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UPAZILA PARISHADS: THEIR STRUCTURE
AND REVENUES

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PREFACE

This paper was the ninth in the series of Interim Reports issued from the Zilla Roads/Local Finance Project. Originally released in June 1983, the current version has been revised to reflect changes in governmental 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. 11).

The paper focuses on what was a most profound change in local governments in Bangladesh--creation of the upazila parishad level of self-government from the former thana parishads. A portion of the paper is devoted to a description of this new level of government with the remainder focused on revenue powers that could be provided to the upazila.

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

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

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

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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UPGRADED THANA PARISHADS: THEIR STRUCTURE AND REVENUES

Larry Schroeder

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

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

Upgraded Thana Parishads

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

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

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

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

Popularly Elected Chairman

Upazila parishads still consist of a combination of elected and administrative officials. Unlike the former arrangement in which the SDO served as thana parishad chairman, the upazila parishad is to have a popularly-elected chairman. All eligible voters within the thana will be allowed to participate in these elections, currently scheduled for sometime in 1984.²

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

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

²Until elections are held, the upazila nirbahi officer (UNO) acts as upazila parishad chairman.

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

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

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

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

Administrative, Judicial and Technical Personnel

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

TABLE 1

UPAZILA PARISHAD MEMBERSHIP

Chairman

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

^aOnly in localities where social welfare programs operate.

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

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

One example of increased efficiency pertains to the Food-For-Work Program (FFWP). Previously, the chairman or secretary of the FFWP project committee was required to obtain a delivery order (DO) from the SDO in order to remove grain from the local supply depot. Now the DO is issued directly by the UNO.¹ We were informed in personal interviews that this change has successfully reduced delays and costs in carrying out FFWPs schemes.

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

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

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

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

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

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

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

TABLE 2
STRUCTURE AND NUMBER OF PERSONNEL POSTED
IN UPAZILAS^a

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

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

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

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

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

Revenues

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

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

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

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

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

There are mixed signals being given regarding the degree of UZP autonomy. On the one hand, the first year's allocation of funds under the Development Fund block grant was made with few strings attached other than a crude functional breakdown of how the funds could be spent. Similarly, the 1984/85 allocation is apparently to be made on a formula basis but again in the form of block grants.¹ On the other hand, discussions with central government personnel indicate that before second installments of 1983/84 allocations are distributed, the Ministry of Local Government reviews the spending decisions of the local bodies. Such oversight provides the opportunity for the central government to insinuate its own objectives into an otherwise autonomous system.

¹See 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), for a fuller discussion of these grants.

Critical Issues

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

While popular elections are crucial, so is effective UNO leadership. It has been rumored that some UNOs are dissatisfied with their new posts in the outlying areas and that their unhappiness is affecting performance. Other UNOs apparently see the position as a challenge to their leadership abilities and are enthusiastically pursuing development of their local areas. It has been suggested that the primary impediment to the effectiveness of the former thana organization was the lack of strong leadership provided to thana officers. Continuing, thorough evaluation of the leadership abilities of all UNOs is, therefore, a necessity. Removal from the office of a few ineffective leaders should have an important demonstration effect on the entire cadre of UNOs. On the other hand, effective UNOs should not be transferred frequently. The fruits of development require time before becoming visible. If UNOs are to be proud of their accomplishments and, therefore, are to strive to become even more effective, they

should be allowed to remain in a single location long enough for their efforts to have some effect.

Maybe more pressing than the issue of UNO performance evaluation is the more general issue of availability of trained personnel for these and other upazila officer positions. This shortage is likely to be exacerbated by the recent decision to increase the number of districts. What very well may occur is transfer of the more capable UNOs and other upazila officers to the district level. If so, it could prove to be terribly disruptive to any progress already made at the upazila level and, indeed, could even jeopardize the success of this experiment in decentralization.

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

Another potential conflict regarding personnel concerns upazila officers, e.g., upazila engineer, upazila health officer, etc. These officers are to serve the upazila; however, they are to be evaluated for purposes of promotion, transfer, etc., by the district officers within

their respective line ministries.¹ This implies that upazila officers must serve two groups--the upazila parishad and their specific line ministry. This could create tensions whenever the UZP and the line ministry see an issue differently. While statutory regulations specify that the upazila officer should follow the dictates of the upazila parishad,² the officer may decide that it is in his self interest to follow the desires of his line ministry since it is this organization which determines his promotions and transfers. If this occurs, true decentralization will not be complete. Line ministry evaluation must take into account evaluations by the upazila parishad chairman, who can better ascertain whether the officer is fully carrying out his charter of duties.

A final issue pertains to finances, at least in the short-run. As noted above, it is anticipated that an approval process will be employed for large schemes initiated in the UZPs. This implies a recognition of limited technical abilities at the thana level. At the same time the Government has announced that each is to receive Tk. 50 lakh. While it is desirable that additional resources be available to these local bodies, five million taka is a considerable sum to be transferred to localities which previously seldom had more than Tk. 3-5 lakh at their

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

²The Charter of Duties for each officer contained in Annexure II of the Resolution on Reorganisation of Thana Administration contains a statement of the form, "He will work under the guidance of Thana Parishad as coordinated by Thana Nirbahi Officer."

disposal. One therefore wonders if the UZP has the capability of absorbing and effectively spending such a large amount of funds. As upgraded thanas become established, however, own source revenues should be developed.

Revenue Powers of the Upazila Parishads

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

Revenue Powers in a Local Self-Government

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

TABLE 3

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

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

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

Decentralization also calls for upazila parishad revenue-raising powers. Local governments must recognize that decision-making implies responsibility. Currently, when needs arise localities seem to turn automatically to the central government to provide the necessary resources. This attitude must be changed, especially given the paucity of resources available centrally. Utilization of local revenue-raising powers and restructuring of the grant system provide the most effective policies for bringing about such change.

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

Upazila Parishad Revenues

Specification of revenue sources in the 1982 Ordinance is in keeping with the idea that revenue-raising powers should be implemented at the thana level. The specification, however, has two potential weaknesses: it erodes the revenues of other local bodies, especially the union parishads; and it will not yield significant levels of revenue in many UZPs.

Union parishads have previously derived revenues from taxes on professions, trades and callings, taxes on entertainment, fees for licenses and permits and lease money from haats and bazaars. With upazila parishads assuming all of these revenue sources, income for the

already financially-pressed union parishads will decline by about 5-10 percent.¹ This is counter-productive to the goal of expanding revenue mobilization at the local government level.

While some upazila parishads may find these revenue sources productive, less urbanized locations will likely obtain only a small amount of funds from these business-related revenue sources. Thus, there may be considerable difference in the levels of revenues generated across upazilas which are forced to rely only on the prescribed revenues. To alleviate that situation it is most reasonable to search for a new upazila revenue source.

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

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

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

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

The Land Development Tax as an Upazila Tax

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

Land-Based Tax

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

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

¹A fuller discussion of these economic effects is contained in James Alm and Larry Schroeder, "The Land Development Tax in Bangladesh," Interim Report No. 7, Metropolitan Studies Program, The Maxwell School (Syracuse, NY: Syracuse University, 1983).

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

Revenue Effects

Changing the LDT from a central government to a upazila parishad revenue source would affect the available resources of both bodies. But Table 4 indicates that the total revenue effect of such a change would not be profound at the central government level. In 1979/80, the LDT produced a total of Tk. 138.8 million, or only 1.1 percent of total central government taxes and 0.4 percent of total expenditures. The relative shares based upon budgeted revenues and expenditures were quite similar in 1960/81 through 1982/83.

While the central government revenue implications are insignificant, the tax could have substantial revenue effects in the upgraded thanas. In 1981-82 approximately Tk. 58.1 million were transferred to thana parishads under the Rural Works Programme. Even if only one-half of the Tk. 250 million estimated LDT revenues had been

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

TABLE 4

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

Fiscal Year	Land Development Tax (LDT) (in taka)	Taxes		Expenditures	
		Total (in taka)	LDT as Percent of Total	Total (in taka)	LDT as Percent of Total
1979/80	138,832.	12,237,585.	1.1	34,899,088	0.4
1980/81 ^a	250,000.	17,250,749.	1.4	66,955,857	0.4
1981/82	194,862.	20,683,987.	0.9	42,477,477 ^b	0.5
1982/83 ^a	230,000.	21,598,024.	1.1	78,263,382	0.3

^aRevised budget

^bProvisional

SOURCE: Budget Estimate, Ministry of Finance and Planning, Finance Division, Government of the People's Republic of Bangladesh: 1981-82, 1982-83 and 1983-84. Detailed Estimates of Revenues and Receipts 1981-82 and 1983-84, Ministry of Finance, Government of the People's Republic of Bangladesh.

retained at the thana level, the impact would have been to increase thana resources by 215 percent (assuming no cutbacks were made in the RWP).¹ The overall implication is, therefore, that such a transfer would substantially increase upazila own-source revenues without a major impact on central government resources.

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

The data suggest that, at a minimum, thana revenues would have increased by over 40 percent with Rajbari Thana experiencing more than a 150 percent increase. The collection efficiency information highlights another aspect of this proposed policy. Upazilas with more effective tax collection efforts would derive the greatest benefit--an important incentive associated with any initiation of revenue mobilization powers.

Incentive Effects

Inserting the LDT into the revenue structure of the upazila provides another advantage when viewed in conjunction with the intergovernmental grant system. One overriding characteristic of the

¹This is an upper bound since the LDT is collected in both rural and urban areas while the RWP is distributed only to rural thanas.

TABLE 5

LAND DEVELOPMENT TAX COLLECTIONS AND RWP
GRANTS IN SELECTED FARIDPUR THANAS

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

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

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

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

current local government revenue structure in Bangladesh is the nearly complete absence of incentives for localities to increase resource mobilization efforts. Previously, thanas could do little to raise resources since their principle revenue source was totally controlled by the central government.

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

Administrative Considerations

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

¹In 1980-81 nationwide approximately 88.0 percent of the total LDT current demand was collected and 88.4 percent of the arrears were paid. Overall this amounted to a 58.3 percent collection efficiency.

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

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

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

system in which owners of equal-sized parcels pay equal taxes no matter what income is being generated by the land.¹

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

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

Conclusions and Recommendations

This paper has reviewed the structure of the newly-created upazila parishads including their revenue-raising powers. While there are

¹James Alm and Larry Schroeder, "The Land Development Tax in Bangladesh," Interim Report No. 7, Local Revenue Administration Project, Metropolitan Studies Program, The Maxwell School (Syracuse, NY: Syracuse University, June 1983).

several critical issues that will have to be resolved, the policy initiative should result in a significant decentralization of decision-making responsibilities.

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

Specifically:

1. The BDG tax structure should be altered to provide that 50 percent of land development taxes collected within an upazila parishad should be retained by that upazila parishad. Tax administration should remain the responsibility of the Central Government.
2. In the longer run the land development tax should be converted to a value-based levy. A schedule of average land values, broken down by major land characteristics, should be developed and updated every 3-5 years in all upazilas. The base of the land development tax would be the value of land, equal to the size of the plot times the average value per acre.
3. A proportional tax rate of at least Tk. 20 per acre should be adopted for the land development tax with owners of agricultural plots 1/10 acre or less in size being exempt from the tax.
4. Upazila parishads should be given the power to set land development tax rates within some bounds. If a nationwide tax rate of Tk. 20 per acre is imposed, localities should be free to impose an additional surcharge of up to Tk. 10 per acre with all such revenues retained by the upazila parishad in which the property lies.