree of distress.

(b) Even though FFW grants are not distributed by land area, those thanas with greater land aras do receive significantly more wheat per capita.

(c) The FFW 'distressed' thanas, cet. par., tend to receive significantly less in RWP grants per capita and significantly more under FFW. This is an example of an offsetting effects which results from a lack of coordination.

It is difficult to go much further with a quantification of the impacts of the grant system. It is possible, however, to discuss the potential effectiveness of this grant system, based purely on its design. That is, what tradeoffs among objectives result from this grant structure,

TABLE 19

REVENUE GROWTH OF GRANTS TO RURAL LOCAL GOVERNMENTS[a]

Fiscal Year	Real Per Capita Amount (in 1976/77 taka)	Real Per Capita Grant as a Percent of Real Per Capita GNP[c]
1982/83	9.19[b]	0.63
1981/82	9.14	0.63
1980/81	10.18	0.80
1979/80	10.02	0.83
1978/79	11.45	0.90
1977/78	6.21	0.48
1976/77	6.65	0.54

[a]Includes Rural Works Programme and monetized FFW amounts.

[b]Assumes 1981/82 value for FFW grants.

[c]1982/83 GNP figure is provisional.

SOURCE: Tables 2 and 17.

TABLE 20

LINEAR REGRESSIONS OF BANGLADESH PER CAPITA GRANTS TO RURAL LOCAL GOVERNMENTS AGAINST SELECTED INDEPENDENT VARIABLES[a]

	Dependent Variable		
	Per Capita Food-For-Work (in maunds)	Per Capita RWP (in taka)	Per Capita FFW Plus RWP (in taka)
Constant	0.11305 (51.574)	1.39084 (15.265)	17.66976 (51.509)
Population (in thousands)	-0.00006 (7.004) [-0.0995]	-0.00546 (15.260) [-0.8058]	-0.014148 (10.497) [-0.1506]
Land Area	0.00002 (1.825) [0.0251]	0.00815 (14.911) [0.7608]	0.011609 (5.640) [0.0782]
Very High Distress	0.04581 (13.598)	-0.23846 (1.703)	6.359001 (12.060)
High Distress	0.02892 (12.032)	-0.17362 (1.738)	3.990075 (10.609)
Above Average Distress	0.01268 (5.244)	-0.18863 (1.877)	1.637132 (4.327)
$\bar{R}^2$	0.4307	0.4633	0.4354
N	438	438	438

[a]Absolute t-values are in parentheses beneath the coefficient values. Elasticities at the mean are shown in brackets.

and in what areas are the grant impacts offsetting rather than reinforcing? The matrix in Table 21 identifies the objectives of grant systems that might be considered in evaluating intergovernmental grants, and may be helpful in identifying some of the tradeoffs implied. Usually, one thinks of local grant programs in LDCs in terms of their promotion of local public investment, stimulation of local government tax effort, distributional equity and revenue adequacy. To this list and in a Bangladesh setting, one adds the relief goal--the generation of employment for the rural poor. The goals chosen in Bangladesh are clear. The grant system has been more relief than development oriented. As noted above, the BDG programs create employment, spread these employment benefits across the country, and involve local residents in project selection and implementation.

These choices, and successes, were made at the expense of other possible impacts. For example, the spreading of benefits across all rural areas means that the BDG passes up the chance to target disproportionate amounts of money on either those local governments with the best "development potential" or on those which are most needy. The BDG also has chosen a grant program which does not encourage local government resource mobilization or foster increased local government fiscal autonomy. In addition, the Bangladesh grant program shares some flaws with most such programs. The revenue flow is neither adequate nor certain; the program results are not monitored effectively, and there has been little coordination among the three components of the grant system. If the various types of grants reinforce one another, it would appear to be more by happenstance than by design.

TABLE 21

OBJECTIVES AND ACHIEVEMENTS OF THE BANGLADESH GRANTS SYSTEM[a]

	RWP	Normal Grants	FFW
Relief Objectives			
Employment Generation	Y/Y	0/0	Y/Y
Equalizing Distribution	N/N	N/N	Y/?
Development Objectives			
Rural Infrastructure Construction or Reconstruction	Y/Y	0/0	Y/Y
Rural Infrastructure Maintenance	Y/N	0/0	N/N
Targeted Distribution on Areas with Development Potential	N/N	0/0	N/N
Stimulates Local Participation	Y/Y	0/0	Y/Y
Stimulates Local Revenue Raising	N/N	Y/N	Y/N
General Objectives			
Distribution is Objective	Y/Y	Y/Y	N/N
Grant Receipts are Certain	Y/N	Y/Y	Y/Y
Program is Coordinated With Other Two	N/N	N/N	N/N
Program Results are Monitored	Y/N	N/N	Y/N
Revenue Growth is Adequate	Y/N	Y/N	Y/N

[a]Y = yes, 0 = not applicable, N = no. First letter in each cell indicates program intent and second indicates likely impact.

Finally, there is the question of whether the grant system promotes rural infrastructure development. On the one hand, it clearly does in that an impressive list of small public works projects are carried out under the Food-For-Work and Rural Works Program grants. On the other hand, it is not clear that these small undertakings are the best way to develop a rural infrastructure. Some would argue that larger grants in areas with a greater development potential would be a far more productive use of the funds. It could also be argued that more money should be allocated to the maintenance of investment projects and that in any case such maintenance programs need to be carefully monitored.

To summarize this discussion, the Bangladesh grant system is more relief than development oriented; it spreads grant funds rather than targets them where need or rate of return may be greater; and it promotes local participation in works projects but does not promote a strengthening of local government fiscal autonomy. To date, decentralization in Bangladesh would seem to mean using local governments as central government disbursing agents rather than devolving a significant amount of revenue-raising power to local governments.

The Grant System in 1983-1984

Local government finance in general and the local government grant programs in particular are undergoing a dramatic change in 1983-84. With the creation of the upazillas, the following grant system has emerged.

- a development fund grant of 50 lakhs taka to each of those 212 thanas upgraded by the end of 1982/83, 30 lakhs to each of those 195 thanas to be upgraded during 1983/84, and 10 lakhs to each of the 63 urban thanas upgraded in December, 1983. There is neither a formula distribution nor a matching requirement.

- the Urban Works Program will be increased from 7 to 10 crores in the 1983/84 budget. Five crores will be distributed among paurashavas according to population, but the DMC "may be excluded from this distribution." The remaining 5 crores will be distributed among the rural areas of urban thanas as part of the Development Assistance grant, as a flat 10 lakh per upazila.

- The RWP will be abolished as such, though the Guidelines charge the upazilas to allocate funds "which in character and magnitude should be, as far as possible, similar to the Rural Works Programme carried out so long by the national government" (p. 8). One-third of the amount earmarked for Rural Works should be allocated to the union parishads.

- Rural Normal grants will be allocated as before, with the 1983/84 budgeted amounts set at Tk 91 million.

- Zilla Parishads will receive a separate RWP allocation, of Tk 2.5 crores, to be distributed on a basis of population and land area.

- Urban Project grants will not be changed, with the total Tk 96.9 million in 1983/84 earmarked for Dhaka Municipal Corporation projects.

- The Octroi Compensation grant will continue as before, at Tk 63 million.

- The FFW cash grant for appurtenant structures will be funded at a level equivalent to the value of 70,000 MT of wheat in 1983/84.

- The FFW wheat grant will continue as before, except the upazilla will be called on to "...see that the Food-For-Works Programme is a complimentary effort to the Development Programme undertaken through other means" (p. 9).

These are substantial changes, and so recent that their impact can be little more than speculation. In general, the reformed grant system has the very good features of (a) having identified a single unit—the upazila—as the primary unit of local government, and (b) providing guidelines for coordination among grant programs and for turning the system more in a direction of promoting economic development.

The new grant system involves a great deal more funding than did the previous system. As may be seen from Table 22, the increase is Tk 1260 million, a 65 percent increase which raises the grant share of total central government expenditures from the equivalent of 9.02 to 11.55 percent. All of this increase, however, is not a net addition, because some of this amount reflects a transfer of financial responsibility for certain activities from central to local government. Still, the net increase is substantial. For some upazilas, the grant amounts flowing through will be increased by far more than in others. To estimate this change, we have compared the 1982-83 RWP and FFW inflows with the 1983-84 Development grant, FFW, and urban thana inflows. The results of this comparison are described by the frequency distribution in Table 23. The median upazila will receive an increase of more than 50 percent.

The distribution of total grant receipts among upazillas will also change with the new grant system. For 1983-84, the allocations of the Development Fund will be block amounts irrespective of population or area. Hence, the "shares" of larger upazilas will fall, i.e., this component of the grant system will allocate greater per capita amounts to smaller upazillas. To describe the resulting change in the distribution, we have defined the grant <u>share</u> for each thana under the 1982-83 system and under the 1983-84 system, and related these grant shares to population, land area, and level of distress. The results, described in Table 24, show the following:

(a) The distribution mechanism has changed markedly.

(b) Much more of the variance in the later year can be explained.

TABLE 22

GRANT ALLOCATIONS IN 1982/83 AND 1983/84
(in millions of taka)

	1982/83	1983/84
Rural Works Programme	435	24[a]
Urban Works Programme	70	50
Urban Special Project Grants	97	97
Urban Normal Grants	8	8
Octroi Compensation	63	63
Rural Normal Grants	91	91
FFW Cash Grant	307[b]	287[c]
FFW Wheat Grant[d]	877	877
Development Fund Grant	---	1710
TOTAL	1948	3208
Percent to Rural Areas	87.8	93.2

[a]Portion accruing to zilla parishads.

[b]75,000 MT @ Tk 150 per maund.

[c]70,000 MT @ Tk 150 per maund.

[d]1981/82 value. See Table 17.

SOURCE: Computed by author.

TABLE 23

INCREASES IN GRANTS FOR INDIVIDUAL THANAS:
1982/83 TO 1983/84

	Number of Thanas
Less Than a 10 Percent Increase	0
10 - 19 Percent	7
20 - 29 Percent	6
30 - 50 Percent	36
More Than 50 Percent	389

SOURCE: Computed by Author.

TABLE 24

LINEAR REGRESSION OF THANA/UPAZILA GRANT SHARES ON SELECTED INDEPENDENT VARIABLES[a]

	1982/83 Distribution	1983/84 Distribution
Constant	0.00257 (25.606)	0.00372 (15.43)
Population (in thousands)	-0.0000034 (8.854) [-0.2862]	-0.0000142 (14.979) [-1.1645]
Land Area	0.0000022 (3.79) [0.1184]	0.0000111 (7.659) [0.5753]
Very High Distress	0.000785 (5.088)	-0.000102 (0.274)
High Distress	0.000264 (2.405)	-0.000275 (1.039)
Above Average Distress	0.0000602 (0.544)	-0.003839 (1.442)
$\bar{R}^2$	0.198	0.365
N	438	438

[a]Absolute t-values are in parentheses. Elasticities at the mean in brackets.

SOURCE: Computed by Author.

(c) The old grant structure is much more sensitive to level of distress than is the new.

(d) The new grant system is more influenced by population size than is the old system with highly populated thanas penalized more strongly.

Recommendations for Change

The Bangladesh grant system is in a state of flux. The view here is that most of the changes are in a positive direction, toward more of a development orientation and toward coordination. However, by its own admission, the BDG has not sorted out some of the detail as to how the system will operate, and has left some of the rationalization to be addressed before 1984/85.

The most important issue is how much the Bangladesh grant system will retain its relief orientation and how far will it move toward the promotion of infrastructure development and the strengthening of the local government institution. If the former is still to be the primary goal of the system, the present structure does a reasonable job. At least it is not clear how one would design a "better" system. If the development goal is taking on even more importance, further reforms are called for.

These reforms fall in six general areas: (a) rationalization of the distribution of all grants among thanas (b) a coordinating of the Food-For-Work and Rural Works Programme grants, (c) the distribution of fewer but larger grants which are targeted on areas with greater development potential, (d) the requirement of a matching local government contribution--drawn from local resources--as a condition of receiving grants, (e) the institution of a system for monitoring grant achievements,

and (f) the establishment of an effective maintenance plan for all Works projects. In fact, changes in the FFW grant system and the new upazilla grant program have brought important improvements in each of these areas. More, however, remains to be done.

Rationalize Grant Distribution

The BDG now has five grant programs to rural governments: The Upazila Development Fund grant, Rural Normal grants, FFW-wheat, FFW appurtenant structures cash grant and the zilla parishad RWP. Each is distributed by a different formula. If the objectives of the programs are similar--relief and development with an increased emphasis on development--the distribution method among thanas ought to be more similar. At the very least it ought to be more coordinated.

The rules governing a good distribution formulae for Bangladesh might be described as follows:

--it should reflect need
--it should give incentive to better performance
--it should be as objective as possible.

The first suggests that measures such as population, area, and distress are appropriate for inclusion in the formula; the second would call for measures to stimulate improved local revenue effort, improved project implementation, and better provision for maintenance; and the third calls for the use of indicators that are measurable. The choice of a formula by the BDG implies the choice of an objective, e.g., allocating more grant to needy governments may mean the sacrifice of some development impacts. Still, an objective and thought-through formula basis is essential.

Recommendation 1: The BDG should follow up on its proposal to allocate the Development Fund grant by formula in 1984-85.

The present flat allocations reflect neither need or fiscal capacity. The BDG proposal (Guidelines, p. 4) is to allocate according to population (50 percent), area (10 percent), backwardness (20 percent), and performance (20 percent). We would make the following suggestions to the committee appointed to develop this formula:

(1) The 'backwardness' measure reflects the low state of development of the thana whereas the 'distress' measure under FFW measures need for relief. These two need not be the same, but they need to be developed and measured in a coordinated way. Moreover, an objective basis for their adjustment, on a year-to-year basis, needs to be worked out. The Bangladesh Bureau of Statistics is currently attempting to develop objective thana-wise "social indicators" which could be used in this effort to standardize the needs component of the allocation formula.

(2) The index of performance should include a measure of revenue effort by the thana parishad. This could be measured as per capita own source revenues (50 percent) plus the percent increase in same over the previous year (50 percent). Both upazila and union revenues would count toward the revenue effort of any given thana.

(3) The resulting formula allocation might be adjusted downward by a specified percent in the event of inadequate completion of local schemes.

Recommendation 2: The cash grant for appurtenant structures under FFW and the Development Fund grant should be integrated in terms of their formula distributions.

Recommendation 3: An interministerial working committee should be appointed to consider horizontal equity issues, i.e., the different grant treatment of similar upazilas.

For example, some thana parishads receive different grant amounts than do others with similar populations and land areas because they are in a CARE vs. a WFP or general allocation district, there are WDB projects in their district, there is/is not a cash grant operating, etc. The overall system needs to be better coordinated so that upazilas are treated differently on more reasoned bases, e.g., because they have larger populations or land areas, or because they are poorer.

> Recommendation 4: The Rural Normal grants program should be gradually replaced.

These are a collection of mainly compensation grants that seem to exist more because of historical tradition than because of the needs of local governments. The objectives of these programs are unclear in some cases and conflicting in others, and little monitoring of their success has been done.

Coordination of Grants Programs

The independent design of the Development Fund Programme grant and FFW Programme is an unnecessary waste of resources. By treating these as separate programs one foregoes the opportunity to use them in concert to promote development activities. First, a combined program could be used to provide more cash for materials and equipment while still retaining the public employment orientation. Second, the distribution of funds under these programs could be coordinated to insure that the desired allocation across local governments could be attained. Third, the FFW program could draw more heavily on the RWP engineering staff. Finally, the upazila would

be in a better position to allocate the full amount of its resources for development purposes, regardless of the source of the funds.

The BDG has made the decision that responsibility for FFW will rest with the Ministry of Food, while the administration and monitoring of the Upazila Development Fund grant will be the responsibility of other Ministries. On the other hand, the BDG has called for a coordination of these programs by assigning upazillas responsibility to see that "....The Food-For Work Programme is a complementary effort to the Development Programme undertaken through other means" (page 9, Guidelines). The Guidelines also mandate that only FFW and Union Parishad Rural Works will carry out any earthworks.

> Recommendation 5: This coordination should be carried one step further by creating an interministerial working group to develop a coordinated allocation formula and joint guidelines for project design and implementation.

Targeting of Grants

There is not great agreement, in any country, on how intergovernmental grants should be allocated. Some favor targeting on local governments with the most potential for making effective investments and maintaining these assets, others favor a targeting on the most needy local governments, and still others favor a spreading more or less on a population basis. The Bangladesh grants system has traditionally fallen in the latter category, and this continues to be true under the new Development Fund initiative and the new FFW formula distribution. So long as the focus of the Bangladesh grant system is on providing relief to the rural poor, the spreading strategy is probably a good one. It distributes money according to where

the people are, and if one assumes that rural unemployment is severe throughout the country, the population allocator is as good as any.

If the focus of Bangladesh grant policy were to continue its move from relief to development, however, the spreading approach may be less optimal.

> Recommendation 6: In such a case, we would recommend a different strategy: fewer but larger grants which are distributed partially on a basis of development potential.

Under such a scheme, many local governments could still be covered, but they would tend to be those with the best possibilities for constructing and maintaining a viable development project. This would maximize the return which could be earned from each taka of central government grant and it would allow local governments to make maximum use of what limited funds were available for materials, equipment, and specialized technical assistance. Such a strategy would also allow the limited number of qualified engineers to play a much greater role in project selection, design, and implementation.

The BDG could take a number of important steps to promote this strategy, and indeed it has already taken some. First, the specification of a maximum number of FFW schemes in each upazila is a step in this direction, as is the creation of a cash grant to supplement earthworks. Second, the government's proposal to allocate part of the Upazila Development Fund on a basis of performance also reinforces the development goal. Third, the BDG has placed a ceiling on the amount of earthworks under the Development Fund grant for the first year.

On the other hand, some government actions do not reinforce these goals. The Guidelines place emphasis on smaller development schemes, local governments (upazila parishads) have final project approval over FFW projects, and the rapid creation of upazilas has placed a strain on the availability of scarce manpower. The BDG needs to somehow reconcile these possible contradictions.

A major issue to be faced is the capacity of various upazillas to absorb vast increases in grant funds. The use of a "performance" indicator in the allocation formula is one way to recognize differences in development potential. The more the objective of the grant system shifts to development, greater weight should be given to the performance indicator in the allocation formula.

Building Local Government Institutions

If the Bangladesh grant system is to promote decentralization, then it must be redesigned to encourage local governments to take more fiscal initiative. Specifically, local governments should be encouraged to think of grants as having a price, or a matching requirement. In this connection, the CARE/USAID grant for appurtenant structures, which carries a matching provision, is a step in the right direction. Yet the match under that program may be drawn from the Development Fund grant, hence there is no stimulation of locally raised resources.

What is needed is an incentive to promote the mobilization of local revenues. Such incentives can be built into the grant system and are done so in many countries.

Recommendation 7: We recommend the inclusion of a revenue effort measure in the grant allocation formula.

For example, 20 percent of the fund might be allocated according to per capita revenues raised in the preceding year, and the percent increase over the penultimate year. For purposes of measuring 'effort', all revenues raised at the union and upazila levels would be included.

Where will these local matching funds come from? The answer is that the matching contribution may be raised from local taxation, voluntary contributions, or user charges. (The mechanics of these increases are discussed in other Interim Report in this series.) Suffice to say, however, that Food-For-Work and the Development grant generate an increased surplus which is available for taxation, i.e., in the form of increased land values on better serviced agricultural properties, increased activities at local markets, and increased business for those involved in farm-to-market transport. Somehow--either through land value taxation, toll roads, market charges, etc.--this surplus can be reached to rechannel some funds back to the construction and/or maintenance of public facilities. One might think of the following opportunities for recapturing some of the betterment resulting from public works investments:

Result of Investment	Beneficiary	Appropriate Tax or Charge
Increased Land Value	Landowners	Land Tax
Increased Market Activity	Merchants	Market fees Business Taxes
	Transportation	Toll roads Vehicle Tax

While the opportunities may exist for local governments to capture the results of increasing development, they may do little until they have been assigned a list of available tax bases and charging privileges. In an earlier Interim Report we have recommended that the Land Development Tax be included in this list.[1]

Monitoring Project Activities

Regardless of whether the Bangladesh grant system is refocused on development, there is need to better track its workings.

> Recommendation 8: The BDG should set up a system to monitor the actual distribution of grant monies to all local governments, under all grant programs.

Until this is done, it will not be possible to determine the extent to which these grant funds are actually being distributed across the country in the desired manner. Indeed, it is safe to say that under present circumstances, even the BDG has not been sure about how its total assistance package has been distributed.

A second need is for a more careful monitoring of the physical accomplishments of the program. The major objective of the program has been relief, the provision of jobs to the rural poor. Yet there are few records which enable one to understand what the job benefits have actually been, and therefore it is quite difficult to evaluate the success of these programs. Some strides have been made by CARE-FFW in this area, but much more needs to be done especially as regards the other FFW programs and RWP. Likewise, the physical accomplishments of the programs need to be better

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[1] Schroeder, "Upazila Parishads: Their Structure and Revenues."

monitored, if the programs are ultimately to be evaluated and adjusted based on evaluation. Such monitoring will take on even more importance now that it is planned to include a "performance" indicator directly in the allocation formula.

Third, the use of a revenue effort factor in distributing Development Fund assistance will call for an annual monitoring of local government fiscal performance. Elsewhere in this series we have recommended creation of an annual Census of Governments.[1]

Maintenance Provisions

A major problem with the present grant system--to the extent it is meant to promote public works--is a lack of provision for maintenance. The RWP required a contribution of 25 percent of the normal budget for maintenance, but it was never clear that this was an effective regulation: there was uncertainty amongst local governments as to the exact meaning of the 25 percent requirement; there was confusion as to what constitutes construction; and, in any case, the 25 percent requirement was not effectively monitored. The Food-For-Work Program makes no provision at all for maintenance, though it should be noted that many FFW projects are effectively maintenance.

We see that the maintenance problem is a major obstacle to developing an effective rural infrastructure in Bangladesh. Before construction activities go much further in the rural works area, the government needs to

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[1] Larry Schroeder (with Hasan Murshed 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, New York: Syracuse University, June 1983).

establish a firm policy about adequate maintenance of existing facilities. Rather than require a certain percentage of the normal budget to be spent for maintenance, a better approach would be to require that the facilities constructed be maintained at "acceptable" standards. The central government would lay down those standards and would require that they be met as a condition to receiving grant monies for other works projects. This could become a part of the performance conditions of receiving a full grant share. In fact, the new Guidelines call for a maintenance plan as a precondition to taking up any project.

While the new Guidelines make it clear that maintenance is an important concern, the exact provisions have not yet been laid down. There is no explicit mention of the 25 percent provision, only that recurrent costs are to be borne out of the revenue budget (p. 10). This underlines the need to stimulate the raising of own-source revenues.

> Recommendation 9: Maintenance should be financed from a combination of a first call on Development Fund revenues and from a specified percentage to be raised from own sources.

Creation of a Grants Commission

The Bangladesh grant system will be changing quite substantially in the next few years, and many important issues will have to be decided.

> Recommendation 10: A Grants Commission to guide and coordinate these changes should be created.

Among the initial tasks of the Commission would be:

(a) to establish the annual total allocation of the Development Fund grant, preferably as a percent of some central tax, and to recommend this allocation to the Minister of Finance;

(b) to rationalize and coordinate the distribution formulae for all grants;

(c) to recommend and coordinate a monitoring system;

(d) to prepare coordinated guidelines for the use of grant funds.

APPENDIX A

BANGLADESH TAX EFFORT

To gain some idea of the relative level of taxation in Bangladesh, we have compared tax-GDP ratios for 57 countries. Fiscal data used were drawn from the IMF Government Finance Statistics, and a three-year average tax ratio was computed for the 1978-80 period.[1]

The tax ratio for Bangladesh was found to be 7.88 percent for this period, while the average for the 56 other countries was 18.24 percent. Part of Bangladesh's lower level of taxation, however, may be due to its lower level of development. To accommodate this possibility, we have used a regression approach to measuring tax effort.[2] First, estimate taxable capacity ($\hat{T}_y$) from

$$\hat{T}_y = a + b_1X_1 + b_2X_2 + b_3D$$

where $\hat{T}_y$ = estimated ratio of tax to GDP

X_1 = Per Capita GDP (in $US)

X_2 = Agricultural share in GDP

D = dummy variable which was given a value of 1 for low-income countries, and 0 for middle-income countries.[3]

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[1] If only one or two years of data were available, we used those data.

[2] This is defined in Roy Bahl "A Regression Approach to Tax Ratio and Tax Effort Anaysis" Staff Papers (IMF) 1961.

[3] As defined in World Bank, World Development Report.

Now we may define a tax effort index (E) as

$$E = T_y/\hat{T}_y$$

The estimated equation is[1]

$$\hat{T}_y = \underset{(7.565)}{22.505} + \underset{(1.882)^1}{0.0018X_1} - \underset{(3.208)^2}{0.321X_2} + \underset{(1.533)}{3.842D};$$

$$R^2 = 0.367$$

which for Bangladesh yields

$$\hat{T}_y = 9.88 \text{ percent}$$

and $E = 0.80$

Hence, Bangladesh's tax effort is 20 percent below the mean of the 57 countries.

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[1]Absolute t-values are in the parentheses.

APPENDIX B

THANA QUESTIONNAIRE

The following questionnaire was mailed to all thanas in the nation.

I. SCHEMES UNDER THANA RURAL WORKS PROGRAMME, 1981-1982. Name of Thana: _____ District: _____

	Nature of Scheme	Union(s) Where Located	How Many Taka Allocated	How Many Taka Received	Completion as of 30 June '82	Major Problems Encountered
A. Roads & Culverts:						
1.						
2.						
3.						
4.						
5.						
6.						
7.						
B. TIP Normal:						
1.						
2.						
3.						
4.						
5.						
6.						
7.						
C. TIP Ulashi:						
1.						
2.						
3.						
4.						
5.						
6.						
D. Water & Conservancy						
1.						
2.						
3.						
4.						

PLEASE TURN OVER →

II. SCHEMES UNDER FOOD-FOR-WORK PROGRAMME, 1981-1982.

	Nature of Scheme	Sponsor (CARE, MRR, World Food Programme)	Union(s) Where Located	How Many Maunds Allocated	How Many Maunds Received	Completion as of 30 June '82	Major Problems Encountered
3.							
6.							
12.							
15.							
16.							
17.							
18.							

Do you have special comments to make on any of the schemes mentioned above (under either the Rural Works Programme or the Food-For-Work Programme) that would help the Government of Bangladesh to improve the programmes?_____

Thank you very much for taking the time to complete this form.

Name of Officer in Charge:_____

Title of Officer in Charge:_____

APPENDIX C

CRITERIA FOR EVALUATING THE BANGLADESH GRANT SYSTEM

Classification of Grants

In general central grants to local governments may be cross-classified according to two criteria: how the total amount of the grant fund is determined and how the funds are distributed amongst eligible local governments. This classification is summarized in Table C-1.

There are three methods generally used to determine the total amount available for distribution to local governments, i.e., for determining the grant fund as shown in the column of Table C-1. The first is a shared tax where a certain percentage of central government taxes are designated for allocation to local governments. This is the most decentralized approach in that it guarantees the local government sector a share of the central government budget. A second approach is ad hoc in the sense that the central government decides, on a year-by-year basis, the amount which will be allocated to local governments. This is obviously the most centralized approach and gives the central government maximum flexibility to adjust the flow to the local government sector. In between is a third possibility--a cost reimbursement approach--where the central government agrees to reimburse local governments for costs incurred in providing certain services. Under this approach, the central government can prescribe standards quite tightly so as to control the flow of funds.

The other dimension of grant allocation is the method used to divide the funds amongst eligible local governments. Here, four alternatives are commonly observed in developing countries (the rows in Table C-1). The

TABLE C-1

POSSIBILITIES FOR STRUCTURING A GRANT SYSTEM

Methods of Distribution Among Local Governments	Methods of Determining the Grant Fund		
	Shared Tax	Ad Hoc	Cost Reimbursement
Origin of Collection	Type A	---	---
Ad Hoc	Type B	Type E	Type H
Formula	Type C	Type F	---
Cost Reimbursement	Type D	Type G	Type I

SOURCE: This methodology for grant impact analysis is developed in Roy Bahl and Johannes Linn, Urban Public Finance and Administration in Less Developed Countries (Washington, D.C.: World Bank, unpublished manuscript).

first is a shared tax, i.e., a derivation principal under which the local government gets to keep all or a percentage of a central government tax collected within its boundaries. A second possibility is a formula approach where the total grant fund is allocated according to some objective indicators, e.g., population, land area, personal income, etc. Third, the distribution may be made on a pure ad hoc basis, where the central government decides on a year-to-year basis which local governments receive how much grant support. Finally, there is a cost reimbursement approach whereby each local government is entitled to a grant amount equivalent to the cost it has incurred on the program in question.

This two-way classification enables us to type grants according to both of these important dimensions. For example, Type A grants are pure shared taxes. The tax rate and base are determined at the national government level and collection is made by the national government. The local government is allowed to retain all or a share of tax which is collected within its boundaries. This might be contrasted with a Type B grant where the total amount to be distributed is fixed as a percentage of national tax revenue collections but the distribution is made by formula. Again, this can be distinguished by a Type E grant where both the total amount and the inter-local distribution are made on an ad hoc basis, and a Type I grant where government agrees to reimburse "approved" costs in part or in their entirety. The nine grant types listed in Table C-1 have been observed in less developed countries.[1]

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[1]A discussion of this is available in Roy Bahl, "Intergovernmental Fiscal Transfers in Less Developed Countries," Metropolitan Studies Program, The Maxwell School (Syracuse, NY: Syracuse University, May 1982).

Criteria for Evaluation

Each of these grant types has important advantages and disadvantages, i.e., any individual program will not do all things well. Without specifying any order of importance, the following are the more common goals set for grant programs in developing and developed countries.

A first is to create an equitable system, or one that is distributed among local units on a basis that is somehow fair. Most often, it is believed that grants should be greater to poorer jurisdictions in order to partially offset their greater expenditure needs and lesser fiscal capacity. Shared taxes (A grants) are the least equitable in this sense because they allow a greater revenue to governments able to collect the greatest amount of tax. Formula grants (B,D) may be equalizing if the formula properly reflects the expenditure needs of the local authorities. Cost reimbursement grants (H,I) may not be equalizing if only the better-off local governments are able to propose and carry out reimbursement schemes.

A second criteria may fall under the general heading of resource mobilization, or allocative effects. It is a goal of virtually every grant program to stimulate some reaction on the part of the local government, e.g., to undertake more development projects, to increase their tax effort, to hire more labor, etc. A reasonable standard for evaluation is whether or not such goals are accomplished. Some types of grants are inherently more successful than others in achieving these goals. Grants that carry a "matching" requirement--partial cost reimbursement grants (F,I)--are most likely to achieve such an effect. Grants restricted in use to particular

purposes may also work but general purpose grants (e.g., type A) are less likely to be successful.

Third, one may be concerned about the adequacy of revenue growth to the local government. In particular, do revenues from the grant grow to keep pace with population growth and inflation? Probably the best type of grant program to satisfy this objective is a system whereby a national tax is shared with local governments (a type A, B, or C grant). It, of course, depends on whether the shared tax is one which is responsive to population, income, and price level growth. Perhaps the least desirable grant from a point of view of local government is the ad hoc grant (D, E, or F). This is because the central government may in time of emergency curtail the flow of monies to local governments--a temptation that is often not resisted in developing and developed countries. Of course, an E type grant is the most desirable from a point of view of the central government because it gives maximum flexibility to deal with budgetary problems, stabilization policy, etc.

A fourth criteria has to do with the effects of the grant on financial planning by the local governments. If a grant is more certain in its amount and is received in a timely fashion, the local government can be more effective in how it uses the funds. Shared taxes (grant types A and B) are especially good by this criteria since their inflow is well known and determined by objective standards. Cost reimbursement grants (type G and I) are also beneficial in that local governments can plan on receipt of an amount of money with some certainty. Perhaps the worst types of grants by this criteria are the ad hoc distributions (C, E, H, D and F type grants). In these cases, the distribution may be altered each budget year

by the central government. In particular, a type E grant is the worst since the local governments may have little idea what is coming to them until the beginning of the fiscal year. In such cases, longer term fiscal planning is virtually impossible.

Finally, there is a criteria of administrative costs, i.e., how much does it cost to distribute the grant funds. Cost reimbursement grants tend to be the more expensive since they require the establishing and monitoring of standards as a condition for receiving the grant. Ad hoc grants (C, D, and E grants) would seem to imply relatively little administrative cost. Shared taxes such as a type A grant would also imply little administrative costs if the central government is already collecting the tax.

The Bangladesh Grant System

The Bangladesh grant system is dominated by grants whose total amount is determined on an ad hoc basis, i.e., the central government decides each year on the total allocations to be made. This would lead one to look for an unsteady and perhaps inadequate growth in grant flows to local governments. This may also raise problems for financial planning at the local government level.

The distribution among local governments is done primarily through a formula system, suggesting some equity and certainty in the distribution within the country. As we show below, much depends on the formula applied.

As far as the issue of allocative effects, only the union salary grants require a matching contribution from local resources. The Works Programme grants are earmarked for development purposes but carry no requirement that local taxes be raised to cover part of the cost. This suggests a problem with the potential of the grant system for increasing

revenue mobilization and perhaps for stimulating development expenditures from own sources.

The Equity of the System. Ordinarily, one might evaluate the equity of a grant system by studying the relationship between per capita grants and per capita personal income. A negative relationship would indicate an "equalizing" system, i.e., one that transfers more money to poorer than richer jurisdictions. In Bangladesh, there are no regional personal income estimates to make such a test, i.e., we can only speculate as to whether the system is income equalizing. In that the rural sector dominates in the receipt of grants we might note some spatial income equalization.

As far as the distribution of grants among local governments, one can only describe the pattern and speculate about its fairness. Zilla parishads receive three types of grants: Works Programme, "Normal Grants" and the Shared Property Transfer Tax. The former is distributed on a population and land area basis, the second mostly according to population and the third according to tax collections within the district. The first two grants are distributed by criteria that somehow reflect needs but the third is probably counterequalizing in distributing more grants to areas where tax collection is higher.

In the past grants to thana parishads consisted primarily of Works Programme grants which were allocated on a basis of population and land area. Grants to union parishads include Works Programmes and an important set of "normal" grants. The latter of these appears to be allocated on an ad hoc basis.

Allocative Effects. In total, the Bangladesh grant system is not designed to induce local governments to increase own source revenues, or

even to mobilize voluntary contributions. First there is an institutional problem. The zilla and thana parishads received more than 75 percent (Table 7) of Rural Works Programme grants yet neither has had any taxing power. This means that if grants to rural local governments were to be stimulative of locally raised resources, then the impact would have to come from the union parishad. The difficulty here is that this is the unit of government least likely to have the administrative capability to expand tax collections.

An even more serious problem is the structure of the grant system. Rural works program grants provide no incentive for local governments to "match" the amounts flowing from the central government. The grant is viewed simply as a transfer of resources without any commitment to augment these resources at the local level. This is not true, however, of some components of the "normal" grant program. The grants to union parishads for honorarium of chairman, members, and secretary are all matching grants, i.e., they require local governments to pay some of the costs in order to receive the central government transfer.

It would be difficult to derive a perfect answer to the question of whether union parishad increased their taxes as a result of receiving central grants. One could make the argument that the construction work results in increased maintenance responsibilities which induces local governments to increase their taxes and their activities.

The other side of the grant program are grants to paurashavas, in particular the Urban Works Programme grants and the Octroi Replacement Grant. Would one expect that these grants will be stimulative of locally raised resources? First, Urban Works Program grants carry no matching

provision. Unless paurashavas choose to increase resources for purposes of maintenance, one would not expect any stimulative impact on local taxes. Again, the data are thin, but one might present some superficial evidence about the impact of the grant system on local taxes.

The Octroi replacement grant is new as of 1982, hence there is no historical experience. However, a priori reasoning would suggest that the replacement of an income elastic locally raised tax with a fixed grant amount will lower the overall revenue effort of urban local bodies.

Financial Planning. How one evaluates the effect of a particular grant structure on financial planning depends on whether he takes a central or local government point-of-view. From a central government vantage the system is highly controllable, and the flow of grants can be easily adjusted to accommodate other, more pressing needs. With the exception of the honorarium reimbursements to union parishads, all grant allocations are year-to-year government decisions and are based on no particular formula.

Local governments may view this flexibility in a different light. It isn't possible to carefully plan year-to-year continuations of projects or even regular maintenance programs in the absence of some knowledge about what the future revenue flow will be. The deviation between budgeted and actual allocations for the Rural Works Program was discussed above.

Decentralization. Many analysts and government officials view the Bangladesh system of grants and local government finances as a highly decentralized affair. This is partly true because the thana parishad provides a forum for citizen participation in project selection, implementation and maintenance. On the other hand, this process also involves the thana technical staff, the circle officer, SDO and line

Ministry officers, all of whom are central government representatives. Moreover, local governments have very little autonomous taxing powers.

In fact, how decentralized the system actually is depends on the degree of citizen participation at the thana parishad level.