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ASPECTS OF PUBLIC FINANCE IN A UNION PARISHAD:  
A SOCIOPOLITICAL CASE STUDY

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## FOREWORD

This paper was the twelfth and final paper in the series of Interim Reports issued from the Zilla Roads/Local Finance Project. Originally released in February 1984, the current version is only slightly changed from the original.

It is generally known that social structure and the leaders in a community are important determinants of the fiscal activities that occur at the local level, especially in small rural communities. Rarely however, is empirical investigation of these factors undertaken. In this paper Showkat Khan reports on his nine-month stay in a union parishad within Sylhet district of Bangladesh. The paper considers a range of social factors which influence local fiscal behavior, especially associated with the union and chaukidary rates.

Khan documents the lack of interest which most local leaders have for the local budgetary process in general, and for raising revenue through the chaukidary rate in particular. Budgeting is an exercise which must be carried out to satisfy higher levels of government; there is little use of the document for purposes of planning and control. Similarly, local tax administration suffers in all its critical phases--assessment, record-keeping and collection. The poor overall performance of the chaukidary tax cannot be solely attributed to sociopolitical factors; Khan's analysis, however, suggests that if all elements of tax administration remain local, they will continue to be highly politicized and performance will suffer. He therefore provides several recommendations designed to circumvent the linkages between local political activity and the more technical aspects of administering a property-based tax in rural areas of Bangladesh.

The author would like to state his sincere gratitude to the many people who helped him during his field research in Bangladesh and in the preparation of the report in Syracuse. In Bangladesh, residents of the five research villages were generous with their time and patience; local government officials of the union parishad in which the research villages are located, and officials of the upazila and zilla levels are also thanked for sharing their time and insights. In Dhaka, Mrs. Bilquis Alam and Mrs. Roushan Qadir, faculty of the National Institute for Local Government, were supportive in many ways as were Mr. Maniruzzaman and Dr. H.S. Plunkett of USAID/Dhaka. The author also wishes to thank faculty in the Local Revenue Administration Project of the Maxwell School, Syracuse University, who were helpful in setting the stage for the research and offering advice along the way to the finished report.

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, DC 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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ASPECTS OF PUBLIC FINANCE IN A UNION PARISHAD:  
A SOCIOPOLITICAL CASE STUDY

Showkat Hayat Khan

Introduction

Ideally local government finance systems should be designed to tax persons in a rational and fair manner. In the case of a property-based tax, persons holding more, or better, property would logically be expected to pay more than those who own less land or poorer land. This paper explores a range of factors which distort the logic of the major own-source revenue of the union parishad level of government in Bangladesh: the union and chaukidary rates (hereafter referred to only as the chaukidary rate).<sup>1</sup> Case study material from Kushiara union parishad is the basis of analysis.<sup>2</sup>

This section provides background information on the study area. The following section provides a general discussion of the external and internal sources of finance of Kushiara, in reference to its budget of the three years, 1979/80, 1980/81, and 1981/82. The subsequent section explains defects in the system of assessment, collection and utilization of the chaukidary rate. Next the sociopolitical context of the assessment and collection of the chaukidary rate is discussed. Policy recommendations are presented last.

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<sup>1</sup>The union and chaukidary rates are in fact two sources, but the UP assesses and collects them together. I shall therefore refer to them as one in this study.

<sup>2</sup>"Kushiara" is a pseudonym.

### Study Area

The study area is composed of the Kushiara UP in general and the five villages of Kushiara in particular. The five villages are a contiguous collection. Unlike other parts of Bangladesh, the villages of Kushiara are small in size and the five villages together comprise only 250 households, with an estimated total population of about 1400.

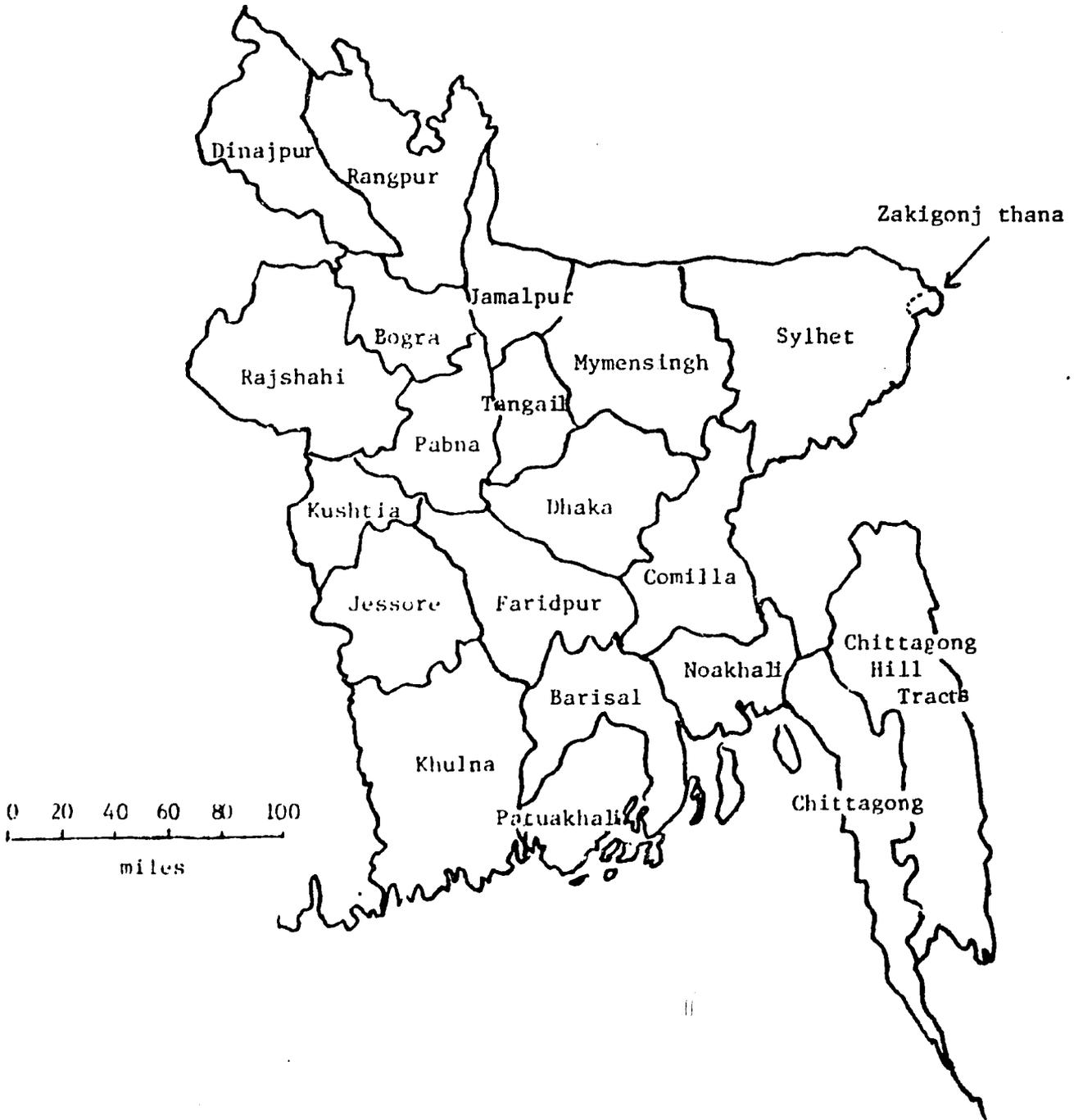
Kushiara UP is one of the nine UPs of Zakigonj thana in Sylhet district (Figure 1). Zakigonj thana is located at the extreme northern corner of Bangladesh and shares its border with Assam state of India. Kushiara is a bordering UP of Zakigonj, situated on the bank of the Kushiara river which demarcates India from Bangladesh. Zakigonj was not a thana prior to the partition of British India into Pakistan and India in 1947, but after that time the (then) Pakistan government declared Zakigonj a thana of Sylhet district. The historical Zakigonj bazaar (regular market) located on the bank of the Kushiara river was selected as the site of Zakigonj thana headquarters.

Kushiara UP is located 50 miles from Sylhet district headquarters and about five miles from Zakigonj thana headquarters. The Zakigonj-Sylhet district road passes through the heart of Kushiara. The road is pucca for about 42 miles from Sylhet district headquarters but the remaining 13 miles to Zakigonj are kutchra. Although the distance from Kushiara to Zakigonj is only five miles, because of the bad condition of the road, no rickshaws use the road. Public buses are the only means of transportation between Kushiara and Zakigonj.

Unlike the topography of adjacent thanas which are mostly hilly with red soil, but, like most parts of Bangladesh, Zakigonj consists of

FIGURE 1

LOCATION OF FIELD RESEARCH SITE, ZAKIGONJ  
THANA, SYLHET DISTRICT, BANGLADESH



an alluvial plain. Agriculture is the main source of livelihood of the people with rice the principal crop. Most of the rice varieties are local and no high-yielding variety is cultivated. The major cash crops of Bangladesh--jute, tea, sugar cane and tobacco--are not grown, but Zakigonj produces the best quality betel-nut in Bangladesh which serves as a local cash crop produced by most households. A limited number of traditional vegetables are also grown.

There is no irrigation facility in Kushiara. Water pulled from Kushiara river could be a means for producing winter crops, but the people seem to be uninterested in exploring the possibility. The land remains unutilized during the winter, and agriculture appears to be neglected overall.

Many people, mostly poor, earn incomes from petty border trade. Eggs, milk, chickens, and fish are exchanged for biri (tobacco wrapped in a special leaf produced in India only), cotton cloth, especially saris (ladies' clothing), and cattle. People suspect that some of the richest people of Kushiara have been involved in large-scale border trade. Illegal border trade consists of electronic goods (televisions, radios, tape recorders, watches) and gold, all leaving Bangladesh, and cotton cloth, sugar, and cattle entering the country in exchange.

#### Representativeness

No single locale in any complex society can be said to be truly representative of the larger whole, and Kushiara is no exception. I was limited in site selection by the Zilla Roads Project to three districts: Faridpur, Rangpur, and Sylhet. Ideally, several localities in each district would have been studied. Instead, I opted for intensive,

long-term fieldwork in one location in order to discern best the subtle relationships between society and local public finance. I originally selected Sylhet district on the basis of its economic status, since it is the wealthiest district in the country. I hoped to be able to see more fiscal activity than would be the case in Faridpur or Rangpur. Along the same line of reasoning, I originally selected Beani Bazaar thana, the richest thana in Sylhet district and one with rapidly rising property values. Unfortunately, when the fieldwork was being initiated, it was suggested by district officials that I go instead to Zakigonj thana because it was rumored that oil had been discovered in Beani Bazaar making it a potentially sensitive location for some time. The other reason for selecting Sylhet district was that no other ethnographic study has been conducted in this district.

As it turns out, the research site offers many features "typical" of much of Bangladesh: flat plains, wet rice agricultural economy, and, interestingly enough, as a border thana it is also representative of the many thanas on Bangladesh's very long perimeter.

### Kushiara Union Parishad Finances

The budget of a union parishad provides a ready picture of its finance structure. Although the information in a budget may not always be real (explained below), a budget does supply basic information on the internal and external sources of finance of a union parishad.

I discuss in this section, first, the attitudes of the UP representatives concerning the "budget", second, the internal sources of finance and, third, the external sources of finance of the Kushiara UP in the context of, specifically, the budget of 1981/82. This discussion excludes financial information on the Food-for-Work Program projects of the UP, the accounts of which are not included in the budget.<sup>1</sup>

#### The Budget

It is important to know the attitude of the UP officials toward the budget it prepares every year. More specifically, does the "budget" mean simply paperwork to be done mechanically by the secretary, or is it the outcome of past experiences, and a guideline for the future? In other words, is the budget process and document merely a means to satisfy the basic requirement that a UP submit an annual budget, or is it an actual planning device?

It is not easy to obtain answers to these questions. After long observation of the activities of the UP representatives, including the preparation of the 1983/84 budget, it appears that the UP officials consider the budget to be merely paperwork. It is clear that the UP

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<sup>1</sup>I, of course, recognize the fiscal importance of Food-For-Work grants, but they are outside the major subject area of this report.

representatives feel that the submission of a budget to the higher authorities every year is a responsibility of the UP secretary. He should do it as he does other administrative work of the UP, such as maintaining accounts, issuing notices of UP meetings, and writing replies to the correspondence of the higher authorities. The secretary should prepare a budget every year because the higher authorities want the UP to prepare and submit a budget to them. The UP representatives further feel that the budget should reflect what the Government or the higher authorities want to see, whether or not it is practical and composed of true facts and figures.

The attitude that the budget should reflect what the higher authorities want to see is documented in the assessment of the chaukidary rate of the UP. In 1977/78 the assessment suddenly increased to Tk. 20,000 from Tk. 7,000 for the previous year. When asked about this increase, the secretary replied that the Government asked the union to raise tax collections drastically, and therefore they changed the figure without considering whether it was possible to collect that amount.

We may further look at the proposed and actual income of the UP from the source of the chaukidary rate. Table 1 shows that, with the exception of 1980/81 (discussed below), the UP never collected more than about 50 percent of its budgeted income from this source. When asked why the UP purports to have an income which it cannot achieve, the representatives answered that unless they propose a substantial income in this head as the higher officials ask them to do, they may not receive the central government part of their income.

TABLE 1

BUDGETED AND ACTUAL REVENUE AND EXPENDITURES, KUSHIARA  
UNION PARISHAD, 1979/80 - 1981/82 (in taka)

No.	Revenue Sources	1979/80		1980/81		1981/82	
		Budgeted	Actual	Budgeted	Actual	Budgeted	Actual
1.	Union Rate	7,000	5,720	7,000	10,049	7,000	6,814
2.	Chaukidary Rate	7,000		7,000		7,000	
3.	Local Rate	500		1,000		500	
4.	Water Tax	200		100	120	200	
5.	Cattle Pounds	200	426	500	200	300	100
6.	Certificate Fees	6,000	5,446	8,000	9,507	8,000	4,919
7.	License & Permit Fees	2,000	2,355	7,000	450	8,000	1,030
8.	Increased Development Grant	900	412	1,000		1,000	1,648
9.	Honorarium of the Union Representatives	7,800	11,700	7,800		9,000	7,800
10.	Salary Grant: Secretary	1,800		1,800	1,769	1,800	3,600
11.	Salary Grant: Village Police	5,000	5,260	5,000	2,127	5,000	13,200
12.	Budget Deficit Grant	2,000	1,150	2,200	2,259	2,000	4,640
13.	Compensatory Grant	1,000	2,366	2,000		2,000	3,060
14.	Village Court	400	155	500	312	500	532
15.	Arrear Rate	18,000		20,000		10,000	
16.	Income from Haat/Bazaar	7,000		8,000		9,000	
17.	Other Income	200	1,125	500		200	
18.	Works Programme	6,800	3,000	19,560	4,930	6,000	10,000
19.	Other Income from Village Court <sup>a</sup>		38		8		12
20.	Vehicle Registration Fees		50		60		200
	TOTAL	73,900 <sup>b</sup>	39,262	98,060 <sup>c</sup>	31,791	77,500	57,555
	Opening Balance	45	45	1,200	709	500	248
	TOTAL	73,945	39,307	100,060	32,500	78,000	57,803

<sup>a</sup>Head numbers 19 and 20 are not included in the budget form.

<sup>b</sup>This aggregate is wrong. The correct figure is 73,800.

<sup>c</sup>This aggregate is wrong. The correct figure is 98,960.

TABLE 1 (continued)

No.	Expenditure Uses	1979/80		1980/81		1981/82	
		Budgeted	Actual	Budgeted	Actual	Budgeted	Actual
1.	Honorarium: Chairman	3,600	3,600	3,600	600	3,600	5,100
2.	Honorarium: Members	13,200	13,700	13,200	5,300	15,600	11,600
3.	Salary: Secretary	5,415	3,520	5,854	6,881	6,015	9,997
4.	Salary: Dafadar	1,056	1,150	1,620	1,098	1,620	2,565
5.	Salary: Chaukidar	7,416	8,350	11,520	10,122	11,520	14,880
6.	Office Supplies	2,000	875	2,000	883	2,000	1,020
7.	Transportation Allowances	2,000	127	2,000		2,000	861
8.	Collection Commission	4,350	674	4,800	1,028	3,600	?
9.	Education, Sports and Recreation	1,500	300	1,000		1,000	14
10.	Cottage Industry	500		200		200	
11.	Public Works	500		1,800	800	1,800	
12.	Transportation Cost of Relief Goods	500	510	1,000		500	
13.	Road Maintenance and Repair	7,000	2,000	3,000	500	3,000	1,150
14.	Agriculture	500		500		500	
15.	Increased Development Expenditure	2,000		1,000		1,000	
16.	Arrear Honorarium/Salary	6,500		17,000		15,000	
17.	Haat/Bazaar Development Expenses	4,000					
18.	Works Programme	6,800	3,000	19,560	4,990	6,000	10,000
19.	Others	200	4	500	40	500	
20.	Others		824		9		
	Total	69,037	38,598	95,154	32,257	75,455	57,190
	Closing Balance	4,909	709	4,906	248	2,545	613
	TOTAL	73,946	39,307	100,060	32,500	78,000	57,803

<sup>3</sup>This aggregate is wrong. The correct one should be 38,598.34.

The attitude that the budget is mere paperwork is documented in the budgets of several years (Table 1). The budgeted amounts for many income and expenditure categories are the same in all years. The accounts also do not attempt to differentiate between current and arrear taxes paid, although the UP budgets income in each of these categories. Furthermore, the budgeted arrear taxes do not reflect the total of all unpaid past taxes. This fact is obvious from the decrease in budgeted arrears between 1980/81 and 1981/82 in spite of the fact that only Tk. 10,049 of the budgeted total taxes (current plus arrear) of Tk. 34,000 had been paid in 1980/81.

Outright corruption also distorts the truthfulness of the budget. According to the 1981/82 budget, Tk. 10,000 of the Rural Works Program (Item 18, Expenditure) was spent in that year. But the chairman of the project committee who received the money never used it for the project. When I asked the secretary why that money was shown to have been spent, he replied that, since the money had been drawn from the UP account, he must show that it was used. He knows, however, that it has been "eaten up" by the chairman of the project committee.

There are some formalities that should be observed in preparing a budget. The UP should start thinking about next year's budget in May (the new fiscal year starts from the first of July), and hold meetings of the representatives to discuss the budget. I was carefully observing during May 1983 to see if the UP did anything about preparing the budget for 1983/84. To my surprise, only one meeting was held in the first week of June. When the question of the budget was raised by the secretary in that meeting, it was decided that the representatives

should meet again on June 22. No one returned on June 22 and no meeting was held. The 1983/84 budget was not ready even during the last days of June when I said good-bye to Kushiara.

#### Internal Sources of Finance

There were, before 1983, as many as 23 internal sources which a union parishad could use for generating its income.<sup>1</sup> The budgets (Table 1) reveal that Kushiara UP used only seven sources, counting the union and chaukidary rates as one, for generating its income. They are: (1) chaukidary rate, (2) water tax, (3) cattle pounds, (4) certificate fees, (5) license and permit fees, (6) haats/bazaars and (7) boat/pushing cart registration fees. In addition, the UP collects fees for filing cases in the village court and for granting permission for second marriage.

Among these the chaukidary rate draws the highest income. Since it is the major source of finance of a union parishad I present a detailed discussion of it.<sup>2</sup>

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<sup>1</sup>Government of Bangladesh, Rules Under the Basic Democracies Order, 1969, pp. 77-82.

<sup>2</sup>The certificate fee was the second highest source of income of Kushiara UP. The UP issues many types of certificates, such as nationality, character, birth, death, and cattle receipts. Although the UP officially was to collect fees on all of these types of certificates, it is only the cattle receipts on which it collected a fee. The reason for the relatively high income from this source is that Kushiara receives a considerable number of cattle from India in illegal border trade. Unless the UP certifies those cattle as private property of the villagers, the traders cannot move them to market places for sale. The traders must present cattle receipts to the law-enforcing authorities (the Bangladesh Rifles, Bangladesh Defense Party and the Police) if challenged by them.

### The Chaukidary Rate

The UP passes a resolution through formal meetings to fix the rate of assessment of the chaukidary rate every year. During both 1980/81 and 1981/82 the resolution set the union rate at two percent of the value of the house, and the chaukidary rate at two percent on the "economic well-being" of the household. In 1982/83 these rates were reduced to one percent each. In the case of the chaukidary rate the meaning of "economic well-being" is unclear, but it is said to be linked to the value of the taxpayer's house, the amount of agricultural land owned and, if applicable, the extent of the taxpayer's business dealings. Determination of house values for purposes of the union rate is also performed in an inconsistent manner.

When I asked why the UP does not follow government criteria, the representatives replied that government criteria would make the assessment so high that the payers will not like to pay. When asked why they do not follow the criteria they themselves have established, they replied that it would be a complicated job to calculate correctly the value of a house.

Although there are official instructions for appointing assessors, the UP instead does this job through its elected representatives. The elected members of the wards themselves, or someone they designate and supervise, carry on this function. The total assessment for the UP in 1981/82 was Tk. 12,587 (Table 2).

TABLE 2

CHAUKIDARY RATE ASSESSMENT OF KUSHIARA  
UP, 1972/73 TO 1982/83

<u>Year</u>	<u>Assessment (in taka)</u>
1972/73	6,000
1973/74	6,000
1974/75	6,000
1975/76	7,000
1976/77	7,000
1977/78	20,000
1978/79	15,000
1979/80	12,927
1980/81	13,089
1981/82	12,587
1982/83	Incomplete

Until 1979/80 there was no house-to-house assessment. At that time the assessment was made by dividing the assessment among the three wards of the UP on the basis of the population of the villages in the wards.<sup>1</sup> Even in 1977/78 when the government asked the UP to increase its tax drastically, the UP did not conduct a house-to-house assessment.

When the house-to-house assessment started in 1979/80 it was officially decided that the member/members of a ward should survey and prepare an assessment list of his/their ward every year, with the aggregates of the three wards constituting the total assessment of the UP. But it appears that no house-to-house assessment was made after the first assessment in 1979/80, although the assessment list may be found updated to the end of 1981/82. In 1982/83, in spite of repeated requests by the secretary and discussions in the meeting of the

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<sup>1</sup>A union is typically divided into three wards.

representatives, the complete assessment list of one ward and the partial list of another never returned to the office, even at the end of the fiscal year in June.

The system of collection of the chaukidary rate seems to be even more inadequate than the system of assessment. The official procedure of collection is to appoint collectors who receive a commission of 20 percent of the amount they collect (the rate was 15 percent before 1982/83).

The list of collectors over the last ten years, however, demonstrates that the numerical strength or man-days of the tax collectors could not be sufficient for carrying out the collection. In fact, the UP staff (the representatives and the other salaried employees) have been collecting more taxes than the collectors. Among the present collectors, 85 percent of the collection has been officially collected by Badul Alam, the collector. But in practice only a very small amount has been collected by him. Table 3 shows the amount Badul Alam himself collected compared to those who collected it in his name.

TABLE 3

COLLECTION OF CHAUKIDARY RATE BY BADUL ALAM  
HIMSELF, IN CONTRAST WITH THAT COLLECTED  
IN HIS NAME, 1982/83

<u>Persons</u>	<u>Amount Collected (in Taka)</u>	<u>Percent of Total</u>
Badul Alam	776	19.64
U.P. Members	906	22.87
U.P. Chaukidars	2,230	56.46
U.P. Secretary	41	1.03
Total	3,950	100.00

It may be seen in Table 3 that more than 80 percent of the tax collected in the name of Badul Alam has been collected by other persons of the UP. Mr. Alam has collected roughly an amount which may be due to him as his commission (i.e., 20 percent of the total Tk. 3950 which is Tk. 790). With one exception where a representative has collected Tk. 90 in cash for Mr. Alam, all other UP staff have taken receipts from Mr. Alam against the name of persons in the respective wards. Mr. Alam received his commission for all of these merely by keeping a record of persons for whom receipts were taken. With the exception of two representatives who distributed some receipts among their clients free of charge, all others used these tax revenues to get their salary/honorarium directly from the taxpayers.

Table 4 shows the rate of collection compared to the rate of assessment and the magnitude of present arrear taxes in Kushiara UP for the years 1979/80 to 1982/83.

TABLE 4  
COLLECTION EFFICIENCY OF THE CHAUKIDARY RATE IN  
KUSHIARA UP, 1979/80 TO 1982/83

<u>Year</u>	<u>Assessment (in taka)</u>	<u>Collection (in taka)</u>	<u>Percent Collection/ Over Assessment</u>
1979-80	12,927	5,720	44
1980-81	13,089	10,049	78
1981-82	12,587	6,814	54
1982-83	Incomplete	4,670	--

Collection figures include the arrears since the UP does not maintain a list of arrear collections separate from the total collection in a given year. Therefore strict comparison between assessment and

collection in a particular year is impossible. Nevertheless, the data do give an impression about collection efficiency.

1980/81 demonstrates a relatively satisfactory collection level among the three years. When I inquired about this matter the secretary described the reason in the following way. Toward the end of the 1980/81 fiscal year a severe food crisis visited the area. The government distributed food grains through the ration dealers and the people of the area rushed to the UP office for ration cards. The UP made the payment of taxes a precondition for receiving the ration cards and thus collected a large amount of the tax.

It was difficult for me, in spite of repeated inquiries, to know exactly the current status of tax payments in Kushiara UP. It is doubtful whether the UP representatives themselves know the exact amount. In part this lack of knowledge is probably due to record-keeping procedures, but it was also observed that the UP staff tends to underestimate the exact amounts due.

At the close of the fiscal year the UP compiles an arrear list. Total arrear taxes following 1981/82 amounted to Tk. 26,814, but it is possible that even this is underestimated due to exclusion of some delinquent taxpayers from the list. Badul Alam, who has been working with the UP as tax collector for more than a decade revealed that total arrears at the end of 1982/83 would be about Tk. 52,000. This amount is nearly four times the total property-based tax income the UP has been budgeting for the past several years.

### External Sources of Finance

External sources make up the lion's share of the Kushiara union parishad finance. Table 5 compares external to internal sources of finance of Kushiara in the three years from 1979/80 to 1981/82.

TABLE 5

#### EXTERNAL AND INTERNAL SOURCES OF FINANCE OF KUSHIARA UP, 1979/80 TO 1981/82

<u>Year</u>	<u>Total Actual Income</u>	<u>From External Sources</u>	<u>From Internal Sources</u>	<u>Percent External</u>
1979/80	39,307	23,993	15,314	61
1980/81	32,499	11,793	20,706	36
1981/82	57,803	44,728	13,075	77

With the exception of 1980/81, the income of the UP from external sources constituted more than 60 percent of the total. There were reasons for the internal sources to supersede the external in 1981/82. The first reason was, as discussed earlier, a high rate of income earned from the chaukidary rate. The second was, as may be seen in the budget (Table 1), that the UP did not receive an honorarium grant for the elected representatives, nor the full salary grant for the chaukidars.

The second highest external source is grants for the honorarium of the elected representatives and the salary of the UP employees. The chairman receives a monthly honorarium of Tk. 300 (one-third carried by the Government), the members Tk. 100 each (50 percent carried by the Government), the salary of the secretary is about Tk. 700 a month (the Government gives Tk. 1,800 a year), the dafadar's salary is Tk. 135 a

month (50 percent by the Government) and the chaukidar's is Tk. 120 a month (50 percent by the Government).

The third highest grant is the budget deficit allocation. Next in order of priority are two other such grants, the compensatory grant and the increased development grant. These are central government grants given to the UP once a year. The budget deficit is given to meet the deficit in the UP budget, while the increased development grant is for carrying out development projects in the UP. The compensatory grant is used to pay the honorarium/salary of the UP. Almost all money under these three heads is used, however, to pay the honorarium/salary of the UP staff as may be seen by examining the expenditure data.

Loopholes in Kushiara's Finances:  
Structural Issues

The UP does not earn a satisfactory income from the chaukidary rate for two major reasons. First, there are structural problems underlying the processes of assessment and collection of the chaukidary rate, and the lack of sincerity on the part of the UP representatives. Second there are sociopolitical problems. I shall consider the first of these in this section.

Assessment

There is official instruction that the UP should appoint assessors. In response to my question whether the Kushiara has assessors or not, the chairman replied positively and pointed out that the tax collectors are the assessors of the UP. In the last part of my fieldwork it became clear, and it was frankly disclosed by the chairman, that the UP does not have any assessor as such. The responsibility is carried out by the UP representatives.

The representatives did not provide any convincing reason as to why they did not appoint assessors. We may infer that the reasons are negligence of the representatives in appointing assessors and inability to pay assessors. It is possible that the representatives neglect the responsibility of appointing assessors for sociopolitical reasons: they are unwilling to push the assessment process because that might antagonize powerful persons in the area. More immediately, in a situation where the UP constantly runs short of funds, paying the assessors is a real problem. Since payment to the assessors should be

made before the UP collects its chaukidary taxes, if the UP has no cash on hand, it cannot pay them.

Another possible reason for not appointing assessors exists, though I do not know whether the UP realizes it or not: the non-availability of professional assessors in the rural areas. Assessments by a layman (untrained/non-professional) may be very defective and therefore may generate a negative attitude among the taxpayers in paying their taxes. To ask the UP to do this job creates one of the imperfections of the process of assessment, and, in turn, collection.

The following description documents the nature of negligence involved in the current system of preparing assessment lists:<sup>1</sup>

The assessment of ward 3 in full and ward 1 in part was incomplete in 1982/83 in Kushiara. Shahiduddin and Noimuddin, UP representatives, were responsible for preparing the assessment list of ward 3. Shahiduddin can write only his own name and signature. He therefore asked his daughters (two are studying in high school) to write the list for him on the basis of the previous year's list. They wrote part of the list but ultimately lost patience and did not complete the list. Shahiduddin thus could not submit the list to the UP.

Noimuddin requested one of his "followers" to write his part of the assessment for him. Why the follower did not write the list for him is unknown, but the fact that Noimuddin did not submit the list is known to all. Whenever Noimuddin was asked about this, in meetings or at other times, he said that he kept forgetting to remind his follower to complete writing the list for him.

Abdul Mannan was responsible for preparing the assessment list of ward 1 (one half of which was complete). The frequency of Abdul Mannan's visits to the UP was very limited

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<sup>1</sup>At several points in the paper I draw on "case material" from my field notes as illustrations. These cases will be demarcated from the body of the paper by indentation and single-spaced type.

and therefore the UP did not get many chances to ask him to submit the list. In one meeting he said that he did not have time to do the assessment and that he would try to find time to prepare the list and submit it. He did not, however, submit the list in the long-run.

Of the ward 2 and half of ward 1 for which the assessment of 1982/83 was complete, it was only the half of the ward 1 for which the assessment list was prepared by the UP representative himself. The assessment of ward 2 was done partly by the secretary of the UP and partly by one of the tax collectors.

In sum, it appears that assessment by UP representatives is not a practical solution. But even if everything relating to finding people to do the assessment were perfect, the UP would encounter another problem, the fixing of an appropriate rate of assessment.

The government ordinance of 1969 is not precise about the rate. Regarding the union rate<sup>1</sup> the ordinance mentions only that, "the tax may be levied at a rate not exceeding 7 percent of the annual value of buildings and lands...." (p. 77). While the ordinance fixes the maximum limit, it does not mention anything about the lower limit of the assessment. Kushiara UP, however, has passed resolutions that its union rate be assessed at a rate of 1 percent (before 1982/83 the rate was two percent). As regards the chaukidary rate, the ordinance states:

This rate is leviable in terms of percentage of the annual value of buildings and lands. The percentage should be so fixed as would ensure adequate funds for meeting salaries, cost of equipment and such other charges (if any) on account of the village police as well as proportionate cost of collection of the rate (p. 81).

Again the rate has been left unspecified. Kushiara UP declares it to be a rate of one percent per annum.

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<sup>1</sup>It should be remembered here that I have lumped the union and chaukidary rates together. They are in fact different from each other in the statutes.

I asked the chairman of the UP why they do not prefer a higher rate for the union or chaukidary tax, closer to the maximum level of the government ordinance, say at five percent. The chairman replied that the rate would be so high that people would not be willing to pay, or that they themselves would be unwilling to collect it.

Turning to the rate (1 percent plus 1 percent for union and chaukidary rates) that the UP proposes to assess, my field observation reveals that the UP never follows it. The point may be illustrated by citing some examples.

There is only one building with a concrete roof<sup>1</sup> in the five villages. Hazi Tayub Ali owns it and he is one of the richest farmers of the area. His union and chaukidary rates were assessed to be Tk. 15. The house next to him is kutchra (iron roof and mud plaster walls) and is owned by a small farmer. This man was also assessed at Tk. 15.

I would estimate that the concrete roof building could earn approximately Tk. 1,000 per month or Tk. 12,000 annually in rent. The Tk. 15 tax thus amounts to an effective rate of only 0.00125, certainly a low rate and much below that of the kutchra building which would earn, at most, Tk. 3,600 annually yielding an effective tax rate of 0.0041.

There are four other persons whose values of houses and lands are somewhat similar, but all were assessed Tk. 60 each. If there were fixed criteria for assessment, they would not have had the exact same amount of money assessed to them.

Assessment in Kushl'ara is made on approximation, sometimes by comparing the "economic well-being" of one household with another, and sometimes on the basis of sociopolitical relationships of the assessor with the assessee.

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<sup>1</sup>There are other brick foundations in Kushl'ara. but they all have iron roofs.

### Collection

There is only one full-time and one part-time tax collector in Kushiara. It ca never be possible for two people of this type to collect taxes from 2,995 taxpayer households (1981/82) spread throughout 13 square miles of the UP. It would probably require at least four full-time tax collectors in Kushiara UP for the job to be done adequately. There are also problems in the nature of appointment, status and salary/commission of the tax collectors.

The present practice of appointing a tax collector is to ask someone verbally, generally a kinsman/follower of a representative, to work in this position. One may continue in the position as long as one maintains a relationship (taking receipts from the office, depositing collections, etc.) with the UP office. The representatives can probably dismiss a tax collector, but no such instance has occurred in Kushiara. The past tax collectors were never dismissed, verbally or officially, rather they themselves discontinued work when they lost interest.

The tax collectors do not have any regular salary as such. They get a commission at a rate of 20 percent of the collection. The rate does not seem to be a bad one. The question, however, is whether a person can depend absolutely on this income and thus take it as a full-time profession, devoting enough time and energy to the job. The answer to the question lies in the calculation of the distribution of commissions of the total collections of a year into four (if four collectors are appointed) shares and seeing if a family of average size of rural Bangladesh could be maintained by this income. If Tk. 12,000 is collected out of an assessment of 15,000 (the total assessment in

Kushiara varies from 12,000 to 15,000 a year), the total commissions will be Tk. 2400 (12,000 x 20/100). One fourth share (600) of this total commission, I am sure, can never maintain a family, whatever its size, for a year in the rural areas of Bangladesh. Even if the total commission is given to one, I have every doubt that a family could be maintained.

An additional issue concerning the current collection procedures concerns the role of UP representatives in the collection process. Ideally, the three steps of the taxing process--assessment of the tax base, determination of the tax rate and tax collection--are separate. In spite of the use of collectors, the UP tax process involves local politicians throughout. We noted above that UP representatives determine the tax base and rates. Furthermore, taxpayers appear to prefer paying their taxes directly to UP representatives rather than to the tax collectors, probably because of the social status of the representatives and potential patronage which the representatives could provide as opposed to collectors.

The poor collection that results from all these factors is likely to give rise to further problems of maintaining accounts of the arrears and issuing certificates and distress warrants. Furthermore, the collectors do not feel that they must prepare and maintain the arrears list of the UP. The UP may also be reluctant to have the collectors maintain the list for fear that they might disclose the official secrecy of the list. In a situation where almost all of the 2,995 taxpayer households have arrears, it is likely that the UP will have to appoint

someone to maintain the account and the list. At the same time, if the UP wants to do its job sincerely, it will have to issue certificates to all the defaulters, and then to issue and administer distress warrants to those who do not respond positively to the certificates. This process will again call for appointing people to carry out these jobs.

The UP is officially empowered to issue distress warrants to defaulters. But no warrant has ever been issued during the last ten years, and there are several thousand defaulters at the present time. The two other adjacent UPs<sup>1</sup> that I visited have never issued distress warrants during the last seven years, although they each had a lengthy list of defaulters. The representatives of the UP, although sometimes wanting to take action against the defaulters, could not reach a unanimous decision about issuing distress warrants against them. When I asked about this matter, the chairman replied that they were not getting cooperation from the departments of justice and police in administering the warrants. Whatever the reason, it is clear that the issuance of distress warrants by the UP appears to be non-existent and is likely to continue to be that way for both structural and sociopolitical factors, as discussed in the next section.

Turning to the utilization issue, the separation of union and chaukidary rates was made to serve the dual purposes of, respectively,

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<sup>1</sup>For cross checking information relating to internal and external sources of finance of the UP, I selected two UPs besides Kushiara, one with the highest income from internal sources in the thana and the other with the lowest. I visited them several times, interviewed the chairmen and the secretaries and collected data relating to the internal and external sources of finance.

maintenance of rural infrastructure of the UP and salaries of the village police. But the introduction of some types of grants, such as the budget deficit grant, increased development grant and compensatory grant, and particular programs, such as the Rural Works Programme and the Food-For-Work Program, seem to have been undermining the importance of collecting local taxes. As discussed previously, the money of the above grants is used to pay salaries of the UP staff, while public works programs and the maintenance of infrastructure are carried out by the Rural Works Programme and Food-For-Work Program.<sup>1</sup>

I am not suggesting here that the above grants and programs should be stopped or that they are not useful. My concern is that, whenever the UP finds ready money from the above external sources, it will not bother to collect money from the chaukidary rate. If there were some system of balancing the external income with the internal, the UP might find it necessary to increase its internal income. More clearly, if there were instructions and supervision from the higher authorities so that the UP must make, say, at least equal contribution to its yearly expenditure from the internal sources, the UP would feel obliged to increase its own-source income.

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<sup>1</sup>This is discussed more completely in Roy Bahl, "Intergovernmental Grants in Bangladesh," Interim Report No. 10, Local Revenue Administration Project, Metropolitan Studies Program, The Maxwell School (Syracuse, NY: Syracuse University, November 1983).

Loopholes in Kushiara's Finances: The Sociopolitical  
Context of Fiscal Favoritism

In this section I discuss the sociopolitical context in which the assessment and collection of the chaukidary rate operate. The contextual issues are grouped under two broad headings--the lineage structure and the formal and informal leadership structure.

Lineage Structure

Lineage (descent through the male line) constitutes the strongest social bond in Kushiara. It is not only that a person is known by his lineage but a person's status in the community derives from his lineage.<sup>1</sup> There are three dominant gosthis (patrilineages) in the five villages. They are known after the name of three ancestors--Mohabbat Kha, Sarif Kha and Masim Kha; for convenience of discussion I refer to them here by the letters A, B, and C. Nobody knows for sure when these people lived or even whether they were actual people, but their names are found in the land records of the mid-nineteenth century.

The social history of this area for roughly the last one hundred and fifty years was colored by the interaction of the three gosthis. As in most aristocratic families of Bangladesh, land was the basis of status and power. During the mid-nineteenth century, gosthi A was all-powerful both in wealth and political supremacy. Gosthi B held the second position, although in wealth it was far below gosthi A. Gosthi C at this time was gradually appearing on the scene.

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<sup>1</sup>As mentioned below, among the poor and landless households, the lineage factor is weak or nonexistent.

The current UF Chairman claims membership in gosthi C, but there are arguments regarding the status of Chairman and his forefathers in gosthi C. The people, especially of gosthi A, argue that Chairman and his forefathers are not in fact the direct descendants of Masim Kha. They claim that Chairman's grandfather came to the area from the southern part of Bangladesh, carrying bundles for a cloth vendor.

In the early part of the twentieth century, gosthi A lost most of its wealth. Chairman's gosthi C came to be the wealthiest in the locality. It did not, however, gain social status and political power in the locality as quickly as it gained wealth. Political power remained with gosthi A which contained past leaders (still living) and dominant population strength. However, from 1925 onwards gosthi A slowly lost political power. The main reason was that gosthi B's leader, Hazi Taub Ali, united with gosthi C by taking the job of manager in Chairman's estate. This unity made gosthi C stronger than gosthi A. Now, as regards numerical strength of these three gosthis, gosthi A stands first, with gosthi C and gosthi B second and third respectively. In the five village study area of 250 households, gosthi C includes 30 households, gosthi A contains 28, and gosthi B contains 16. The remaining 176 households either belong to dominant lineages centered in villages other than the five study villages, or else, as is the case with poor households, are not allied with any particular lineage.

In this situation of unity within the gosthi but rivalry between gosthis, it is likely that each gosthi will favor its own members, and, if not actually doing disfavor, will refrain from favoring members of

other gosthis. I propose that persons in the formal local government structure, with authority in the local finance system, will favor their own gosthi members in assessing and collecting the chaukidary rate. Some examples illustrate how formal leaders show favor to kinsmen in assessing and collecting the chaukidary rate.

Tota Mia, the younger brother of the Chairman, was assessed Tk. 4 as his chaukidary rate. But he has not paid for the last nine years. No tax collector ever visited him to collect his tax. When I asked about the situation, Tota Mia replied, "I am the brother of the Chairman and who can dare to come and collect taxes from me. As long as my brother remains Chairman of the UP, the question of paying taxes does not arise." The Chairman knows well that his brother does not pay, but he never tells his brother to do so, nor does he request the collector to collect from him.

Abdul Jabbar is a gosthi cousin of the Chairman and was very helpful to him during election time. Abdul Jabbar asked the collector not to go to his home for tax collection. The collector reported it to the Chairman. The Chairman asked the collector not to go to his home and that he himself would collect the tax from Abdul Jabbar. The Chairman, it seems, never told Abdul Jabbar to pay the tax or to pay arrears for the last four years.

The above examples demonstrate that the formal leaders may favor their kinsmen by allowing them not to pay taxes. In a situation, however, where almost every household is in arrears, favor to kinsmen may not be the only reason why the persons in the above examples do not pay taxes. The Chairman might not have asked his brother and cousin to pay because he also does not make other people pay. It is nevertheless clear from my field observations that, if one attempted to make the assessment and collection of the chaukidary rate more effective, formal leaders would very likely favor their kinsmen, thus acting to diminish effectiveness.

### Leadership Structure

My definition of formal leaders includes only the UP Chairman and UP representatives. Remaining rural leaders--the traditional "sardar" (headman), "matobbar" (leader), office-holders of the cooperatives and pump committees, and the rural rich--are designated as informal leaders. Table 6 lists the formal and informal leaders and shows their relationships to one another.

Tables 7-9 indicate the status of informal and formal leaders in landownership, education, and level of living. Table 7 shows that there is no informal leader in the landless category but there is one formal leader who is landless. Among the informal leaders, three own 15 acres or more while no formal leaders own that much land. Table 8 demonstrates that there are as many as eight informal leaders with more than eight grades of education compared to none among the formal leaders.

With the aid of twelve indicators of level of living, a composite scale was constructed to rank the formal and informal leaders of Kushiara in seven categories on a range of lowest to highest level of living available in the rural areas of Bangladesh (Table 9). For each indicator, an individual may score 0 at the minimum and 5 at the maximum, and thus for the twelve indicators the total score ranges from 0-60. There are four informal leaders in the upper middle and upper categories, compared to none among the formal leaders. Representation in other categories is more or less equal among formal and informal leaders.

TABLE 6  
 FORMAL AND INFORMAL LEADERS OF THE  
 FIVE VILLAGES AND THEIR RELATIONSHIP TO  
 THE THREE GOSTHI HEADS

Name	Formal (F) or Informal (I) Leader	Gosthi <sup>b</sup>	Relationship to Gosthi Heads <sup>c</sup>
1. Motaher Ali	I	A	Head
2. Noimuddin Member	F	A	Cousin
3. Mostakim Ali Driver	I	A	Cousin
4. Saifuddi Master	I	A	Brother's Son
5. Harrisuddin <sup>a</sup>	I	A	Brother-in-law
6. Hazi Taub Ali	I	B	Head
7. Halon Mia	I	B	Son
8. Chairman	F	C	Head
9. Azizur Rahman	I	C	Cousin
10. Khalek Shaheb	I	C	Cousin
11. Md. Totiur Rahman	I	C	Cousin
12. Abdul Haq Member	I	O	NR
13. Shafiqur Rahman	I	O	NR
14. Abdul Rahim	I	O	NR
15. Md. Elas Ali	I	O	NR
16. Md. Shoab Ali	I	O	NR
17. Mirjan Ali	I	O	NR
18. Md. Rois Uddin	I	O	NR
19. Md. Abdul Jalilkazim	I	O	NR
20. Md. Abdul Sattar	I	O	NR
21. Md. Abdul Quddus	I	O	NR
22. Hazi Abdul Noor	I	O	NR
23. Fazlul Karim	I	O	NR

<sup>a</sup>Harrisuddin is by blood a member of gosthi A, but his marriage to a female of gosthi C alienated his natal gosthi from him to the extent that he was informally ostracized. Now he is an "effective" member of gosthi C, which welcomed him. This occurrence is quite uncommon in rural Bangladesh.

<sup>b</sup>O = "Other," i.e., the person is not a member of either gosthis A, B, or C.

<sup>c</sup>NR = "No Relationship" to the heads of gosthis A, B, or C.

TABLE 7

AGRICULTURAL LAND OWNERSHIP AMONG THE FORMAL  
LEADERS OF KUSHIARA UP AND THE INFORMAL  
LEADERS OF THE FIVE VILLAGES

<u>Acres of Land Owned</u>	<u>Formal Leaders</u>	<u>Informal Leaders</u>
Landless	1	
0.01 - 1.00	2	4
1.01 - 2.00		5
2.01 - 3.00	1	1
3.01 - 5.00	4	6
5.01 - 10.00	1	1
10.01 - 15.00	1	1
15.01 - 20.00		1
20.01 and above		2
TOTAL	10	21

TABLE 8

EDUCATION LEVEL OF THE FORMAL LEADERS OF THE UP  
AND THE INFORMAL LEADERS OF THE FIVE VILLAGES

<u>Education Categories</u>	<u>Formal Leaders</u>	<u>Informal Leaders</u>
No Education	2	2
I - III	2	2
IV - V	3	4
VI - VIII	3	5
IX - X		6
XI - XII		2
TOTAL	10	21

TABLE 9

LEVEL OF LIVING OF THE FORMAL LEADERS OF  
KUSHIARA AND THE INFORMAL LEADERS  
OF THE FIVE VILLAGES

<u>Categories</u>	<u>Formal Leaders</u>	<u>Informal Leaders</u>
Lower Lower		1
Lower		
Upper Lower	3	4
Lower Middle	2	5
Middle	5	7
Upper Middle		3
Upper		1
TOTAL	10	21

Informal leaders clearly have higher socioeconomic status than the formal leaders, lending support to the proposition that the formal power structure is likely to be dependent on the informal to a large extent. This power of the informal leaders and the dependency of the formal leaders on the informal may affect the decisions of the formal leaders in generating and utilizing UP resources. Formal leaders may not be in a position to conduct a fair assessment of the chaukidary rate and may fail to collect what has been assessed, as is in fact the case in Kushiara. Some examples are given here.

Hazi Taub Ali, as mentioned before, was assessed a union and chaukidary rate of Tk. 15. If there were fair assessment, he would have been the highest rate payer, (considering that he owns the only pucca house in Kushiara and is one of the biggest landowners in Kushiara). When I asked about this, the secretary of the UP replied, "If he is not ready to pay the tax, we cannot override his decision. It is better to have Tk. 15 than nothing." Hazi Taub Ali, however, even when he was assessed only Tk. 15, never paid that in the last seven years. I learned that he warned the collector not to go to his place to collect the tax from him. Furthermore, his name is not found on the arrears list of the UP. The secretary hesitated to give a direct answer as to why his name is not on the arrears list, stating only that, "Hazi Taub Ali does not like to have his name on the arrears list."

Two powerful men both closely related to the Chairman, Azizur Rahman and Harrisuddin were assessed union and chaukidary rates of Tk. 60 each. The collector never goes to them for their tax collection. Two chaukidars of the UP are said to have been collecting their taxes. I learned from the chaukidars that they go to these people every year and receive generally more than what was assessed, Tk. 100. The chaukidars argue, "They (Azizur Rahman and Harrisuddin) know our economic background and therefore present us Tk. 100 in the name of the tax, without looking into what they were assessed."

The cases of Azizur Rahman and Harrisuddin imply that if the chaukidars had been tax collectors, these informal leaders would not have their taxes. What they give to the chaukidars does not seem to be

taxes as such, rather they help the two poor chaukidars in the name of taxes.

I do not have data to justify whether the followers of Azizur Rahman and Harrisuddin are favored by not having to pay taxes, but I do know that many people do not pay taxes after observing their behavior. To take an example, Mochaddor Ali is a neighbor of Hazi Taub Ali. He is, as was mentioned before, a small farmer and owns a kutchha house. He was assessed a chaukidary rate of TK. 15, the same as for Hazi Taub Ali. He has not paid his tax for the last five years because he considers that his rate should not be equal to that of Hazi Taub Ali.

This section has provided insight into the complex sociopolitical web that surrounds the collection and assessment of the chaukidary rate. I know that, throughout the world, both kinship and power relationships have strong effects on local finance. My goal here has been to sketch these relationships as they exist in one part of the world, rural Bangladesh, in order to formulate plans for change.

### Policy Recommendations

The chaukidary rate is the most important revenue source for the union parishad in Bangladesh, but it is currently in a very defective state for several reasons. The major reasons were discussed above in this report under the headings of structural problems and sociopolitical problems. These problems relate to all phases of the tax: assessment, collection, and utilization.

#### Assessment

Assessment of the chaukidary rate is in a chaotic state. Two critical needs are: clear guidelines as to the criteria for assessment, and professional assessors initially to rationalize and update periodically the assessments.

1. Nationwide guidelines should be developed for the assessment of the chaukidary tax. Criteria should be simple and clearly defined.
2. Trained valuation officers should be posted at the upazila level and be given the responsibility of reassessing properties every five years in each union parishad in the upazila.

These officers would work under the upazila finance officer. As a central government employee the valuation officer should be relatively free from local sociopolitical pressures which plague the current system at the union level.

#### Collection

Collection of the chaukidary rate is consistently low. In the one year that the collection rate was better, improvement was due to the fact that payment of the tax was tied to people's receiving a ration

card during a period of food scarcity. This sort of incentive system should be utilized on a more continuing basis.

3. Payment of the chaukidary tax should be tied to an important benefit such as receiving birth, death, and cattle receipts. Only persons living in households with taxes paid in full will receive such documents.

Collectors are to receive a twenty percent commission on taxes collected, but even then the amount they earn is not enough to convince them to devote their full energy to the job. Rather than requesting a central government subvention to help pay salaries for the collectors, The present system of using collectors should be abolished.

4. Taxpayers should be required to come to the union parishad at two or three designated dates during the year, preferably scheduled to coincide with another important local event such as a major bazaar/haat day. Payment should be made to the secretary of the union parishad who will remain in the office all day on the appointed dates. Only the secretary will be able to distribute the receipt for payment.
5. Because arrears are a universal problem, once the improved system of assessment and collection is in place, a moratorium on past arrears should be declared with strong warning that penalties will be exacted in the future for non-payment.
6. The current penalty system must be enforced and must thus be placed in the hands of a higher body to remove it from sociopolitical pressures at the union level.

#### Utilization

Locally-relevant utilization of the revenues from the chaukidary tax will contribute to greater willingness to pay. If people know that the funds will go to projects of local importance, particularly school improvements and water control and provision, then an important requirement of good local taxation will be fulfilled.

In order to provide additional incentives for collection of the chaukidary tax, the grants system should be revised to tie grant allocations to the success union parishads have in collecting the tax. Furthermore, this case suggests that it is crucial that the rewards not be tied to budgeted levels of tax collections but to actual collections. Specifically,

7. Allocation of the Development Fund grant to union parishads within an upazila should be based in part on levels and growth of UP resources mobilized within the several union parishads.