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Financing Governmental Decentralization

The Case of Bangladesh

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Preface

One policy goal of many developing countries is to decentralize public sector decision making so as to "bring it closer to the people." While discussions of decentralization commonly focus on how such policies can improve the effectiveness of resource allocation decisions, the issues of from where and how these resources are to become available are also of extreme importance in Third World countries. Furthermore, there are reasons to think that answers to these questions may influence the overall success of decentralized decision making. Since local government is often the institution given the task of leading decentralization efforts, it is reasonable to consider the role local self-governing bodies can play in the resource mobilization process.

Bangladesh is a country that has recently embarked on a path of decentralized decision making in the hopes that it might yield significant improvements to rural development. And, although local governments were given the most prominent role in the new scheme, little progress has been made in strengthening the fiscal capabilities of these institutions. This book indicates how such strengthening might occur by analyzing the overall local government fiscal system in light of local economic and demographic characteristics together with a consideration of the administrative and political constraints faced at both the central and local levels. The contributions here constitute the first systematic analysis of the rural local government sector, since heretofore little effort has been made to undertake a wide-scale data gathering effort concerning the fiscal conditions of rural local governments in the country. Further, there have previously been no attempts to summarize in a single place descriptions of the structure of the entire revenue package available to local governments including the intergovernmental transfer programs, together with a discussion of the various ways in which local revenue administration is influenced by both central government and local officials.

The various chapters should also prove of interest to readers interested in Third World countries other than Bangladesh. The fiscal system of this extremely poor nation shares features with other post-colonial countries, particularly those formerly part of the British Empire. Our work, therefore, carries on a tradition of analysis put forward so clearly by Lady Ursula Hicks in her classic 1961 study of local government finance in countries of the British Commonwealth, *Development From Below*. Moreover, the analyses contained herein reflect the same policy concerns that are likely to arise in any evaluation of the role local governments might play in decentralized development administration.

The research effort reported upon in these contributions predates the full-scale initiation of decentralization in Bangladesh. In the early 1980s the Government of Bangladesh together with the United States Agency for International Development (USAID) determined that one primary impediment to sustaining investments in rural roads in Bangladesh was the lack of maintenance. From those discussions agreement was reached for USAID to fund the "Zilla Roads Maintenance and Improvement Project." Since it was also realized that lack of local-level funding constituted a major constraint to long-term maintenance efforts, one component of the roads maintenance project was to fund a study of local government finance. The Metropolitan Studies Program of the Maxwell School at Syracuse University was contracted to carry out that research through its Local Revenue Administration Project. The research effort then got underway in early March, 1982. Almost simultaneously with the start of the research efforts a new Government in Bangladesh, headed by Md. Ershad, instituted a new decentralization initiative as a centerpiece of its domestic policy.

Derivation of possible policies to strengthen the fiscal condition of these local governments then took on even greater significance. Unfortunately the research task was also made more difficult by the fact that while the analysis was being conducted the subject of inquiry—the local government sector—was being altered rather substantially; hence, the research effort involved studying a moving target.

Senior researchers on the team included James Alm, Roy Bahl, Barbara Diane Miller and myself. Assisting us in the field were Showkat Khan, Hasan Murshed and Muin Uddin. Mr. Khan spent approximately nine months in northeast Bangladesh carrying out participant-observer research at the village level; Messrs. Murshed and Uddin spent six months in the country collecting quantitative and qualitative fiscal data from a sampling of local governments. After pre-testing, the survey instrument was administered in all of the then 20 districts in the country, 15 urban local governments, as well as 52 thana and union local governments located

within Faridpur, Rangpur and Sylhet Districts. Considerable amounts of additional data and information were collected from a variety of other sources both from within the central government as well as from other agencies and through the administration of a nation-wide mail questionnaire. The results of the analyses of these disparate sources of information were made available first through a set of Interim Reports and summarized in a Final Report to the Government and USAID in 1984. Some policy changes concerning local governments resulted from that report. In addition, however, there have also been further minor changes in the structure of local governments, not all of which are reflected in the contributions here. Nevertheless, we feel that the overall thrust of these chapters remains valid for Bangladesh even today.

Larry Schroeder
Syracuse, N.Y.

Acknowledgments

Obviously, the extensive data-collection task and analysis by researchers not living in Bangladesh required considerable assistance by many others who gave generously of their time. We wish to thank the personnel of the National Institute of Local Government, especially its Directors, Mr. Syed Marghub Murshed, Mr. Mohammad Faizulla and Dr. Kamal Siddique, and its Director of Research, Mrs. Bilquis Ara Alam, for their assistance throughout the project. Others who provided considerable insight and assistance were Mr. Quamrul I. Siddique of the Engineering Bureau of the Ministry of Local Government and Dr. Maqsood Ali, formerly Director General of the National Institute of Public Administration.

Dr. Paul O'Farrell, Mr. Paul Thorn, Ms. Susan Downs and Mr. Gene George all served for some time as extremely supportive USAID project officers for our project in Dhaka. While he is also a contributor to this volume, we wish to express our special thanks to Maniruzzaman, Research Specialist at USAID/Dhaka, who facilitated our efforts throughout the years of the project and has continued to provide insight on local government finance issues in the country since the completion of the formal project.

Portions of two of the chapters in this book have appeared previously in academic journals. The editors of the *Third World Planning Review* have granted permission for us to draw heavily in Chapter 8 upon the article by Barbara Diane Miller and Showkat Hayet Khan, "Incorporating Voluntarism Into Rural Development in Bangladesh," 8 (2) 1986, pp. 139-152; likewise the editors of *The Asian Journal of Public Administration* have allowed us to draw in Chapter 4 from the paper by James Alm and Larry Schroeder, "Tax Administration and Local Public Finance in Developing Countries," 9 (1) 1987, pp. 2-24.

The support provided by the Metropolitan Studies Program in helping us to prepare this manuscript is also gratefully acknowledged. In addition

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The map was prepared at the Syracuse University Cartographic Lab under the supervision of D. Michael Kirchoff.

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L.S.

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Showkat Hayat Khan is a doctoral candidate in anthropology in the Maxwell School, Syracuse University. His dissertation research focuses on the role local leaders play in rural development in Bangladesh.

Maniruzzaman is a Program Specialist in the USAID Mission in Dhaka, Bangladesh. He has researched several topics concerning the decentralized administrative structure in place in Bangladesh.

Barbara Diane Miller is Visiting Fellow and Lecturer, Population and Development Program, Cornell University. Her research efforts have included a variety of social issues in India, Sri Lanka, and Jamaica, as well as in Bangladesh.

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Larry Schroeder is Professor of Public Administration and Economics and Senior Research Associate in the Metropolitan Studies Program of the Maxwell School, Syracuse University. He has worked on problems of local public finance in many developing countries, particularly South Asia.

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Governmental Decentralization in Bangladesh

Larry Schroeder

Greater decentralization of administrative power was recently pronounced as a policy goal in Bangladesh.¹ Unlike many other Third World countries where similar intentions have been announced, actions were undertaken in Bangladesh to implement such reforms with local governments chosen as the primary institution to carry out the policy. The decentralization process takes time and is still ongoing, some years after its initiation in the early 1980s.² Given the prime rôle of local governments in the decentralization process, there is a need to learn more about the functioning of these institutions. Particularly important in this regard is an analysis of how local jurisdictions are financed and how they might be

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1. See Ali Ahmed, *Basic Principles and Practices of Administrative Organization: Bangladesh* (Dhaka: National Institute of Local Government, 1981), p. 13, where it is noted that the desire for increased decentralization was expressed in the country's first five-year plan issued in 1973.
 2. For an interesting review of the first several years of the decentralization process see Yusuf Hyder, *Development the Upazila Way* (Dhaka: Dhaka Prokashan, 1986).

strengthened through more effective financing mechanisms. While there are a few discussions of local government issues in Bangladesh,³ they are not readily available in the West; furthermore, because of the paucity of local government fiscal data in the country, little systematic fiscal analysis has ever been performed. This book is intended to begin to fill that void while simultaneously addressing the more general issues of fiscal decentralization in developing countries.

The Bangladesh case is important for several reasons. One of the poorest countries in the world, Bangladesh provides a setting which is representative of low-income countries everywhere because of its scarce natural resources, rapid population growth, and importance of the rural sector in the economy. As is the case in many other developing nations, local governments have generally been very weak in relation to the central government. Finally, as other countries pursue decentralization policies, many of the same general issues concerning local government finance are likely to arise. Hence, as a case study the Bangladesh experience is enlightening.

This introductory chapter summarizes the rationale underlying decentralized administration and the role local governments in developing countries can play in decentralization. It also provides background information on the political and economic environment in which the local governments of Bangladesh operate. The final section outlines the organization of the chapters to follow.

Decentralization

The term decentralization can be applied in a variety of contexts, from industrial organization to political theory. In general, the term is used to connote a dispersion of power from a single unit within an organization to the component parts of that organization. In a bibliographic review of political decentralization in developing countries Diana Conyers defines the

3. One review of the role and status of local government in Bangladesh is *Local Government in Bangladesh*, ed. Kamal Siddiqui (Dhaka: National Institute of Local Government, 1984). The National Institute of Local Government (NILG) is the principal research and training institute in the country that concentrates on the local government sector. Its *Journal of Local Government*, is also a useful source of information on the problems and policies of local government in the country.

term to mean "any change in the organization of government which involves the transfer of powers or functions from the national level to any subnational level(s), or from one subnational level to another, lower one."⁴

Such transfers of power and functions can come in different forms. The term deconcentration is commonly used to describe the case where power is dispersed from higher levels of an administrative hierarchy to lower levels. This sort of change can occur whether or not there exists a local government structure alongside the administrative structure of the higher level of government. Devolution is the term often reserved for the case where power is transferred from a higher level of government to a locally-elected political body, specifically a lower level of government. This latter case is most interesting within the context of financing decentralization since the lower level of government must have resources available to provide services to the locality.

Improved resource mobilization is one argument commonly given in support of decentralization. Other arguments include those that focus on the efficiency of decision making and political benefits that can be derived from such policies. Increased decision making efficiency includes both technical efficiency associated with lower costs of making decisions and economic efficiency which focuses on maximizing local welfare. In developing countries, communications and transportation systems are often inadequate leading to significant delays if all major decisions must be made centrally. Descriptions of the issues and the options available must first pass from the lower level of administration to the higher level and then, after the inevitable delays, a decision is rendered which may or may not be a reasonable one and which sometimes comes too late to matter. With decentralization it should be possible for these decisions to be made as the issues arise, thereby avoiding the delays and communications costs of centralized decision making.

Another type of efficiency associated with decentralization is economic efficiency. While it may not be possible to measure or even to describe the social welfare of a community, it is likely that when social decisions are made locally, they are more likely to result in outcomes which reflect the particular preferences of the community than if decisions are made centrally. To the extent that local residents are better off by being able to make their own allocation decisions either directly or indirectly through elected representatives or other locally-based decision makers, improved

4. Diana Conyers, *Decentralization for Development, A Selected Annotated Bibliography* (London: Commonwealth Secretariate, undated).

economic efficiency results. Local leaders are expected to be more aware of the particular circumstances prevailing locally than are decision makers sitting in the national or provincial capital.

A second potential benefit of decentralization concerns its effect on local mobilization of resources, both monetary and labor. Improved resource mobilization is particularly crucial because one major factor constraining development in many countries is the lack of resources available to meet the recurrent costs of development initiatives resulting in projects that are not sustainable.⁵ Financial resource mobilization and local participation in decision making are both more likely in a decentralized environment.

Local resource mobilization techniques have some advantages over centrally-collected revenues in generating tax revenues. One of these is that administration of at least some taxes can be more effective when done locally since knowledge of the tax base may be more complete at that level. No one in any country enjoys paying taxes, but taxpayers may feel less disinclined to pay taxes when they realize that the benefits therefrom will remain at the local level. Finally, moral suasion as an incentive to comply with taxes may be more effective when everyone realizes the revenues are to be expended at the local level; that is, free-riders may receive pressure to pay local taxes from their neighbors. Lady Hicks summarized these arguments in favor of local taxation:

The task of taxing farmers so as to release additional output without curbing their enterprise is eminently one for local effort, since it is only in the locality (if at all) that the circumstances of the individual farm family and hence, its taxable capacity, can be discovered adequately. The solution of this delicate balance of stimulus and control implies willing tax compliance on the part of farmers. This again can more easily be achieved if it is apparent to the taxpayers that a substantial part of the revenue is being spent on things that will benefit the rural community, especially on those things that

they themselves have chosen. This calls not only for local assessment and collection, but also for a substantial retention of the revenue by Local Authorities.⁶

Recent evidence supporting this argument is provided by the experience in Ghana where local resource mobilization improved significantly under a decentralization program.⁷

Decentralization should also encourage popular participation in development projects. While serious questions exist as to which groups are most likely to participate in, and possibly even dominate, the local decision making process, there is evidence that local participation can improve the selection and execution of local development projects.⁸

In summary, good reasons support the contention that decentralization, especially devolution, provides an environment in which greater monetary and labor resources for development can be forthcoming than in a centralized environment. At the same time, decentralization itself is not a sufficient condition for such resource mobilization and participation. It is the theme of this volume that the decentralized environment must also be supplemented with a revenue structure that can take advantage of the incentives provided by decentralized decision making, particularly greater local autonomy in determining rates at which revenue instruments are imposed. Furthermore, administrative problems that constrain the implementation of these instruments must also be overcome if resource mobilization efforts are to improve.

Ultimately, the decision to decentralize is a political one.⁹ As such, political benefits must also be perceived as flowing from such a policy.

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6. Ursula Hicks, *Development from Below. Local Government and Finance in Developing Countries of the Commonwealth* (London: Oxford University Press, 1961), p. 322.
 7. See D.M. Warren and Joe D. Issachar, "Strategies for Understanding and Changing Local Revenue Policies and Practices in Ghana's Decentralization Programme," *World Development* 11 (September 1983): 835-844.
 8. Michael M. Cernea, "Can Local Participation Help Development?" *Finance and Development* 21(4) (December 1984): 41-44.
 9. Decentralization is the underlying theme of B.C. Smith's, *Decentralization: The Territorial Dimension of the State* (London: George Allen and Unwin Publishers, Ltd., 1985). This book provides a wide-ranging and balanced discussion of the major issues associated with decentralization in both developing and developed countries.

5. For further discussions of recurrent costs and their effects on development projects see Peter Heller, "The Underfinancing of Recurrent Development Costs," *Finance and Development* (March 1979): 38-41; or United States Agency for International Development, *Recurrent Costs*, AID Policy Paper (Washington, DC: U.S. Government Printing Office, 1982).

Obviously, if decentralization produces benefits which appear in the form of more rapid economic growth, political gains can accrue to those supporting the policy. Devolution, with creation of elected local bodies, can also assist central political leaders. Grassroot political support is often based on local political leaders. Elections of political allies at the local level can greatly strengthen the power of leaders at the center.

Decentralization policies are, however, not costless. Some higher level policymakers and bureaucrats may see decentralization as leading to an erosion of their power, and they will consequently attempt to impede the process. Furthermore, if waste associated with corruption, graft and lack of technical expertise at the local level is significant, the technical efficiencies of decentralization will be offset by such costs. Economic efficiency may also be hindered by decentralization. Here the issue concerns the different perspectives of local and central decision makers. What happens to be best for a particular locality may or may not be best for the country as a whole. For example, when certain activities yield substantial spillover or external effects, purely local decisions can result in inefficient levels of those activities.

Equity is another important consideration that may limit decentralization efforts. Poorer regions or localities are at a disadvantage if required to mobilize the resources necessary to finance development. While intergovernmental transfer programs may be designed to help overcome such resource inequities, grant schemes commonly carry with them some control over the utilization of funds; thereby offsetting the advantages of decentralized decision making.¹⁰ Furthermore, it is unclear whether, within the context of a developing country with limited resources, attempting to spread those resources in an "equitable" fashion will actually result in more rapid economic growth.

While providing greater revenue powers to localities and thereby increasing the overall level of resource mobilization may improve the sustainability of development efforts, fiscal decentralization can lessen the control central fiscal and monetary authorities have over the macro economy. Although truly incremental mobilization efforts may have positive resource effects, it is likely that any policies designed to transfer fiscal powers from the center to the local level will be met with considerable opposition by these authorities, with some justification.

Finally, decentralization and autonomy can also produce political liabilities. If particular regions of a country have some desire to be independent from the rest, decentralization may provide an environment that makes secession possible.¹¹ Decentralization is not costless and is certainly not a sufficient condition for development. Nevertheless, it can aid the development process.

The Setting

Before turning to a description of the decentralization efforts undertaken in Bangladesh, it is useful to describe briefly the country's political and economic environment.¹² Four factors stand out. First, like many young countries, Bangladesh is still concentrating on "nation-building." Second, it is the most densely populated agricultural country in the world. Third, climatic conditions have produced periodic disasters entailing considerable costs. Last, its current economic status compared to the rest of the world is very low. These factors make economic development in Bangladesh particularly challenging.

Bangladesh is located in the northeast corner of the South Asian subcontinent (Figure 1-1). It is surrounded by India except for a 150 mile border it shares with Burma. The Bay of Bengal lies directly to the south. The total area of the country is approximately 55.6 thousand square miles with about 65 percent under cultivation and an additional 20 percent under forests.¹³ The low-lying land consists primarily of the deltas of three major rivers—the Padma, Jamuna and Meghna. This fact, together with the tropical monsoon climate, helps explain the numerous devastating floods which historically have afflicted the region. The Bay of Bengal also

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11. It is interesting to note, however, that decentralization was pursued in Papua New Guinea specifically in order to decrease the likelihood of secession. See Diana Conyers, "Papua New Guinea: Decentralization and Development from the Middle," in *Development from Above or Below? The Dialectics of Regional Planning in Developing Countries*, eds. W.B. Stohr and D.R.F. Taylor (Chichester: Wiley and Sons, 1981), pp. 209-230.
 12. This section benefited from the research efforts of Muin Uddin, doctoral candidate in the Economics Department, The Maxwell School, Syracuse University.
 13. Bangladesh Bureau of Statistics, *Monthly Statistical Bulletin of Bangladesh* 13 (June 1984): 31.

10. See, for example, Richard Bird, "Intergovernmental Fiscal Relations in Developing Countries," *World Bank Staff Working Paper No. 304* (Washington, DC: The World Bank, 1978).

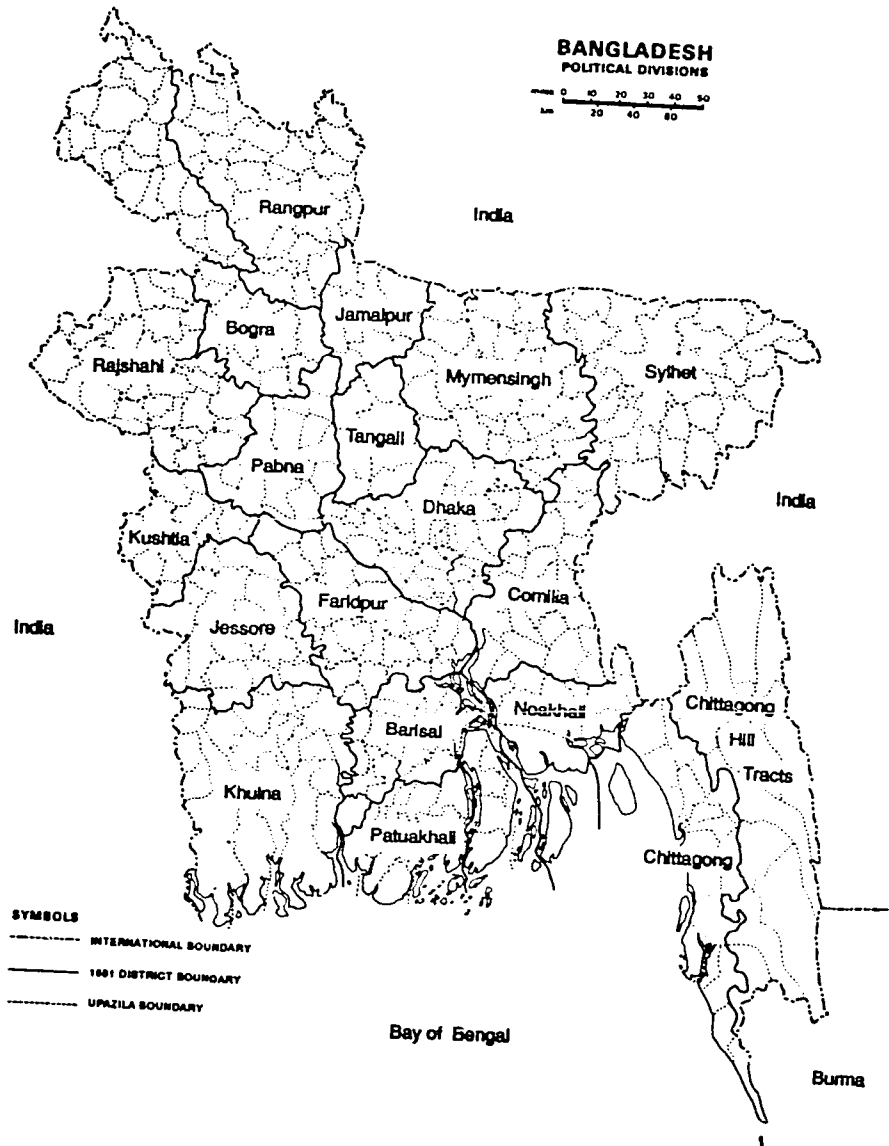
periodically spawns violent storms that have caused considerable destruction and loss of life.

While Bangladesh is a young sovereign country, the wider Bengal cultural region of which it is a part has a long recorded history.¹⁴ The Buddhist kingdom of the Palas ruled the area from the sixth through the twelfth centuries. This era was followed by a century of Hindu domination. Control of the area was then assumed by Muslims who retained power until defeated by the British in 1757.

British rule of the subcontinent ended in 1947 when Pakistan and India became independent countries. The Bengal region was partitioned along religious lines with the western part becoming a state of India, named West Bengal. The former area of East Bengal, with its Muslim majority, became a province of the new nation of Pakistan. This area, called East Pakistan, was separated by more than 1,000 miles from West Pakistan. Other than sharing a common religion, Islam, the two provinces of the nation of Pakistan were dissimilar in most respects including language, culture, natural resources and historical background. East Pakistan constituted more than 50 percent of the total population of Pakistan and its agricultural production was the largest contributor to the country's GDP and foreign currency through its exports of jute and tea.

Many persons in East Pakistan, particularly during the government of Field Marshal Ayub Khan (1958 to 1969), felt that the province was receiving a disproportionately small amount of public development funds. Political unrest became more pronounced during the late 1960s as Bengali nationalists struggled to gain a more equitable distribution of economic benefits and greater political power. In the 1970 general elections, the Awami League party, headed by Sheikh Mujibur Rahman from East Pakistan, won a majority in the Pakistan National Assembly leading to a

14. The social, political and economic history of the area now incorporated in Bangladesh has been documented by many scholars. For some examples see A.K. Sur, *History and Culture of Bengal* (Calcutta: Chatterjee and Co., 1963); Abdul Karim, *Social History of the Muslims in Bengal (Down to 1538)* (Dhaka: Asiatic Society of Pakistan, 1959); and Leonard A. Gordon, *Bengal: The Nationalist Movement 1876-1940* (New York: Columbia University Press, 1974). Many books were written during the early 1970s recording the history of the fight for independence from Pakistan. See, for example, *Birth of a Nation* (Calcutta: Bangladesh Mukti Sangram Sahayak Samity, 1971) and Md. Ayoob, Anirudha Gupta, Rahmatullah Khan, G.P. Deshpande, R. Narayanan and Sisir Gupta, *Bangladesh: A Struggle for Nationhood* (Delhi: Vikas Publishers, 1971).



power struggle in the country. President General Yahya Khan, who had succeeded Ayub Khan under martial law in 1969, repeatedly postponed opening the General Assembly and violence escalated in East Pakistan. In response, the government sent a large military force to East Pakistan to repress the rebellion. In March 1971 Mujibur Rahman was arrested and imprisoned in West Pakistan on charges of treason, and on March 26 the Bengali nationalists proclaimed an independent People's Republic of Bangladesh.

After nine months of bitter fighting, during which about one million East Bengalis were killed, the Pakistan military surrendered and Bangladesh became a sovereign country. Sheikh Mujibur Rahman was released from prison and returned to Bangladesh in January 1972, where he formed a government and became Prime Minister. Under the country's new constitution, a parliamentary democracy was introduced with the first national election held in March 1972. The Awami League party won 292 of 300 parliamentary seats in the National Assembly and Mujibur Rahman remained Prime Minister.

The young government failed to achieve economic reconstruction and recovery from the devastation caused by the war for independence. Severe economic and political difficulties faced the country. In late 1974 a state of national emergency was declared by the Prime Minister and in early 1975 he secured a constitutional amendment enabling him to become the self-declared president with virtually all powers reserved for himself. Political parties were banned and most fundamental civil liberties were suspended.

In August 1975 Sheikh Mujibur Rahman was killed in a coup led by a group of army officers. During the ensuing three months there were a number of military coups and counter-coups leading to a martial law rule with Major General Ziaur (Zia) Rahman becoming Chief Martial Law Administrator. Martial law was partially lifted in late 1977 and a new political party called the Bangladesh Nationalist Party (BNP) was formed and led by Zia. He won the subsequent June 1978 presidential election and martial law was lifted completely in 1979.

In June 1981 President Zia was assassinated by members of the army and was succeeded in office by his vice-president, Abdus Sattar. In November 1981 Sattar was popularly elected as president but only a few months later, in March 1982, he was overthrown in a bloodless coup led by army chief Lt. General Hussain Mohammad Ershad who imposed martial law and assumed the position of chief martial law administrator.

Ershad has retained leadership of the country for several years in spite of facing considerable political opposition. He attempted to legitimize his

position in March 1985 by holding a referendum which asked the electorate, "Do you support the policies of President Ershad and do you want him to continue to run this administration until a civilian government is formed through elections?"¹⁵ Ninety-four percent of those voting affirmed his position. For only the third time in the country's history, parliamentary elections were held in May 1986 with Ershad's new party gaining 153 seats in the 300 seat assembly. In October 1986 Ershad was formally elected President with all remaining provisions of martial law lifted.

The brief political history of the nation of Bangladesh has been dominated by strife. Martial law and taking power by force have been the rule rather than the exception. This political instability has no doubt contributed to the economic problems of the country since long-term business decisions must be made with concern for who might be in power tomorrow.

The 1985 population of Bangladesh was estimated to be 100.6 million, making it the eighth most populous country in the world.¹⁶ This number in relation to the relatively small area of the country, yields a population density of 1,809 persons per square mile (699 per square kilometer); worldwide only Singapore and Hong Kong have higher population densities. The intercensus population growth rate between 1975 and 1981 was over 3 percent per year (Table 1-1). The Bangladesh Bureau of Statistics projects that the country's population will reach 128 million by the year 2000 and 177 million by 2025.¹⁷ Population density and growth together constitute one of the major social problems facing the nation.

Urbanization is slight, though growing. In 1981, 89.4 percent of the population lived in rural areas (Table 1-1). Only three cities in 1981 had populations in excess of one-half million persons: Dhaka (the capital) was the largest city with nearly 3.5 million residents, Chittagong (the major seaport) had approximately 1.4 million persons, and Khulna (the only other major port city) had slightly less than 1 million residents.

15. Peter J. Bertocci, "Bangladesh in 1985: Resolute Against the Storms," *Asian Survey*, 26 (February 1986): 229.
16. The World Bank, *World Development Report, 1987* (New York: Oxford University Press, 1987), p. 202.
17. A.K.M. Ghulam Rabbani and Md. Shahadat Hossain, "Population Projection of Bangladesh (1975-2025)," in Bangladesh Bureau of Statistics, *1981 Statistical Yearbook of Bangladesh* (Dhaka: Bangladesh Bureau of Statistics, 1982), pp. 40-41. More recent projections by the World Bank predict that the population will reach 141 million by 2000. See the World Bank, *World Development Report, 1987*, p. 25.

TABLE 1-1
DISTRIBUTION OF URBAN AND RURAL POPULATION AND AVERAGE
ANNUAL GROWTH RATES OF POPULATION IN BANGLADESH:
1891-1981

Census Year	Percent of Population		Average Annual Growth Rate (percent of population)			Differential in Urban and Rural Average Annual Growth Rates
	Urban	Rural	Urban	Rural	Total	
1891	2.2	97.8	—	—	—	—
1901	2.4	97.6	1.7	0.6	0.7	—
1911	2.3	97.7	0.5	0.9	0.9	1.1
1921	2.3	97.7	0.9	0.8	0.8	-0.4
1931	3.1	96.9	5.7	1.8	1.9	0.1
1941	3.4	96.6	1.9	0.8	0.8	3.9
1951	4.3	95.7	3.5	0.4	0.5	1.1
1961	5.2	94.8	4.5	2.0	2.1	3.1
1974	8.8	91.2	10.6	2.7	2.9	2.5
1981	10.6	89.4	6.8	2.8	3.1	7.9
						4.0

SOURCE: Bangladesh Bureau of Statistics, *1981 Statistical Yearbook of Bangladesh* (Dhaka: September 27, 1982), pp. 52-53.

Even though current levels of urbanization are low when compared with many other Third World countries, the situation is likely to change in the future if the current rate of population growth continues. In fact, one possible reason for the current interest in decentralization in the country is to provide greater economic opportunities in the smaller urbanized areas in order to reduce potential flows of persons into the largest cities.

Literacy in Bangladesh is low with only about 26 percent of the population over 15 years in age considered literate. Bengali is the national language and mother tongue of approximately 98 percent of the population, but the English language is still used extensively by educated people in government, educational institutions and industry and commerce.

In terms of religious composition, the population of Bangladesh is predominantly Muslim. About 85 percent of the population are Muslims, Hindus constitute an additional 13 percent of the total, and the remainder is made up of Buddhists and followers of various tribal religions. Bangladesh is second only to Indonesia in the number of Muslims in the population.

Agriculture dominates the economy of Bangladesh. In 1985, 75 percent of the nation's labor force was employed in the agricultural sector with the

output constituting approximately 50 percent of GDP.¹⁸ These ratios changed little over the 1970s and 1980s.

Within agriculture, crop production is the most important activity, accounting for nearly 80 percent of agriculture's contribution to GDP.¹⁹ Rice is the most important crop in terms of land allocation, with approximately 80 percent of total cultivatable land devoted to its production. Jute, the second major crop, is the most important contributor to the country's export earnings. In 1981-82 exports of raw jute, jute yarn and manufactured jute (e.g., as sacking and carpet-backing cloth) amounted to about two-thirds of total exports from Bangladesh. Many other crops, including tea, tobacco, wheat, sugarcane and barley are also raised.

The other components of the agricultural sector include livestock, fisheries and forests. Livestock production accounts for about 10 percent of agriculture's contribution to GDP. This ratio grew slightly during the 1970s with fish production declining slightly in importance. Production of fisheries remains important, however, both for domestic consumption and for exports.

Compared with agriculture, industrial production does not play an important role in Bangladesh. The World Bank reports that only 14 percent of 1985 Bangladesh GDP was generated from industrial production with slightly more than one-half of the amount (8 percent) contributed by manufacturing.²⁰ These percentages were only slightly greater than the comparable amounts in 1976: 13 and 7 percent respectively. Indeed, the available data suggest that manufacturing earnings per employee fell by 5.2 percent during the first half of the 1980s.²¹

Textile production dominates the industrial sector. In 1980 two-thirds of persons employed in the sector were engaged in textile manufacturing with the jute industry being most important.²² Other industrial activities include cotton textile mills, tobacco factories, carpet mills, handicrafts and bamboo and cane products. In the 1980s there has been a large increase in the production of garments for export using imported cloth.

18. The World Bank, *World Development Report, 1987*, pp. 206 and 264.

19. These and the other data reported here were computed from Bangladesh Bureau of Statistics, *Statistical Pocketbook of Bangladesh, 1983* (Dhaka: Bangladesh Bureau of Statistics, 1984).

20. The World Bank, *World Development Report, 1987* and *World Development Report, 1979*.

21. The World Bank, *World Development Report, 1987*, p. 216.

22. Bangladesh Bureau of Statistics, *Statistical Pocketbook of Bangladesh, 1983*, pp. 264-265.

Nominal GDP in Bangladesh grew during nearly all years from 1972/73 through 1982/83, but the growth rate was not uniform (Table 1-2). After accounting for rapid growth in both prices and population during the same period, there were nearly as many years in which real per capita GDP fell as there were years of real economic growth.

Like many Third World nations, Bangladesh suffered greatly from the petroleum-led price increases that characterized the mid to late 1970s. The country has some small natural gas deposits, but they were developed only during the early 1980s and did little to assist the country through the rampant price increases it faced. The economy of Bangladesh is heavily dependent on imports of both producer and consumer goods; hence the worldwide increases in prices led to increased costs of domestic production and slowed the growth of the economy.

Inflation alone does not account for all of the wide fluctuations in economic performance exhibited in Table 1-2. It is also likely that the previously documented political instability of the nation also affected domestic output. Finally, the periodic natural disasters which have historically plagued the Bengal region contributed to the nation's economic instability.

As noted above, imports provide large amounts of raw materials and capital goods, including petroleum products, for agricultural and industrial production, as well as consumer goods that are not available domestically. Furthermore, import of food grains has been necessary in many years, particularly immediately following the war of independence and during those years in which major natural disasters have struck the country. Major imports include food grains, edible oils, crude petroleum, fertilizers and manufactured goods.

Export earnings are derived primarily from agricultural production. Bangladesh is the world's leading producer of jute, and its leading export is jute and jute products. Other major exports include leather, hides, tea, fish and seafoods.

Throughout its history Bangladesh has never enjoyed a positive balance of trade. Generally the value of exports has been only 30-40 percent of the value of imported goods. Foreign aid and loans make up for the trade finance deficit which in 1983/84 amounted to Tk. 22,525 million.²³ While there have been large fluctuations in the annual changes in both exports and

23. Bangladesh Bureau of Statistics, *Economic Indicators of Bangladesh*, Vol. 12, No. 4 (Dhaka: Bangladesh Bureau of Statistics, 1985), pp. 18-19.

TABLE 1-2
LEVEL AND GROWTH OF GROSS DOMESTIC PRODUCT IN BANGLADESH

Year	GDP (in million Taka)			Growth Rate of GDP (percent)		
	Nominal	Real (1976/77=100)	Real Per Capita	Nominal	Real (1976/77=100)	Real Per Capita
1972/73	43898	92417	591	---	---	---
1973/74	71086	107706	935	61.9	16.5	13.9
1974/75	125741	117956	1598	76.9	9.5	5.8
1975/76	197458	108107	1345	-14.5	-8.4	-9.7
1976/77	105361	105361	1287	-2.0	-2.5	-4.9
1977/78	130290	113099	1557	23.7	7.3	5.1
1978/79	144774	113995	1694	11.2	0.8	-1.3
1979/80	172450	117553	1969	19.1	3.1	0.6
1980/81	194647	118470	2171	12.9	0.8	-1.6
1981/82	255636	137958	2791	31.3	16.5	14.0
1982/83	287132	144870	3067	12.3	5.0	2.7
				<u>22.1</u>	<u>4.5</u>	<u>2.1</u>
				Average Annual Growth Rate:		

SOURCE: Bangladesh Bureau of Statistics, *Monthly Statistical Bulletins of Bangladesh* (selected volumes); *Economic Indicators of Bangladesh* (selected volumes); and 1979, 1980, and 1981 *Statistical Yearbook of Bangladesh*.

imports, exports have generally constituted approximately 5-7 percent of GDP.

Several factors account for the persistent and ever-rising trade deficit. First, the export sector is vulnerable in the world markets due to nondiversification. The world demand for jute has fallen in the face of greater availability of synthetic substitutes; furthermore, jute and some other export goods frequently suffer supply constraints. Finally, while the government has attempted to provide export incentives, it has failed to make the export sector more competitive. As noted earlier, import prices were particularly affected by petroleum-led price increases in the late 1970s with a resulting deterioration in the terms of trade.

The Public Sector

The public sector has historically played a dominant role in Bangladesh. The government intervenes greatly in both the agricultural and industrial sectors although recently there have been some efforts made to decrease this intervention. Government participation in the agricultural sector has included the supply of seeds, fertilizers, pumps, spare parts and other inputs to farmers at subsidized prices, subsidies to the fertilizer industry, supply of agricultural credit to farmers, and price support and grain procurement programs to provide attractive prices for farmers. In the industrial sector, government policies have included the supply of liberal credits to investors, the supply of some inputs at subsidized prices, liberalization of imports for raw materials and capital goods, the provision of foreign currency at official exchange rate, and protection of many domestic industries through the levying of import duties. In addition to these measures, the government is active in export promotion, including the supply of export credits.

Besides providing economic assistance and incentives to private enterprises both in the agricultural and industrial sectors, the government participates actively in the economy of the country. For example, the International Monetary Fund lists 38 nonfinancial public enterprises ranging from the national airline to jute mills and an additional 16 public financial institutions including four commercial banks and two insurance companies.²⁴ The Government of Bangladesh also undertakes the usual

fiscal and development efforts focusing on socio-economic infrastructure and various social welfare services.

Public sector spending in Bangladesh has grown rapidly. Expenditures in nominal terms grew at an average annual rate of 21.1 percent during the 1973/74-1982/83 period.²⁵ After adjusting for inflation, the compounded growth rate in central government spending was still 6.4 percent, slightly greater than the growth rate in real GDP. The government's role in the economy, measured by the ratio of total expenditures to GDP, increased from about 7.5 percent to over 12 percent during the late 1970s and into the early 1980s.

To finance this spending, the country relies on a combination of funding sources including its own taxes, several nontax revenues and external assistance. While taxes in Bangladesh as a proportion of GDP are quite low by international standards (see below), the ratio did grow over the period since the mid-1970s. Obviously, tax collections were hindered in the period immediately following the war for independence. In 1973/74 the ratio of taxes to GDP was still only 4.3 percent; by 1982/83 the ratio had nearly doubled to 7.9 percent.

Tax revenues are largely derived from indirect forms of taxation, primarily customs duties and sales taxes, each of which are levied only on imports. These revenues grow only as imports increase or if there are increases in rates. The rising cost and increased volume and rising prices of imports during the late 1970s therefore contributed to the increase in the tax/GDP ratio. The unimportance of direct taxes in the Bangladesh environment may be traceable primarily to the difficulties in administering levies such as income and business taxes in an agriculturally-dominated, low-income country. There is thus no tradition for using direct taxes extensively in Bangladesh. This nonuse of direct taxes may make it more difficult politically for local governments to levy general purpose direct taxes such as property taxes. It also decreases the ability to use shared direct taxes to finance local spending.

Although tax collection performance in Bangladesh has improved considerably over the past years, it remains at a low level when compared with other developing countries. To determine the relative level of central tax performance in Bangladesh, we compare tax-GDP ratios for 57 low- and middle-income countries. Fiscal data were drawn from the IMF

24. International Monetary Fund, *Government Finance Statistics Yearbook*, Vol. 10 (Washington, DC: International Monetary Fund, 1986), p. 145.

25. The spending data are from International Monetary Fund, *Government Finance Statistics Yearbook*, p. 142.

Government Finance Statistics, and a three-year average tax ratio was computed for the 1978-80 period.²⁶ The tax ratio for Bangladesh was found to be 7.88 percent for this period, not much below that for 1982/83. The average tax ratio for the 56 other countries was 18.24 percent. Part of Bangladesh's lower level of taxation may be attributable to its lower level of development. To accommodate this possibility, we use a regression approach to measuring tax effort.²⁷ First, we estimate taxable capacity (T_y) from

$$T_y = a + b_1 X_1 + b_2 X_2 + b_3 D \quad (1)$$

where

T_y = estimated ratio of tax to GDP

X_1 = Per capita GDP (in US\$)

X_2 = Agricultural share in GDP

D = dummy variable which was given a value of 1 for low-income countries, and 0 for middle-income countries.²⁸

A tax effort index (E) is defined as

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

where \hat{T}_y is derived from equation (1)

The estimated equation is²⁹

$$\hat{T}_y = 22.505 + 0.0018X_1 - 0.321X_2 + 3.842D; \quad (2)$$

(7.565) (1.882) (3.208) (1.533)

$$R^2 = 0.367$$

which, for Bangladesh, yields

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

$$\text{and } E = 0.80.$$

Hence, Bangladesh's tax effort is 20 percent less than that expected when based on the tax collection performance and economic conditions in the 57 countries. If additional public resources are necessary to lead to greater economic development, this low revenue effort must be increased. Decentralization, with local governments given the responsibility and freedom to mobilize resources of their own, may be one means of achieving this improvement.

Decentralization Efforts

The details concerning the structure of the administrative apparatus and local governments are provided in the next chapter, but, it is useful to review here the events and rationale underlying the decentralization efforts undertaken in Bangladesh during the 1980s. In 1982, one month after seizing power, Chief Martial Law Administrator Ershad appointed a Committee for Administrative Reorganization/Reform. The committee's terms of reference were to review the structure and organization of the central government's administration serving rural areas and to recommend changes in this system to bring administration "nearer to the people."³⁰ The ten-person committee, chaired by Deputy Chief Martial Law Administrator, Rear Admiral M.A. Khan, held meetings in several places throughout the country and gathered written opinions from a wide variety of sources.

The committee's report, issued in June 1982, was well received by the military government. The report proposed several important changes to the administrative/local government structure. These reforms centered on the

26. When data were not available for all three years, one or two years of data were used.

27. This technique is discussed in Roy Bahl, "A Regression Approach to Tax Ratio and Tax Effort Analysis," *IMF Staff Papers*, 18(3) (November 1971): 570-612.

28. As defined by The World Bank.

29. Absolute t-values are in the parentheses.

30. The book by Shaikh Maqsood Ali, M. Saifur Rahman, and Kshanada Mohan Das, *Decentralization and People's Participation in Bangladesh* (Dhaka: National Institute of Public Administration, 1983), contains a review of 33 reports issued during the period 1885-1979 concerning decentralization of administration in Bangladesh.

thana, which was to become the basic unit of administration and also a local self-government. Among the recommendations were:

- upgrading the quality of thana administration;
- establishing local self-government at the district, thana and union levels of administration;
- abolishing the subdivision level of administration;
- creating additional districts;
- creating a high ranking committee to insure that the recommendations were implemented.

The last of these recommendations was carried out first. This fact is important, especially in a country where studies are often undertaken but their suggested reforms less often implemented. In October 1982 the Resolution to Reorganise Thana Administration was issued, followed in December by the Local Government (Thana Parishad and Thana Administration Reorganisation), Ordinance, 1982.³¹ These two documents formed the basis for the phased creation of upgraded thanas.

The rationale for decentralization and its hoped-for benefits are stated most fully in the opening paragraph of the initial 1983 guidelines governing operation of the newly formed level of local government—the upazila:

Government has decided to delegate authority and devolve administrative and development functions at the grass root level. The main objective is to induce faster and appropriate development at the local level through direct participation of the local people. This will help in identification, planning and implementation of development projects which will benefit local people most, more easily than before. In other words implications of this process of devolution are (a) reduction of dependence of the rural people on the national government for meeting the needs which can be met locally and development of self-reliance in the process; (b) mobilization and utilization of local resources which have hitherto remained untapped; and (c) reducing the direct involvement of the national government in planning and implementation of projects which are purely local in nature. All these are expected to lay the foundation of

31. Parishad means council.

a solid local government which would be instrumental in ushering in a better life for the rural people in the near future."³²

Two aspects of this statement are particularly noteworthy in the context of this volume. One is that the same arguments about decentralization presented above were seen by the authorities of Bangladesh as their rationale for decentralization. A second point is that local resource mobilization was viewed by the Government of Bangladesh as an important feature of the decentralization policy.

Since 1983, the decentralization process has moved forward in Bangladesh, albeit not without significant problems.³³ While numerous political, administrative and technical problems have arisen and may continue to occur in the future, improved local government resource mobilization and utilization is likely to remain one key ingredient in the overall success of decentralization efforts in Bangladesh.

This book focuses on the methods by which local governments in Bangladesh are financed and how they may be strengthened by new and/or improved financial instruments under the current decentralization policies. The next chapter details the local government structure within which decentralization in Bangladesh is being implemented. Given the important past, current and probable future role of intergovernmental grants in financing local governments in Bangladesh, Chapter 3 is devoted to this topic. It provides an examination of the overall intergovernmental transfer system with a discussion of the reform options.

Chapters 4, 5 and 6 provide examinations of three different forms of property-related taxation that are likely to provide the basis for further strengthening of the resource mobilization capabilities of local governments in Bangladesh. The first of these, examined in Chapter 4, is the immovable property transfer tax. The land development tax, discussed in Chapter 5, is currently a central government tax but could play an important role as a local government levy. Finally, we look in Chapter 6 at another

32. Government of the Peoples' Republic of Bangladesh, *Guidelines for Upazila Parishads for Utilisation of the Development Assistance Provided by the National Government through the ADP* (Dhaka: Ministry of Finance and Planning, July 1983), p. 1.

33. For one critique of the process, see Ahmed Shafique Huque, "The Illusion of Decentralization: Local Administration in Bangladesh," *International Review of Administrative Sciences* 52 (1986): 79-95.

property-based tax, the holdings tax. In each of these chapters the structure and administration of the tax is described and its effects concerning economic neutrality and equity implications are examined. The revenue implications of each tax are also analyzed and suggestions are provided concerning how each of these instruments might be strengthened.

Chapters 7 and 8 focus on two other sources of local revenues. One of these sources is business-based taxes and fee-based revenues, considered in Chapter 7. The second is a less formal, yet potentially productive source of revenue—local contributions and voluntarism, the topic of Chapter 8.

A summary chapter draws together the key findings of this research on fiscal decentralization in Bangladesh.

2

Local Government Structure

Maniruzzaman and Larry Schroeder

The structure of local government in Bangladesh is complex, largely because of the shared responsibility between central and local governments for administering and financing different public sector functions. Its description is complicated by the fact that it was changed very dramatically during the early 1980s. In this chapter we emphasize the linkages and hierarchy of Bangladesh's local governments.¹ While we concentrate on the structure as of the mid-1980s, it is also instructive to consider how the organization of local governments was changed in order to achieve greater decentralization.

Overall Structure

In studying the structure of local government in Bangladesh, it is necessary to distinguish between the administrative hierarchy and local governments proper. This distinction relates to the familiar differentiation between administrative deconcentration and governmental decentralization mentioned in Chapter 1. In this section we first review the structure of the administrative system and then the structure of local governments.

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1. A detailed overview of the pre-reform structure of local government in Bangladesh is provided in Ali Ahmed, *Administration of Local Self-government for Rural Areas in Bangladesh* (Dhaka: Local Government Institute, 1979). For a bibliography, see Salahuddin M. Aminuzzaman, *Local Government and Administration in Bangladesh, A Selected Bibliography* (Dhaka: Center for Administrative Studies, 1981).

Central government ministries are organized hierarchically with a secretariat at the apex.² Below the secretariat in the administrative pyramid are the division, district, and upazila offices. Table 2-1 displays this hierarchy before and after the implementation of decentralization during 1982 and 1983.

The secretariat is the highest administrative authority within a ministry and is responsible for issuing all rules and regulations related to the organization. Each ministry is headed by a politically-appointed minister, but the administrative head of the ministry is known as the permanent secretary and is a senior civil servant. The secretary and his immediate officers cannot serve in a ministry for more than three years and are sometimes transferred more frequently. These administrative decision

TABLE 2-1
ADMINISTRATIVE HIERARCHY IN BANGLADESH BEFORE
AND AFTER DECENTRALIZATION

Level	Before Decentralization		After Decentralization	
	Chief Administrator	Number in Country ^a	Chief Administrator	Number in Country ^b
Secretariat	Permanent Secretary	1	Permanent Secretary	1
Division	Commissioner	4	Commissioner	4
District	Deputy Commissioner (DC)	20	Deputy Commissioner (DC)	64
Subdivision	Subdivisional Officer (SDO)	1	Abolished	
Thana/ Upazila ^c	Circle Officer (CO)	474	Upazila Nirbahi Officer (UNO)	460

^aAs of July 1982.

^bAs of May 1984.

^cCalled thana prior to upgrading in December 1982. Since then, called upazila.

2. Administrative organization in Bangladesh is explained and critiqued in Ali Ahmed, *Basic Principles and Practices of Administrative Organization: Bangladesh* (Dhaka: National Institute of Local Government, 1981).

makers thus tend to be generalists rather than technical experts in the particular functional area associated with the ministry, e.g., fisheries, agriculture or local government. The secretariat is the policy-making body within a ministry. Implementation of most policies is carried out by the directorates and departments of ministries.³ Personnel attached to these directorates are posted at the division, district and upazila levels.

The country is divided geographically into four divisions; the principal administrative officer at this level is the commissioner.⁴ The commissioner acts as the coordinating officer for the departments which maintain offices at the divisional level. Government service programs are not implemented at the divisional level but are reviewed and approved there. Implementation occurs at lower administrative levels.

The district has traditionally functioned as the key administrative level. The implementing directorates of all nation-building ministries maintain staff there and the majority of development expenditures are either channeled through or approved by district-level personnel. The deputy commissioner (DC) is the principal central government officer in the district.⁵ His functions include coordination of development activities, collection of land taxes, administration of land laws, and the promotion of local government. He is assisted by additional deputy commissioners, as well as line officers from the nation-building ministries (directorates).

Prior to decentralization, there were traditionally about 20 districts within Bangladesh. Over the years, however, there were several proposals

3. These offices are usually headed by specialists, e.g., engineers. Whether this dichotomy between the generalists and specialists within ministries is conducive to the smooth functioning of the organization is a matter of debate. See Ali Ahmed, *Basic Principles and Practices*, pp. 5-9; and A.M.A. Muhith, *Thoughts on Development Administration* (Dhaka: Bangladesh Rural Advancement Committee, 1981), pp. 5-14.
4. The future status of divisions is uncertain. Several studies of governmental administration in Bangladesh, including the Committee for Administrative Reorganization/Reform, have recommended that they be abolished.
5. For a discussion of district level administration see Qazi Azher Ali, *District Administration in Bangladesh* (Dhaka: National Institute of Public Administration, 1978).

to increase the number of districts in order to reduce the physical size and number of persons served by each.⁶ Upon the recommendation of the Committee for Administrative Reorganization/Reform, the subdivision was abolished and 64 districts were formed from the original 20.

Prior to decentralization, central government staff officers were stationed in both subdivisions (usually three to five in a district) and thanas (on average six to ten within a subdivision). Under the policy to decentralize administration in the country, the subdivisions were abolished and a larger number of more highly trained officers were posted at the thana level. To emphasize its change in character, the thana was renamed the upazila. All previous thanas, other than those located within the four major urbanized areas of Bangladesh—Dhaka, Chittagong, Khulna, and Rajshahi—were upgraded to upazilas. As of 1984 there are 460 upazilas whose jurisdictional boundaries encompass all areas outside the four urbanized areas.

Ten officers are stationed in each upazila. They are in charge of the major functional services provided by the central government in rural areas, e.g. health, education, agricultural services, fishery services. In addition, six regulatory officers and judiciary officers are posted in the upazila. Given its location at the base of the administrative hierarchy, the upazila level office is most frequently contacted by the people at large. Thus, improvement in officer quality at this level was seen by the government as an especially important aspect of the thana upgrading process.

The chief administrative officer of the upazila is the upazila nirbahi officer (UNO). All other upazila officers work under his guidance. Many of the first UNOs posted had previously served as subdivisional officers (SDOs) or as additional deputy commissioners (ADCs). The general shortage of highly qualified personnel in Bangladesh has meant, however, that upgrading officer quality in all upazilas has not been possible.

Perhaps of greatest significance to the local populace was the posting of magistrates at the upazila level. This change has made it possible to settle legal disputes in a less costly manner since the parties to the dispute no longer must travel to subdivisional or district headquarter towns for adjudication.

6. See, for example, A.M.A. Muhih, *Thoughts on Development Administration*, pp. 36-38. Muhih also notes (p. 21) that under the original Hastings Plan, which created district level administration in Bangladesh in 1772, 23 districts were formed.

Bangladesh's local government hierarchy is at least as complex as its administrative structure. Local government has a long history on the South Asian subcontinent.⁷ Before the British era, village panchayats (councils of five elders) took responsibility for rural administration. Formal local self-government during British rule can be traced to the Bengal Local Self-government Act of 1885, the outgrowth of Lord Ripon's proposal to establish elected local government bodies throughout the country. Under that Act, three levels of local government were established—district boards, local boards, and union committees. The three-tiered system was altered by the Village Self-government Act of 1919, which established a two-tier system of government in rural areas consisting of district boards and union boards. This general system continued after the creation of Pakistan in 1947.

Under the Basic Democracies Order (October 27, 1959), issued by President Field Marshal Ayub Khan, major changes were made in the system. The Basic Democracies Order provided for: a union council for a union (consisting of several villages) in rural areas and a town committee for urban areas; a thana council for the thana in East Pakistan; a district council; a divisional council; and provincial Development Advisory Councils for East and West Pakistan.

Two ordinances, along with many of the rules established for local governments under the Basic Democracies Order, govern the four levels of local bodies in Bangladesh today. These ordinances are The Local Government Ordinance, 1976, and its 1982 and 1983 Amendments which focus on zilla parishads, upazila parishads and union parishads; and The Paurashava Ordinance, 1977, which governs local government in urban areas. There are also specific ordinances pertaining to Dhaka and Chittagong, which have special status as municipal corporations. Each of the four levels of local government is discussed below. It is necessary to recognize that none of these local bodies is entirely independent of centrally-posted officers (Table 2-2). Such administrative officers are either active participants in local government affairs or they serve as approving authorities for certain policies undertaken by the local body.

7. M. Rashiduzzaman, *Politics and Administration in the Local Councils, A Study of Union and District Councils in East Pakistan* (Karachi: Oxford University Press, 1968), p. 1. Additional sources on the history of local government in Bangladesh are cited in Aminuzzaman, *Local Government and Administration in Bangladesh*. A broader perspective on local government throughout the subcontinent can be found in Hugh Tinker, *The Foundations of Local Self-government in India, Pakistan and Burma* (New York: Frederick A. Praeger, 1954).

TABLE 2-2
LINKAGES BETWEEN THE ADMINISTRATIVE HIERARCHY
AND LOCAL SELF-GOVERNMENTS IN RURAL AREAS

<u>Geographic Units</u>	<u>Administrative Officer</u>	<u>Local Government</u>	<u>Elected Representatives</u>
Division	Commissioner	—	—
District	Deputy Commissioner	Zilla Parishad	Rules pertaining to zilla parishads were not formulated until 1988.
Upazila	Upazila Nirbahi Officer	Upazila Parishad	Chairman plus all union and paurashava chairmen (within the upazila).
Union	—	Union Parishad	Chairman plus nine elected members.

Zilla Parishads

District level governments were created by the Local Self-government Act of 1885 and were originally called district boards. The Basic Democracies Order of 1959 gave them the name district councils. The functioning of these institutions was disrupted during the popular movement in 1968 which toppled President Ayub Khan, but they resumed activity under the name zilla boards in 1972. Four years later, zilla boards became zilla parishads (district councils) under the Local Government Ordinance of 1976. Throughout their history, zilla parishads and their predecessor boards and councils have seldom consisted primarily of elected representatives. From 1956 to 1959 district boards were composed entirely of elected officials; however, the Basic Democracies Order of 1959 terminated this arrangement and made the district councils a part of the Deputy Commissioner's office.⁸ In 1988, additional changes were being made in the structure of zilla parishads, but the discussion in this section does not reflect these changes.

Central government bureaucrats continue to administer zilla parishads with all important powers exercised by two key persons: the deputy commissioner (DC) and the assistant director of local government (ADLG) in their respective capacities as chairman and secretary of the zilla parishad. Their principal responsibility is managing the central government administrative structure in the district, but both the DC and ADLG also act as supervisors of local government bodies.

The ADLG, who serves as secretary of the zilla parishad, is a staff officer of the DC with the responsibility to monitor and supervise the activities of the local bodies in the district. All important decisions are made between the chairman and the secretary. Petitions and correspondence are handled by the secretary who, therefore, controls the decision-making process through his ability to delay, question or object to recommendations and actions directed to the chairman.

The local government ordinances assign 97 functional responsibilities to the zilla parishad, divided into two categories: compulsory and optional responsibilities. The principal function of the zilla parishad is the construction and maintenance of public works, particularly transportation facilities such as roads, bridges, canals, and ferries. Local financial constraints and the activities of the central government's ministries and government corporations have greatly limited the role of the zilla parishad in agriculture, health and education.

For budgeting purposes public works functions are carried out under two budget headings—normal works and rural works. Although there is no difference in the services provided, the activities of the former are financed from the general revenues of the zilla parishads, while the latter are financed from Rural Works Programme (RWP) grants from the central government.

Since the main activities of zilla parishads fall under the heading of public works, it is not surprising to find that these expenditures for both normal and rural works constituted approximately 70-80 percent of total expenditures of 13 zilla parishads between 1976/77 and 1980/81 (Table 2-3). In addition to building and maintaining roads, bridges, and ferries, public works includes construction and maintenance of dak bungalows (rest houses), offices, warehouses, and activities such as tree planting. Other expenditure categories are minor. In agriculture, most spending is in the form of awards to farmers who produce especially high yields. Health expenditures are for a few dispensaries which provide limited care to the very poor. The zilla parishads also provide grants to local humanitarian organizations. In education, zilla parishad grants are made for student hostels, educational institutions, youth organizations, libraries, cultural societies, and scholarships. Establishment expenditures include the

8. Ali Ahmed, *Administration of Local Self-government*, 1979.

TABLE 2-3
PERCENTAGE DISTRIBUTION AND MEAN PER CAPITA ZILLA PARISHAD
EXPENDITURES, BY TYPE, 1976/77-1980/81
(in percents)

Expenditure	Fiscal Year ^a				
	1976/77	1977/78	1978/79	1979/80	1980/81
Establishment	7.8	7.9	12.1	9.7	10.2
Agriculture	0.4	0.4	0.2	0.2	0.2
Public Health	0.6	0.6	0.2	0.2	0.2
Education	8.7	5.6	4.3	4.1	3.3
Social Welfare & Culture	1.2	1.3	0.8	0.8	1.0
Public Works	39.3	53.1	49.9	50.3	53.7
Misc. Expenditures	1.8	2.6	3.6	3.7	3.8
Works Programme	<u>40.2</u>	<u>28.6</u>	<u>28.8</u>	<u>31.1</u>	<u>27.6</u>
TOTAL ^b	100.0	100.0	100.0	100.0	100.0
Mean Per Capita Nominal Amounts					
Total Spending (Tk.)	2.19	2.10	2.30	2.65	3.06

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

^bMay not sum to total due to rounding.

SOURCE: Computed by authors from zilla parishad records.

allowances for the chairman and secretary, and the salaries paid to all employees of the zilla parishad (with the exception of the RWP staff). This spending includes pensions and gratuities to retired employees, travel allowances, fuel and other zilla parishad operating costs. It generally constitutes less than 15 percent of total zilla parishad expenditures.

Total expenditures measured in nominal terms are extremely small. For example, by 1980/81 mean nominal spending was only Tk. 3.06 per person. If one makes the very liberal assumption that average annual incomes in these rural areas are approximately Tk. 2,800 (assuming US\$ 140 per person and an exchange rate of Tk. 20 per US \$1), Tk. 3.06 expenditures amount to an expenditure-income ratio of slightly more than one-tenth (0.0011) of a percent. This is a very small ratio for a governmental body responsible for such a wide range of activities. Furthermore, if the data are adjusted for inflation, real spending per capita did not grow throughout the late 1970s.

There are three primary kinds of revenue sources available to zilla parishads: central government grants, taxes, and earned income. In addition to grants the Local Government Ordinance, 1976, lists 28 items under taxes, rates, tolls and fees which local governments can levy, but only with the prior sanction of the central government. Zilla parishads do not use all of these sources since some are utilized by the union and upazila parishads and The Local Government Ordinance precludes the use of the same source by multiple levels of local government.

By far the most important grant revenue source of the zilla parishads is the Rural Works Programme (RWP). The RWP was initiated as a pilot project of the Pakistan—now Bangladesh—Academy for Rural Development which was carried out in Kotwali Thana, Comilla District, in 1961/62.⁹ Within one year, the program was expanded to all thanas in East Pakistan, funded in great part by resources supplied under the United States PL 480, which funds the Food for Peace Program.¹⁰ The program aimed to accelerate the construction of a wide variety of public works at all levels of local government and has continued to the present. Technically, it remained a temporary, supplemental program until September 1982 when it became a permanent part of the Local Government Division of the Ministry of Local Government, Rural Development, Cooperatives and Religious Affairs. The RWP is a grant-in-aid from the central government to zilla parishads with the national allocation of funds divided among the local bodies on the basis of area and population.

In addition to the Rural Works Programme grant, the zilla parishad receives a variety of small normal grants. One of these is the "augmentation grant" intended to increase zilla parishad expenditures for development activities. The "grant in lieu of the zamindar's contribution to the zilla parishad" helps compensate for the loss in revenues which resulted from the abolition of the zamindari (landlord) system in effect during British rule. "Special grants" are also given to provide hardship allowances to zilla parishad employees, while "compensation grants" are used to increase staff

9. On the early results of the Comilla experience, see Pakistan Academy for Rural Development, *The Works Programme in Comilla, A Case Study* (Comilla: PARD, 1966).
10. Under U.S. Public Law (PL) 480, surplus wheat from the United States was sold to Pakistan for local currency, then resold locally. The revenues from these sales were used to pay local workers for their efforts on the RWP schemes. See Gustav F. Papanek, *Pakistan's Development, Social Goals and Private Incentives* (Cambridge, MA: Harvard University Press, 1967), pp. 157-162.

salaries. Finally, "grants against specific projects" are sometimes provided which, as the name implies, are monies used for special purposes.

The list of tax revenue sources used by the zilla parishad is very short. Local autonomy in taxation is limited by the fact that tax rate changes must be approved by the prescribed authority—the divisional commissioner—and the zilla parishad has no control over tax administration. In essence, zilla parishads have no effective autonomy regarding taxes and no way to increase independently the yields from this source. The most important tax source is the immovable property transfer tax, a 1 percent levy on the value of all land and permanent structures sold in the district (see Chapter 4). It is collected at the time the deed transfer is recorded by the Ministry of Law and Land Reform. The collection agents are subregisters located at the upazila level. A second, less significant, tax revenue source is called the local rate. This tax was abolished in 1976 when the Land Development Tax Ordinance was passed, which merged all land revenue and other land-based taxes into the land development tax. Since then, the only revenues obtained by the zilla parishad from the local rate have been from arrears, thus the amounts are small and declining to zero as arrears are collected.

Own-source revenues, other than taxes, are derived as income earned from several different quasi-enterprise activities. One such activity is income from tolls and ferry ghats (landings). Zilla parishads are authorized to collect tolls on district roads, bridges and ferry ghats. We are aware of only one district—Sylhet—which imposes tolls on roads, although ferry ghats are a common revenue source (see Chapter 7). Instead of operating ghats or toll stations itself, the zilla parishad commonly auctions franchises giving the franchise holder the right to collect fees from users. Toll rates are set by the district with the approval of the divisional commissioner. Another source of income is rents and profits earned from the operation and rental of various types of property such as buildings and land, the lease of roadside ditches for fishing, rent of staff quarters, equipment rented to contractors, rent from dak bungalows (rest houses), sale of roadside trees, and sale of materials supplied to contractors. For some zilla parishads, these revenues constitute the second most important local source of income; however, the flow of such revenues is quite small.

The fourth category of zilla parishad income includes fees, interest and other miscellaneous sources. Fees are charged for some health and agriculture services and for services provided to other levels of government, such as use of zilla parishad printing facilities. In addition, bank deposits can yield interest earnings for the zilla parishads.

The composition of actual revenues in 13 zilla parishads for the period 1976/77-1980/81 together with mean per capita revenues are displayed in Table 2-4. Two sources account for the bulk of total revenues of the zilla parishads—the immovable property transfer tax and the Rural Works Programme grant. The first of these grew in relative importance during the observation period; by 1980/81 it accounted for nearly one-half of all zilla parishad revenues. Grants, on the other hand, declined in relative importance. All other revenue sources are minor, with the decline in relative importance of rent, profit and sales proceeds possibly due to the fact that some sales, of roadside trees for example, constitute a one-time only revenue source.

As was the case for expenditures, per capita revenues, both in nominal and real terms, are extremely small. Interestingly, per capita nominal

TABLE 2-4
PERCENTAGE DISTRIBUTION OF ZILLA PARISHAD REVENUES
BY SOURCE, 1976/77-1980/81
(in percents)

Expenditure	Fiscal Year ^a				
	1976/77	1977/78	1978/79	1979/80	1980/81
Property Transfer Tax	40.7	45.5	48.3	50.7	49.4
Local Rate	4.9	0.1	1.4	0.6	0.5
Rent, Profit, and Sales Proceeds	9.4	10.0	7.5	6.7	5.3
Fees & Rates	0.2	0.2	0.2	0.2	0.2
Tolls on Roads, Ferries, and Bridges	2.8	2.7	2.8	2.3	3.3
Interest	0.5	1.0	1.4	1.2	1.6
Miscellaneous	1.8	2.7	2.5	3.9	3.6
Voluntary Contributions	0.0	0.0	0.6	0.1	1.3
Normal Grants	6.2	6.5	5.1	4.2	4.5
Works Programme Grants	33.5	31.3	30.0	29.9	29.6
TOTAL ^b	100.0	100.0	100.0	100.0	100.0
Mean Per Capita Total Revenues (Tk.)	1.95	1.79	1.99	2.63	2.55

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

^bMay not sum to total due to rounding.

SOURCE: Computed by authors from zilla parishad records.

own-source revenues increased throughout the period, although they declined slightly in the final year due to the poor yield of the immovable property transfer tax. When adjusted for the effects of inflation, the large declines in RWP grants after 1976/77 and the no-growth policies pertaining to normal grants resulted in smaller total per capita revenues in 1980/81 than in 1976/77.

Thana/Upazila Parishads

Districts are now subdivided into upazilas, units similar to counties in the United States which serve as administrative posts for central government staff. Upazilas are also referred to by the English phrase, "police stations" since traditionally this was the primary function which they served. Prior to 1982, local government at the thana level—termed the thana parishad—was minimal since, although it contained some popularly-elected leaders, it was dominated by central government personnel. With the recent emphasis on decentralization, local self-government at this level has taken on more significance since the upazila parishad is the primary focus of Bangladesh's decentralization policies. Even though the area covered by upazilas is, on average, only about 120 square miles, each of these local governments serves large numbers of people. In 1981, upazila populations ranged from slightly over 10,000 to nearly 590,000, with a country-wide average of about 185,000.¹¹

Representative government at the thana level was created by the Basic Democracy's Order (BDO) of 1959 which established thana councils. The Ministry of Local Governments order in 1972 changed the name to thana development committee, and in 1976 it was renamed thana parishad by the Local Government Ordinance. The thana level of local government had both elected and non-elected members until 1982. Thana parishads were chaired by the subdivisional officer (SDO) of the overlying subdivision, with the thana's circle officer-development (CC-Dev) acting as vice chairman. Members of the thana parishad included elected chairmen of the union parishads within the thanas, officials of various government department's

11. Because of the complexities of responding to the needs of so many residents, even greater decentralization is advocated in Shaikh Maqsood Ali, M. Safiur Rahman, and Kshanada Mohan Das, *Decentralization and People's Participation in Bangladesh* (Dhaka: National Institute of Public Administration, 1983).

stationed in the thana, the chairman of the thana central cooperative association (TCCA), the thana conveners of the youth complex, and the representative of the National Women's Organization (the last two had no voting power). Depending on the number of unions within a thana, the non-elected members—dominated by central government personnel—could outnumber the elected chairmen of the union parishads.

Thana level government was further complicated by the creation of the thana development committee (TDC) in 1978.¹² The TDC consisted solely of the elected chairmen of the union parishads within the thana. They elected from among themselves a chairman, secretary and treasurer. Between three and eight additional members could be co-opted from the general populace, but they could not exceed the total elected membership. Since the majority of the TDC members were elected representatives, its creation represented some shift in power from bureaucrats to the public at large. The chairman could draw and disburse government-allocated funds used for development programs and the TDC could recommend particular schemes (projects). Still, the TDCs did not enjoy true autonomy since their recommendations had to be approved by the thana parishad, which was often dominated by official members.

The roles of bureaucratic versus elected officials were altered dramatically by policies initiated in 1982 contained in the Resolution on Reorganisation of Thana Administration (October 23, 1982) and The Local Government (Thana Parishad and Thana Administration Reorganisation) Ordinance (December 23, 1982).¹³ Reorganization of thana administration, known as "upgrading," involved posting a greater number of more senior officials directly at the local level. Coincident with this change in staffing was the provision of additional decision-making powers with a decreased reliance upon central government approval of decisions.

The decentralization process proceeded in a phased manner with 45 thanas upgraded in the first phase, 55 in the second and so on until December 1983, when all 460 thanas in the nation had been upgraded. Another 20 thanas are located within major urban areas and, since public services in these areas are already served by the overlapping psaurashava or municipal

12. Government Circular No. S-IV/2F-1/78/282, May 24, 1978.

13. These documents together with additional supporting material are contained in Government of the People's Republic of Bangladesh, Cabinet Division, *Manual on Thana Administration* (Dhaka, February 1983).

corporation, these thanas were not upgraded.¹⁴ In order to distinguish between the upgraded and non-upgraded thanas (and probably also to suggest an entirely new organization), the name thana was changed to upazila when a jurisdiction was upgraded.

Membership of the upazila parishad includes an elected chairman, all chairmen of union parishads lying within the upazila, the paurasiva chairmen of any urban communities in the upazila, and four appointed members (three women and the chairman of the thana central cooperative association) (Table 2-5). Only these individuals have voting power within the upazila parishad. They are, however, joined for purposes of debate by officers from the several line agencies providing services to the thana.

TABLE 2-5
UPAZILA PARISHAD MEMBERSHIP

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

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

14. The 20 major urban areas include 12 in Dhaka, six in Chittagong, one in Khulna and one in Rajshahi.

Inclusion of a popularly elected upazila parishad chairman together with the abolition of voting powers for administrative personnel make this body a local self-government. When compared with the former administrative/governmental structure at the thana level, the new policy represents a move toward decentralization of decision-making powers. This change, however, is accompanied by certain problems.

A major issue concerns the division of power between the chief executive officer stationed at the upazila and the upazila parishad chairman. When thanas were upgraded, the status of the primary administrative officer of the thana was also upgraded by establishing the position of upazila nirbahi officer (UNO). While line officers are subordinate to a UNO, the UNO is subordinate to the upazila parishad chairman and serves as the upazila parishad 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 statement of the formal roles of administrative and political leaders does not guarantee that conflicts will not arise. Upazila nirbahi officers have only served within an administrative hierarchy in the past, and they have achieved a relatively high position within the administration. It is not surprising then that some did not adapt well to a position subordinate to locally elected politicians.

Under the dual thana parishad and thana development committee arrangement, functions were distributed between the two bodies. The functions of the thana parishad related to coordination of activities at the thana level and the management of the thana training and development complex (TTDC), the TTDC hall/office building, surrounding wall, streets within the complex, workshops, and godowns (storage areas). Thana parishad responsibilities also extended to office-cum-community centers for the union parishads, voluntary mass participation works and construction of flood shelters. The thana development committee carried out rural works projects.

With the formation of the upazila parishad, the functions of the local body increased greatly. The upazila parishad is now responsible for the functions previously carried out directly by central government personnel stationed at the thana level. Strictly speaking, however, the upazila parishad has no employees of its own; it has no power to hire or dismiss employees posted in the locality. Instead, all employees remain attached to their respective line ministries and are only deputed to the upazila parishad.

This arrangement relieves the upazilas of personnel administration responsibilities. It also means, however, that the locality has less control over the actions of the officers and employees posted at the upazila parishad

than would be the case if they were directly hired by the local government. Under the present system, officers serve the upazila parishad, but are evaluated for purposes of promotion, transfer, etc., by the district officers within their respective line ministries. Line ministry personnel evaluations must take into account the evaluations of the upazila parishad chairman, who can better ascertain whether the officer is fully carrying out his duties. The potential for split loyalties and tension when the upazila parishad and line ministry see an issue differently is inherent in the arrangement. While statutory regulations specify that the upazila officer should follow the dictates of the upazila parishad,¹⁵ the officer may decide that it is in his interest to attend to the concerns of his line ministry since it is this organization which determines his promotions and transfers. Under these circumstances, true decentralization cannot be achieved.

The new policies also brought changes for finance and project development at the upazila level. Prior to 1982, both the thana parishad and the thana development committee were totally dependent on the central government for operating funds, since neither had any taxing authority.¹⁶ Because of their reliance on grant revenues, neither group prepared a formal budget. Instead, they prepared plans for projects and maintained accounts concerning the financial affairs of each project. Each year, the central government allocated grants in the name of the thana parishad or the chairman of the TDC. Schemes included roads, bridges, embankments, drainage, canal re-excavation, deep tube wells, and other irrigation projects.

The Rural Works Programme constituted nearly all of thana parishad revenues prior to the 1983/84 fiscal year. Of the three levels of local government eligible for RWP funds, the thanas received the largest share. For example, in 1981/82, about 60 percent of total RWP funds were allocated to thanas (see Chapter 3). At the same time, the per capita amounts received were quite small and, in real terms, grew at a relatively slow pace during the late 1970s. For eleven thana parishads in the districts of Faridpur, Sylhet and Rangpur, per capita RWP funds amounted to only Tk. 2.87 in

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15. The 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."
16. Some thana parishads earned a small amount of revenue from rental income obtained from renting facilities within the TTDC complex.

1981/82. Thus, spending per capita at the thana parishad level was approximately the same as in zilla parishads (see Table 2-3).¹⁷

An important change which accompanied the thana upgrading process and creation of the upazila parishad was the granting of own-source revenue raising power to these local bodies. The third schedule of the Local Government (Thana Parishad and Thana Administration Reorganisation) Ordinance of 1982 provides that upazila parishads can earn revenues from economic activities in their jurisdiction including haats (small local markets) and bazaars (larger local markets), fish ponds and specific businesses. Like zilla parishads, upazila parishads do not operate the market enterprises directly but, instead, auction leases on an annual basis. In the case of markets, 1 percent of the proceeds are remitted to the central government as a rental payment on the land. Twenty percent of the remaining revenues is to be used to improve the markets, with the balance constituting general revenues of the local body.

Under rules issued in December 1983, the upazila parishad can also impose license fees on most commercial establishments operating in the upazila. The rates are low, ranging from Tk. 10 to 500 per year. Thus, the rates are designed primarily for the purpose of business regulation, rather than to raise revenues. Furthermore, these are maximum rates rather than standard nationwide fees. While local autonomy in rate setting is allowed and, thus, is in keeping with decentralization principles, the low rate ceilings and the lack of resource mobilization incentives in the grant system suggest that very small yields can be expected from this revenue source.

The grant program has also been radically altered under the new upazila structure. The amounts distributed were increased greatly. In the initial year of implementation (1983/84) upazilas received between one and five million taka depending on the date of upgrading. Previously, thanas seldom received more than Tk. 400,000. Another change associated with the upgrading of thanas concerns the use of grant funds. Under the RWP, monies were to be used for four major purposes: roads, bridges, culverts; irrigation; derelict tank excavation; and the thana training and development complex (TTDC). Following the upgrading of thanas local autonomy regarding use of these funds was increased as well. Still, total autonomy in fund allocation was not granted. Instead, broad guidelines were issued by the central

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17. This amount does not include the value of Food For Work Programme grants in wheat which also flowed to the thanas (see Chapter 3).

government regarding use of the development fund grants.¹⁸ The guidelines mandate spending in the following categories:

Agriculture, Irrigation and Industry	30.0 - 40.0 percent
Physical Infrastructure	25.0 - 35.0 percent
Socio-economic Infrastructure	17.5 - 27.5 percent
Sports and Culture	5.0 - 10.0 percent
Miscellaneous	2.5- 7.5 percent

No further approval from higher governmental bodies is required regarding the specific schemes chosen for financial support.

Union Parishads

Rural areas of upazilas are subdivided into unions with average 1981 populations of nearly 20,000.¹⁹ The nearly 4,500 unions constitute the lowest level of self-government in the country and have a long history. In 1870, Lord Mayo issued a resolution on financial decentralization which resulted in the Bengal Village Chowkidari Act and divided the countryside into unions with a panchayat appointed to govern each.²⁰ Union committees were later set up under the Local Self-government Act of 1885, in response to Lord Ripon's resolution on local self-governments. Union committee members were popularly elected, making union committees the first formal local governments in the country. Since that time there has always been a local government at the union level although it has operated under a variety of names. Following the Liberation War, the local government body at the union level was called the union panchayat; in 1973 its name was changed to union parishad.

Three members of the union parishad are elected from each of the three wards into which a union is divided. The voters cast their ballots for four individuals, three for representatives of the ward and one for the chairman

of the union as a whole. Two women members are nominated by the government, in consultation with the chairman. In late 1979, the government asked the union parishad to select two additional members from among the landless, making the total number of members of a union parishad 14. After the creation of the upazilas, a new Local Government Ordinance (Union Parishads) Amendment (1983) was promulgated which currently governs these local bodies. It did not, however, alter the name or composition of the union parishad.

The Local Government Ordinance (Union Parishads) assigns union parishads the responsibility for 40 functions covering various aspects of rural life. In reality, the union parishads play a very small role in rural development because of financial constraints, the lack of qualified manpower and the necessity for the chairman and members to the majority of their time in arbitration of local disputes in the village court.²¹ Little is done by union parishads in the area of education, although they occasionally provide some financial support to meritorious students. In the area of public works, the unions perform some road maintenance. Roads constructed as upazila roads are to be maintained by the union—an interesting case of shared responsibility. In addition, the unions construct earthworks and install small concrete culverts.

Union parishads have few staff since most of their public works activity is carried out by contractors or by project committees composed of volunteers from the community.²² Each union has a secretary who acts as its principal officer, and there may also be one or more assistant secretaries employed. Probably the most direct service provided to residents by union employees is that of the dafadars and chowkidars. Chowkidars have been employed by unions since they were formed during the British rule, primarily to provide protective (police) services to the residents of the union. Chowkidars, supervised by a dafadar, still perform minor law and order functions and also transmit messages between villagers and the union parishad.

The difference between the normative "what ought to be" and the positive "what is" in union parishad finances is significant. A review of the

18. Planning Commission, Ministry of Finance, *Guidelines for Upazila Parishads for Utilization of the Development Assistance Provided by the National Government through the ADP* (Dhaka, July 1983).
19. Bangladesh Bureau of Statistics, *Statistical Pocketbook of Bangladesh, 1983* (Dhaka: Bangladesh Bureau of Statistics, 1985), p. 1.
20. Abeer Hossain, "Local Government During British Period," in *Local Government in Bangladesh*, edited by Kamal Siddiqui (Dhaka: National Institute of Local Government, 1984), p. 13.

21. Interviews with union parishad chairmen, indicated that 60 to 75 percent of their time was spent in local dispute settlement.
22. One scholar concluded earlier that "The staff position in union Panchayat (Parishads) is extremely grim"; Our investigations suggest that little has changed in this regard up to the mid 1980s. Syed Nuruzzaman, "Staffing Pattern in Local Bodies (Rural and Urban) in Bangladesh," *Local Government Quarterly* 3 (March 1974): 20.

statutes and rules under which union parishads operate suggests that local financial administration is well-defined and systematic. In reality, administration is far from systematic.

A study of union revenues suggests that none of their mandated activities can be supported at a very high level. Due to nonuniformity in accounting practices and the extremely small amounts of money involved, we have aggregated union parishad activities into four major categories: establishment (administrative support) spending, construction and maintenance spending, miscellaneous spending, and Works Programme spending. Examination of the relative size of the four spending categories demonstrates the large proportion of expenditures spent for administrative purposes (Table 2-6). Establishment expenditures fell relative to the other categories after 1976/77, yet they always accounted for at least 50 percent of total spending. Even though such overhead spending may not be totally unproductive, the results imply that local taxpayers are getting little in the way of development spending at this level, in return for their tax payments.

After the initial rise in per capita spending between 1976/77 and 1977/78, spending remained fairly constant in the following four years when the data are adjusted to account for inflation (Table 2-6). Real

TABLE 2-6
PERCENTAGE OF DISTRIBUTION OF UNION PARISHAD
EXPENDITURES BY EXPENDITURE TYPE,
1976/77-1980/81
(in percents)

Expenditure	Fiscal Year ^a				
	1976/77	1977/78	1978/79	1979/80	1980/81
Establishment	75.14	68.82	71.87	59.51	69.87
Construction, Public					
Works and Maintenance	17.03	16.87	13.11	28.63	19.89
Miscellaneous Expenditures	4.65	6.33	4.66	3.85	3.82
Works Programme Expenditures	<u>3.17</u>	<u>7.99</u>	<u>10.36</u>	<u>8.01</u>	<u>6.42</u>
TOTAL ^b	100.00	100.00	100.00	100.00	100.00
Mean Per Capita					
Total Expenditures (Tk.)	1.30	2.37	2.59	3.44	3.11

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

^bMay not sum to total due to rounding.

SOURCE: Computed by the authors from union parishad records.

expenditures per capita for establishment purposes fell slightly in 1979/80, while construction and maintenance spending more than doubled. Nevertheless, aggregate expenditures on public works, miscellaneous and the RWP never exceeded Tk. 1.51 per person (even in nominal terms) during this five-year period. Interestingly, the amounts spent for establishment purposes were quite constant in real terms throughout the period, suggesting a minimal level of overhead expenditures in all jurisdictions. If so, additional mobilization of resources could be allocated primarily to development activities.

Just as expenditure levels of a union parishad are low, so are their revenues. Financial resources of a union parishad are generated from taxes, some small fees and government grants. One result of the creation of upazila parishads was erosion of the already small resource base available to union parishads because nearly all of the revenue sources delegated to the upazila parishad had previously been assigned to the union parishad. In the context of resource mobilization, therefore, the decentralization program has not been uniformly beneficial. On the other hand, perhaps the administration of these transferred taxes will improve and result in a net increase in resources raised, even though the bases have not been substantially altered.

Union parishads are permitted to earn revenues from annual levies against immovable property (permanent structures and the land on which they are situated) although agricultural land is excluded from this base (see Chapter 6). Two different property-based levies are permitted: the union rate and the rate for the remuneration of village police, also known as the chowkidari tax. They are commonly referred to collectively as the "holdings tax." The maximum rate that can be imposed (by unions) is 7 percent of the annual rental value, while that for the chowkidari tax "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."²³ Another tax which can be levied by unions is the community tax. This tax is a source of revenues to finance location-specific projects, with the union chairman and a project committee assessing what each beneficiary of the project is to contribute. While this would provide a benefits-based levy for union parishads, it is seldom used; other less formal financing arrangements for work projects are preferred by local officials such as donations of land. Before reform, union parishads derived some revenue from the tax on professions, trades

23. Government of East Pakistan, *Rules under the Basic Democracies Order (Those Applicable to Union Councils)* (Dhaka: 1969), p. 81.

and callings, as well as from a vehicle tax. The former was essentially a business license fee levied against particular businesses, but at very low rates. In only a few instances were these rates dependent upon the extent of business activity. The vehicle tax was a fixed levy on the owners of vehicles operated in the union. Each of these taxes has now been transferred to the upazila parishad, thereby narrowing the union parishad revenue base. Other fees previously charged by union parishads have similarly been given or transferred to upazila parishads. The principal fees included income derived from haats, bazaars and ferry ghats. As in the case of zilla parishads, ferry ghat franchises were sold to private entrepreneurs who operated the ferries.

The union parishad also derives revenues from both normal and Rural Works Programme grants.²⁴ There are at least six different normal grant programs which provide annual revenues to all union parishads. The bulk of these normal grants are used to pay salaries of the political office holders of the union parishad and its few employees. Prior to the thana upgrading, RWP grants to unions flowed through the overlying thana parishad but were not guaranteed to every union during each fiscal year. The thana parishad determined the distribution of RWP grants and could allocate most of the funds to a few union parishads or spread the money across all or nearly all union parishads in the thana. With the creation of the upazilas, a portion of the development fund grant was to be passed on to union parishads. Specifically, the *Guidelines for Upazila Parishads* suggest that "out of the total funds earmarked by the upazila parishad for the Rural Works Programme, one-third should be allocated to the union parishads..."²⁵

Actual revenue and expenditure data were collected from a nonrandom sample of 31 union parishads in the districts of Faridpur, Rangpur and Sylhet and the relative reliance upon each revenue source was calculated over a five-year period (Table 2-7). The decline in reliance on the local rate was expected, whereas the decreased importance of the property tax was not. Since this is the single local tax source over which the locality has complete control, the increased reliance on fee revenues is particularly pronounced. The large increase in fees between 1977/78 and 1978/79 was due to an unexpected increase in haat and bazaar income in nine union parishads, eight in Sylhet and one in Rangpur district. Field work revealed that in each

TABLE 2-7
PERCENTAGE DISTRIBUTION OF UNION PARISHAD REVENUES
1976/77-1980/81
(in percents)

Revenue Source	Fiscal Year ^a				
	1976/77	1977/78	1978/79	1979/80	1980/81
Local Rate	6.16	1.12	0.53	0.05	0.54
Property Tax	48.30	34.30	33.89	29.21	35.48
Other Tax	2.92	2.18	1.83	1.66	2.00
Income From Properties	3.29	2.14	2.22	4.81	2.99
Fees	1.44	1.56	20.22	24.69	16.44
Miscellaneous	7.30	4.03	1.79	0.93	0.72
Normal Grants	27.81	47.04	31.49	30.14	35.75
Works Programme Grants	2.80	7.64	8.01	8.51	6.09
TOTAL ^b	100.00	100.00	100.00	100.00	100.00
Mean Per Capita (Tk.)	1.32	2.41	3.35	3.22	3.29

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

^bMay not sum to total due to rounding.

SOURCE: Computed by authors from union parishad records.

of these jurisdictions the market was new, with the union parishad the recipient of the market income. If these nine jurisdictions are removed from the sample, fee incomes are more consistent with the means for the first two years of the sample period. Nevertheless, the findings show that markets have the potential to be a productive revenue source for local governments in Bangladesh. Normal grants consistently provided about a third or more of union parishad finances, but unlike the zilla parishads, the union parishads did not rely heavily on the RWP.

When viewed in real (1976/77=100) taka terms, per capita total purchasing power of these 31 union parishads remained at Tk. 2 from 1977/78 to 1980/81 (except for 1978/79). Property tax collections ranged from Tk. 0.63 - 0.83 per capita through the period, and fees never exceeded Tk. 0.66. As was the case for the zilla parishads, the purchasing power of per capita normal grants fell by 25 percent between 1977/78 and 1980/81, while real RWP grants per capita decreased by about 30 percent between 1978/79 and 1980/81. This finding suggests that the financial ability of these smallest local bodies to meet the public service needs of their residents stagnated or declined over the period 1978 to 1981.

24. This discussion excludes the Food-For-Work-Programme which is also a grant program; however, the proceeds of this in-kind grant do not appear in the Union Fund (see chapter 3).

25. *Guidelines for Upazila Parishads for Utilizations of the Development Assistance Provided by the National Government through the ADP*, p. 8.

Paurashavas and Municipal Corporations

The Paurashava Ordinance, 1977, defines an urbanized area as one in which "three fourths of the adult male population...are chiefly employed in pursuits other than agriculture, and such areas contain not less than 15,000 population, and an average number of not less than 2,000 inhabitants per square mile."²⁶ While the entire country has been subdivided into districts and thanas/upazilas, areas within these subdivisions are classified as either rural or urban with the local governments being union parishads or paurashavas, respectively. At the time of our research, there were 77 urban areas in the country, but this number may change in the future because the government has announced its intention to increase this number by 30. Dhaka and Chittagong, the two largest urbanized areas in the country, are not technically paurashavas but instead are classified in the Paurashava Ordinance as "municipal corporations."

Local governments in urban areas function in a manner similar to the union parishads in rural areas. Each paurashava is divided into wards for the election of commissioners and there is a set number of commissioners prescribed in the Ordinance. A chairman for the paurashava is elected from the municipality at large (the similar position in municipal corporations is that of mayor).

Part IV of the Paurashava Ordinance, 1977, details the functional areas of responsibility delegated to these units. The list is long and includes public health, water supply and drainage,²⁷ insuring a safe supply of food and drink, the establishment and maintenance of public markets and slaughterhouses, regulation of animals, town planning, controlling building activity within the municipality, street construction and maintenance, public safety including fire fighting and civil defense, the care of trees and parks, support for education and culture, providing for social welfare, and development. Due to resource constraints, not all of these activities are pursued in all urban areas.

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26. The Paurashava Ordinance, 1977, Paragraph 3, p. 5. It is interesting to note that this population density requirement is not particularly high in the Bangladesh environment where the average density of the country exceeds 1,600 per square mile.
27. In the cities of Dhaka, Chittagong, and Khulna independent water and sewer authorities (WASA) have been established to provide these services.

Urban government revenues duplicate those assigned to the three levels of rural local government discussed above. The principal revenue source in urban areas is the property tax. Separate rates are applied for lighting of streets, water and conservancy, in addition to the general house tax. They are known collectively as "the holdings tax."²⁸ Statutorily, the base of the tax is identical to that of the union rate imposed in union parishads. That is, these several rates are applied to the annual value of the land and buildings which is supposed to be reassessed every five years.

The paurashavas also derive revenues from the property transfer tax. As in the zilla parishads, this tax is administered by the central government with proceeds transferred to the municipalities. Because of their urbanized nature, paurashavas are in a good position to impose taxes on businesses. Business-oriented taxes are levied in the form of license fees and there are also taxes on cinema tickets. Similarly, market fees provide a potential source of revenue in urban areas. Most paurashavas lease market stalls to vendors, either on a daily or monthly basis, or in the form of long-term leases for pucca (permanent) structures.

The octroi, a tax on goods brought into the municipality, was a major revenue source of urban local governments prior to 1981, when it was abolished by the central government. The government replaced a portion (75 percent) of the lost revenues with a grant program; however, the grant fund was not allowed to grow during the initial several years after its inception. Other intergovernmental grants, both normal grants and Urban Work Programme grants, are similar in form to those received by the rural local government bodies.

An indication of the relative importance of these forms of revenue as well as their average levels during the late 1970s is shown in Table 2-8. The figures in the table document the extreme importance of both the holdings tax and the octroi in the revenues of these urban governments. Grants flowing to these jurisdictions declined in relative importance over the period examined. However, if the time period had been extended beyond 1980/81, the implementation of the octroi grant would have resulted in increased relative importance of grant monies.

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28. While the *Rules and Other Statutory Notifications Issued under the Municipal Administration Ordinance, 1960, and President's Order No. 22 of 1973* (p. 257), suggest that service-oriented rates (e.g., water, conservancy, and lighting) should be levied only against those receiving the services, some municipalities tax all properties whether or not in a service area.

TABLE 2-8
MEAN PERCENT DISTRIBUTION OF PAURASHAVA TOTAL REVENUE,
BY SOURCE, BY FISCAL YEARS 1976/77-1980/81^a
(in percents)

Revenue Source	1976/77	1977/78	1978/79	1979/80	1980/81
Property Tax	34.69	30.01	32.53	31.24	33.31
Property Transfer Tax	2.71	2.92	3.52	4.52	3.76
Octroi	24.06	22.94	30.90	30.84	30.50
Profession Tax	2.88	2.51	2.37	2.20	2.00
Cinema Tax	2.97	2.62	2.86	2.57	2.00
Vehicle Tax	1.15	1.29	1.26	0.95	0.83
Tax on Erection of Buildings	0.04	0.05	0.07	0.07	0.06
Fees	10.66	9.61	9.28	7.33	6.44
Tolls on Ferries, etc.	0.31	0.33	0.32	0.27	0.24
Rents, Profits and Sales	1.56	2.47	3.02	3.73	5.57
Miscellaneous Revenue	5.17	6.56	4.40	2.81	4.78
Normal Grants	5.37	12.98	4.95	4.77	4.95
Works Programme Grants	8.42	5.71	4.52	8.70	5.55
TOTAL^b	100.00	100.00	100.00	100.00	100.00
Mean Per Capita Total Revenue (Tk.)	19.45	21.30	23.08	24.97	28.08

^aBased on information from 15 paurashavas.

^bMay not sum to total due to rounding.

SOURCE: Computed by authors from paurashava records.

In terms of takas generated, urban governments raise considerably greater revenues on a per capita basis than do their rural counterparts. This contrast is due partially to the broader range of revenue sources available, but it can also be attributed to the greater ease with which urbanized local governments capture the taxable resources in the community and the greater monetization of economic activity in such areas. At the same time, when corrected for the dual effects of inflation and population growth, revenues in these 15 jurisdictions did not grow over the period under study. Total revenue per capita (in 1976/77 taka) declined from 19.45 to 17.53 over the five years represented in Table 2-8. This decrease was due to the fact that few of the revenue sources are responsive to increased economic activity and inflation. Discretionary changes are necessary in the rates of most of the taxes and fees if they are to generate increased revenues.

The urban nature of paurashavas suggests that these local governments will carry out a set of activities quite different from their rural counterparts and thus exhibit expenditure patterns that are different as well. Transportation spending is likely to be less important in the urban areas while the greater population density increases the need for street lighting, water, conservancy and sanitation facilities.

These expectations are borne out in the data shown in Table 2-9 which displays the composition and levels of spending (for the period 1976/77 - 1980/81) for the same 15 paurashavas examined in Table 2-8. Public health, sanitation and conservancy are the dominant activities of these urban governments. Interestingly, unlike the union parishads, establishment spending (even when the expenses of tax collection are included) never exceeded 30 percent of total paurashava spending. As was true on the revenue side, average real per capita spending fell in these jurisdictions during the 1976/77-1980/81 period. Thus, the residents of urban Bangladesh most likely received a lower level of public services from their local bodies.

TABLE 2-9
MEAN PERCENT DISTRIBUTION OF PAURASHAVA TOTAL EXPENDITURES,
BY TYPE, BY FISCAL YEARS 1976/77-1980/81^a
(in percents)

Expenditure	1976/77	1977/78	1978/79	1979/80	1980/81
General Establishment	16.87	19.49	19.62	17.53	17.63
Tax Establishment	7.91	8.94	8.31	7.23	6.64
Public Health, Sanitation and Conservancy	27.41	30.56	29.60	28.09	29.29
Water Supply and Drainage	4.18	4.50	4.12	3.97	3.65
Market and Slaughter House	0.42	0.51	0.68	0.49	0.57
Maintenance	19.85	20.80	21.05	25.94	25.53
Education	3.81	3.44	3.78	3.48	4.74
Social Welfare and Culture	0.63	0.75	0.52	0.80	0.89
Miscellaneous	3.80	3.27	6.70	2.82	3.96
Works Programme	15.12	7.74	5.62	9.66	7.09
TOTAL^b	100.00	100.00	100.00	100.00	100.00
Mean Per Capita Total Expenditure (Tk.)	19.86	19.37	23.05	23.74	28.72

^aBased on information from 15 paurashavas.

^bMay not sum to total due to rounding.

SOURCE: Computed by authors from paurashava records.

at the end of the decade than they did five years earlier, but without further data we cannot offer insights concerning the composition of this decline.

Conclusion

Local governments, particularly the upazila parishad, have within the past several years been at the center of efforts to decentralize development efforts. Structural reform has been the order of the day; less concern has been given to the fiscal implications of these changes. The data reviewed in this chapter, which were based on pre-reform observations, all indicate stagnating or declining fiscal strength of local government bodies. With the desire for increased reliance upon local self-government to lead development efforts must come greater local responsibility in raising and allocating funds. Throughout the remainder of this volume the emphasis is on how greater amounts of resources might be mobilized by local governments and how they might be encouraged to spend these funds effectively to promote rural development.

3

Intergovernmental Grants

Roy Bahl

This chapter provides an overview of a major revenue source for all local government levels in Bangladesh: transfers from the central government. The material presented in this chapter was gathered and pieced together from a variety of sources since no single, comprehensive description of the Bangladesh grant system existed before this study.

The first section describes the general features of the grant system in Bangladesh and reviews its revenue importance. A detailed analysis and evaluation of each component of the system follows, and then an evaluation is provided of the overall impact of the system. Most of the analysis focuses on the system that existed before 1984. Important changes in the grant system have taken place since 1984, but many features of the previous system were retained.¹ In the absence of data and analyses to call on to evaluate the most recent changes, the present description will nevertheless provide the reader with a good sense of the basic structure of the system and an evaluation of its operation within the entire local government framework at the time of our research.

1. Data on the reforms since 1984 are from Larry Schroeder, *Rural Development Grants to Local Governments in Asia*, Metropolitan Studies Program Monograph No. 19, The Maxwell School (Syracuse, NY: Syracuse University, March 1987).

General Features

Local governments in Bangladesh may be divided into a rural and urban sector. Under the pre-reform system, each rural local body—zilla, upazila and union parishad—was entitled to receive a grant for development projects, called Rural Works Programme grants. Both the zillas and unions also received "normal" grants which were primarily for employee compensation.² Under the post-reform system, the Rural Works Programme grants have been replaced as a source of revenue for the upazilas and the unions by the Development Assistance Fund grant and a special Infrastructure Fund grant. The zilla parishads continue to receive the Rural Works Programme. Normal grants continue to flow to zillas and unions. In addition, a large portion of the Food for Work Programme (FFWP) is carried out through union and upazila parishads and involves transfers mainly in the form of wheat to local governments for payment of development project laborers.

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

The relative importance of these grant programs (excluding FFWP) is shown in Table 3-1. The dominant pattern in these data, prior to reform, is the emphasis on Works Programme grants which account for more than three-fourths of the total. This emphasis would be reinforced if FFWP grants in wheat were included here in cash equivalents. To give some idea of relative magnitudes, the "local initiative"³ portion of the FFWP (CARE, BDG, and an estimated 20 percent of WFP allocations) authorized the movement of 281,000 metric tons of wheat in 1982. At the January 1982 average retail price of wheat in Bangladesh, this translates to the equivalent

2. The term "normal" grants refers to most of those grant programs which do not fall under the heading of public works. In the case of rural local governments, this is a group of seemingly unrelated grant programs.
3. "Local initiative" refers to FFWP activity carried out through the local government rather than directly by the Central Government.

TABLE 3-1
COMPONENTS OF THE BANGLADESH GRANT SYSTEM: REVISED
ESTIMATES FOR 1982/83 AND 1984/85^a

	Total (in millions of takas)		Percent of Total		Per Capita (in takas)	
	1982/83	1984/85	1982/83	1984/85	1982/83	1984/85
Urban Grants	238.4	303.0	100.0	100.0	22.7 ^b	17.9
Octroi Compensation	63.2	75.0	26.5	24.8	6.1	4.4
Works Programme	70	91.5	29.4	30.2	6.7	5.4
Special Projects						
(Dhaka)	96.9	128.2	40.6	42.2	24.5 ^c	7.6
Normal	8.3	8.3	3.5	2.7	0.8	0.5
Rural Grants	549.1	4,380.5	100.0	100.0	6.6	53.6
Works Programme	434.9	36.5	79.2	0.8	5.2	0.4
Normal	114.3	114	20.8	2.6	1.4	1.4
Development Assistance	—	2,300	—	52.5	—	28.1
Special Infrastructure	—	1,930	—	44.1	—	23.6

^aExcluding FFWP grants.

^bDenominator is estimated total urban population (municipal corporation plus paurashava).

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

SOURCE: Government of the People's Republic of Bangladesh, Ministry of Finance and Planning, *Demands for Grants and Appropriations (Non-Development)* (Dhaka, various years); Unpublished data from the Ministry of Local Government and Rural Development; and Bangladesh Bureau of Statistics, *1983 Statistical Pocketbook of Bangladesh* (Dhaka: Bangladesh Bureau of Statistics, 1985).

of about Tk. 960 million, or an amount equal to 1.5 times the total amount of grants to local governments in the 1981/82 budget,⁴ and 2.26 times the amount budgeted under the Rural Works Programme.

There has been an erratic pattern in the growth of grants to local governments in recent years. Between 1973/74 and 1982/83 there was no

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

growth in real per capita grants, and grants to local governments fell as a proportion of GDP and of total central government outlays (Table 3-2).⁵ From the mid-1970s to 1983, grants did not increase with overall central government tax effort. In years when central government resource mobilization increased, the local government sector was not typically awarded a commensurate share of this increase. Conversely, the grant share of total central taxes was sticky downward and did not appear to suffer noticeably when government resource mobilization fell off. One might infer from this that the grant needs of local governments were viewed as more of a fixed amount than a "targeted" share of GNP.⁶ The ratio of grants to GDP more than doubled with the introduction of the new upazila grant scheme in 1983/84 (Table 3-2).

The increased flow of grants in 1983-1984 also changed the urban-rural distribution. Prior to the reform, about two-thirds of all grants were distributed to the rural sector but the per capita bias was strongly in favor of urban areas. For every one taka grant per person flowing to the rural sector, 3.43 takas in grant were given to the urban sector. As may be seen from Table 3-2, this pro-urban bias was replaced by a pro-rural bias with the creation of the upazila. If the FFWP grants were included, an even greater distributional bias in favor of rural areas would be apparent.

Unfortunately, little data are available to document the extent of local government reliance on central grants. Our fieldwork, which surveyed the finances of 75 local governments for the 1977-1981 period, sheds light on this question. The answer, in general terms, is that local governments in Bangladesh have long been dependent on the central government for virtually all of their revenues. Prior to the reform, thana parishads had no own-source revenue and were totally dependent upon grants for their financing. The union parishads have traditionally relied on grants for about half of their total revenues and the paurashavas received about one-fourth of total revenues from the central government.

Our data show that the zilla parishads receive only about one-third of revenues from central grants (Table 2-2); however this finding is deceptive because the property transfer tax—which is reported as an own-source

5. FFWP grants are not included.

6. A more systematic analysis of the impact of GNP growth, tax effort, and discretionary changes is contained in Roy Bahl, "Intergovernmental Grants in Bangladesh," Metropolitan Studies Program, Occasional Paper No. 87, The Maxwell School (Syracuse, NY: Syracuse University, May 1984), pp. 7-14.

TABLE 3-2
TRENDS IN GRANTS TO LOCAL GOVERNMENTS

Fiscal Year	Grants as Percent of GDP			Grants in Real Per Capita Terms (in takas, 1976/77=100) ^a			Grants as Percent of Central Government Expenditures		Central Government Taxes as Percent of GDP	
	Urban ^b	Rural ^b	Total	Urban	Rural	Total	Taxes	Expenditures	Taxes	Percent of GDP
1972/73	0.146	0.339	0.485	22.21	4.60	6.03	12.26	2.59	3.95	
1973/74	0.029	0.215	0.244	4.70	3.34	3.46	5.83	1.61	4.19	
1974/75	0.014	0.106	0.120	2.31	1.77	1.82	2.95	0.95	4.09	
1975/76	0.036	0.210	0.246	5.20	3.14	3.33	3.29	1.19	7.49	
1976/77	0.039	0.238	0.277	5.20	3.38	3.55	3.86	0.91	7.15	
1977/78	0.020	0.189	0.209	2.70	2.84	2.82	2.63	1.23	8.95	
1978/79	0.019	0.208	0.227	2.47	3.09	3.03	2.66	1.25	8.54	
1979/80	0.024	0.242	0.266	3.05	3.63	3.57	3.75	1.31	7.10	
1980/81	0.020	0.216	0.236	2.44	3.20	2.13	3.36	0.96	7.02	
1981/82	0.036	0.103	0.134	4.89	1.74	2.09	1.71	0.83	8.09	
1982/83	0.037	0.104	0.141	5.09	1.82	2.12	1.71	0.79	8.28	
1983/84 ^{c,d}	0.050	0.586	0.635	6.56	10.12	9.71	8.23	2.25	7.72	
1984/85 ^e	—	—	—	—	—	—	9.43	2.78	—	—

^aThe deflator used in the calculation is the CPI for Dhaka Government Employees/Middle Income Class.

^bUrban grants are Works Programme/Urban Development, normal, and Octroi Compensation which began in 1981/82. Special Projects grants which accrue exclusively to Dhaka and Chittagong are excluded. Rural grants include Works Programme/Development Assistance and normal grants.

^cRevised budget estimates.

^d1983/84 GDP is provisional.

^eBudget estimates.

— not available

SOURCE: Government of the People's Republic of Bangladesh, Ministry of Finance and Planning, *Demands for Grants and Appropriations (Non-Development)* (Dhaka, various years); Government of the People's Republic of Bangladesh, Ministry of Finance and Planning, *Demands for Grants and Appropriations (Development)* (Dhaka, various years); Government of the People's Republic of Bangladesh, Ministry of Finance and Planning, *Budget Estimate* (Dhaka, various years); Bangladesh Bureau of Statistics, *Monthly Statistical Bulletin of Bangladesh* (Dhaka: Bangladesh Bureau of Statistics, various issues); and Bangladesh Bureau of Statistics, *Economic Indicators of Bangladesh* (Dhaka: Bangladesh Bureau of Statistics, various issues).

revenue—has its rate set by the central government and its administration is a central government responsibility. In effect, the property transfer tax is a central government levy which is returned to the district councils on a derivation basis, i.e., it is a type of grant. If matters are viewed this way, the zillas are almost exclusively dependent on central government transfers.

Rural Local Government Grants

Rural Works Programme

The Rural Works Programme in Bangladesh has been referred to by the government as "...a unique experiment in grass roots planning and the mobilization of energies of the people for projects of local importance."⁷ The Government states four objectives for Works Programme grants:⁸ the development of rural infrastructure for transportation, irrigation, flood control, community development; the creation of off-season employment opportunities for the poor and for landless farmers; nation-building goals which are achieved through local participation in development projects and through local leadership in carrying out these projects; and strengthening the capacity of rural local government institutions to lead rural development. Clearly, both "relief" and development goals are included in these four objectives. One continuing issue to be faced in the RWP (and FFWP, see below) is how far either relief or development should be emphasized as a priority.

The program is based on the concept of putting underutilized labor resources to work on projects that have identifiable, localized benefits and drawing out some voluntary labor and material contributions from beneficiaries. The strategy is to generate public enthusiasm by allowing project selection, implementation and administration to be handled at the local government level. In this sense, the Works Programme is a highly decentralized approach to rural development. Though this grant program was replaced in 1983-1984 by the Upazila Development grant, the general Rural Works Programme approach has been largely retained. It seems

7. A.B. Chowdhury, *Performance Report on Works Programme, 1977-78* (Dhaka: Ministry of Local Government), p. 1.

8. See Chowdhury, *Performance Report on Works Programme, 1977-78*, p. 3.

useful, then, to study and evaluate the Rural Works Programme grants as they functioned before the reform.⁹

Rural Works Programme activities are focused on road construction and maintenance, irrigation and flood control. The Programme is implemented through local governments, heavily weighted toward rural roads and irrigation projects and provides a substantial amount of support for staff salaries. It has a "regular" component primarily funded by the Government of Bangladesh, and a "special project" component supported mainly by foreign aid. In total, the government-supported share in 1981/82 was about 80 percent.

Because more than 5,000 local government units are potentially involved, the administration of the Rural Works Programme is quite decentralized. Its operation involves much local participation in project selection and implementation in conjunction with central government direction in the distribution and disposition of the grant amounts. Unlike grant systems in many countries, the Bangladesh system gives a substantial amount of operational discretion to local officials. In theory, the identification of projects for the Rural Works Programme is a highly decentralized process. Suggestions for projects originate at meetings held within different areas of the unions; from these suggestions initial planning and project rankings are made at the union parishad. The union then formalizes its proposal and passes it to the Circle Officer (CO)-Development at the thana for preliminary examination and cost estimates. The CO brings the proposal before the thana parishad for consideration, since the thana parishad is the approving body for union projects. The thana technical committee works out the final plans for approved projects.

Larger schemes originate at the thana parishad level.¹⁰ These projects are presented at a meeting which includes all of the union chairmen (who are members of the thana parishads), the thana technical staff, and certain officers from line ministries. Thana parishad projects must be approved at the district level. Zilla projects originate in a district level meeting chaired

9. In spite of the fact that thana parishads have been replaced by upazilas, since many of the salient features of the RWP remain in place today, I use the term thana extensively here and also use the present tense.

10. Circular No. 5 (page 6) indicates that unions implement schemes whose cost is less than Tk 50,000 while thana parishads execute schemes whose cost does not exceed Tk 300,000.

by the Deputy Commissioner. This group establishes priorities, plans projects, and presents the proposal to the approving Divisional Board.

Though project selection is highly decentralized, formal central constraints are placed on the establishment of priorities. For example, the next higher level of government must approve projects to assure coordination of projects. Moreover, criteria are given for project selection which are meant to guide local selection of schemes. The first priority is the maintenance of completed schemes, to which 25 percent of the "normal" budget must be assigned.¹¹ The completion of ongoing schemes has second priority and the initiation of new schemes has third priority. With respect to the latter, *Circular No. 5* gives the following priorities for ranking schemes under the Rural Works Programme:¹²

- schemes which provide greater employment opportunities, particularly those which increase agricultural or fish production
- schemes which are supplementary or complementary to completed or ongoing schemes
- schemes which generate production for export
- schemes, such as earthmoving, which may provide employment for the most disadvantaged groups
- income generating projects for local governments
- schemes which ensure utilization of local resources

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

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

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11. The MLG interpretation is that the "normal" budget is revenues raised from own sources plus "normal" grants. If 25 percent of the normal budget is not sufficient to accommodate maintenance needs, then 10 percent of Works Programme grants may be assigned to this purpose. As discussed below, there is debate over the interpretation of the 25 percent requirement.
12. Ministry of Local Government, Rural Development and Co-operatives, *English Version of Circular No. 5 of 1980-1981 on Different Aspects of Rural Works Programme* (Dhaka: Government of Bangladesh, 1980).

It is important to note that the principal thana and zilla officers are central government employees. The degree of "local" participation thus may be controlled to a greater extent than the procedures indicate.

One of the goals of the 1984 reform was fiscal decentralization in the sense of giving local governments more responsibility in defining their expenditure programs. Under the upazila development assistance program, local governments are in theory given even greater discretion in their spending choices. However, there are centrally mandated guidelines. Schroeder argues that the nature of the guidelines is sufficiently broad that they do not place severe constraints on the budgetary flexibility of upazila parishads.¹³ For example, the guidelines state that from 25 to 35 percent of the grant was to be spent for infrastructure purposes and 30 to 40 percent could be allocated to agriculture, irrigation and industry (see Chapter 2).

Works Programme schemes are implemented through the local bodies and usually monitored by the approving authorities. Union and thana schemes involving earthworks are implemented through the union-ward project committees. Each committee selects a secretary who is charged with organizing the labor, disbursing payments, and keeping records, for which he receives compensation equivalent to two percent of the amount of the project. Projects are monitored according to the guidelines set out in the *Manual for Rural Works Programme*. The thana technical staff monitors the union projects while the thana parishad projects are monitored and approved by the executive engineer's office. All pucca construction work above Tk. 20,000 and all zilla parishad schemes are executed through approved contractors. Monitoring at the district level is done by the executive engineer.

Under the pre-reform Rural Works Programme, three factors determine the grant amount that flows to each local government: the total allocation made to each category of public works (e.g., roads, irrigation, etc.) by the central government; the distribution of that amount among types of local government (i.e., some percent to zillas, some to thanas, etc.); and the distribution of that amount among individual local units. The first decision is made by the Planning Commission of the Ministry of Finance in consultation with the Ministry of Local Government. Total allocations were made in 1982 for five "regular" categories of rural works support: rural roads, irrigation, drainage, thana training and development center, and union

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13. Schroeder, *Rural Development Grants to Local Governments in Asia*, pp. 21-22.

community center construction. Rural roads and irrigation projects were clearly emphasized in the early 1980s.

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

The final step in the process is the distribution of these amounts among individual zilla, thana, and union parishads. Distributions to zillas for rural road projects are made by formula: two-thirds according to population and one-third according to land area.¹⁴ The full amount of the thana and union allocations for roads, irrigation and drainage is made by the same formula. The thana parishad allocation is passed to the SDO who acts as the disbursing agent. The allocations to be made are prepared in Dhaka and reported in *Circular No. 5*. The union allocation is passed through the thana parishad with instructions to allocate set amounts for the various functions and to distribute funds among unions on a basis of population and land area. At least in theory, each of the more than 5,000 local government units receives a grant earmarked for each of the three specified purposes. The implication of this design is that the capital projects to be financed by these grants are quite small.

The salary and contingency portion of the Rural Works Programme grants is allocated on a pure cost reimbursement basis. The approved staffing and salary levels are known, at the Ministry, for all levels of the Rural Works Programme.

With the creation of upazilas, the formula-driven Rural Works Programme grant was replaced with a "development assistance fund" grant and a "special infrastructure fund" grant. These were allocated on a flat basis: during 1983/84, each of the 212 upazilas received five million taka; another 185 upazilas received three million taka; and the remaining 63

14. It is not completely clear which land area and population numbers are used in the final allocations. The basis is the 1974 Census, but each District Commissioner is asked by the ministry for the latest estimates for his district, thanas, and unions. These figures are "taken into account" at the ministry level.

upazilas were allocated one million taka. Equal shares were used again in 1985, despite the intention to build "need" factors into the formula.

Evaluating Rural Works Programme Grants

The impact of Rural Works Programme grants could be assessed by asking whether the desired objectives have been achieved, that is, by how much it has stimulated rural infrastructure construction and maintenance, whether the program has generated increased employment, whether it has strengthened local government institutions. One might also ask if it has some of the other features of a "good" grant program: Has the revenue flow been adequate for development activities? Has local government financial planning been enhanced or harmed? Are the distributions among local governments fair? Each of these objectives is discussed below.

In assessing rural infrastructure development, we face a scarcity of statistics on the outcome of Works Programme grants. The report, *Performance Report on Works Programme*, which shows project activity and manpower usage for local governments, is out of date and subject to substantial underreporting. The difficulty in reporting is compounded by the fact that the Rural Works Programme is oriented toward small, labor intensive projects. To understand better the activities carried out under this program, we administered a nationwide mail questionnaire and received 131 responses from thana parishads. The sample includes at least one thana from every district.¹⁵ The average population of a thana included in the sample is 202,000, compared to a nationwide average population of 184,000. The results of the analysis show that Rural Works Programme activities were predominantly in earthworks and that the schemes tend to be small.¹⁶ The average scheme was about Tk. 15,000 and the average thana received about Tk. 100,000 in all. It is difficult to estimate a capital-labor ratio in these projects, but the labor component is obviously

15. For more information on the sample and results of the survey, see Barbara Diane Miller and Vijay Rao, "Rural Needs and Two Social Government Grants in Bangladesh, 1981-82," Metropolitan Studies Program Occasional Paper No. 111, The Maxwell School (Syracuse, N.Y.: Syracuse University, May 1988).

16. These results are discussed more fully in Roy Bahl, "Intergovernmental Grants in Bangladesh," Metropolitan Studies Program Occasional Paper No. 87, The Maxwell School (Syracuse, NY: Syracuse University, May 1984).

high given that embankment and excavation schemes are almost entirely labor-intensive projects. The 1978 *Performance Report* showed that about 70 percent of all Rural Works Programme expenditures were for labor, suggesting a low capital-labor ratio.

An important issue concerning the pre-reform grant program is how conducive it is to developing rural infrastructure. This problem raises the following questions: whether there is a likelihood that grant monies will be diverted to nondevelopment purposes, whether adequate provision is made for maintaining completed projects, and whether the level of funding is either insufficient to carry out capital projects or too large for local government units to absorb.

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

The maintenance problem is more bothersome. There is a provision that 25 percent of "normal" budget revenues be spent for maintenance. Local governments, however, have interpreted this ruling in various ways. Some have taken it to mean 25 percent of total local government income, some as 25 percent of budgeted works expenditures, and some as 25 percent of average works expenditures during the past two years. In any case, local governments have few resources beyond those provided in the Rural Works Programme grant; hence, the amount spent for maintenance will be 25 percent of a very small base. Whatever the interpretation, there does not seem to be any monitoring of whether the requirement is being met, or even whether maintenance is being carried out at an adequate level. In order to monitor the maintenance provision, one would have to face the underlying problem of how to define "maintenance" and clarify the fuzzy distinction between maintenance and reconstruction.

Finally, one might ask whether more could be accomplished by targeting the funds on fewer jurisdictions, and funding larger projects. This strategy could produce a more permanent project, permit a tighter maintenance schedule, and make more effective use of short materials and skilled engineering resources. On the other hand, it would "cost" a spreading of

Works Programme employment benefits across all rural areas. This issue is directly related to whether the grant program has primarily relief (distributional) or development goals.

The upazila development fund and the special infrastructure fund could be more successful at achieving the goals of promoting capital investments by rural local governments. Because the development fund is a block grant, the local governments have some control over determining the size and composition of projects. On the other hand, the central government has issued some guidelines regarding the maximum and minimum percentages that can be spent for various purposes and has mandated that the upazilas allocate the funds in a way that "...in character and magnitude should be, as far as possible, similar to the Rural Works Programme carried out so long by the national government."¹⁷ It is also required that one-third of the amount spent for rural works will be allocated to the union parishads.¹⁸ The special infrastructure fund is meant to allow upazilas to upgrade local government facilities. Therefore, the funds are not to be spent for pure development purposes but rather to improve government buildings and to provide improved housing for local government personnel. The intention is to abolish the grant once the facilities have been sufficiently improved.

The employment generation objective of the RWP is also complex. Unfortunately, there are neither accurate nor current data that enable us to make a firm estimate of the job generation benefits of Rural Works Programme grants. Some optimistic estimates reported that in early years the Rural Works Programme generated direct employment for between 600,000 and 1 million persons per year.¹⁹ The World Bank has reported an estimate of 223,000 workers in 1970/71 and between 28,000 and 68,000

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17. Planning Commission, Ministry of Finance, *Guidelines for Upazila Parishads for Utilization of the Development Assistance Provided by the National Government through the ADP* (Dhaka, July 1983), pg. 8.
 18. A monitoring cell has been established within the Ministry of Local Government with the express purpose of insuring that the guidelines are followed.
 19. John W. Thomas, "The Rural Works Programme in East Pakistan," in William P. Falcon and Gustav Papanek (eds.), *Development Policy II-The Pakistan Experience* (Cambridge: Harvard University Press, 1971).

person-years per annum between 1971/72 and 1976/77.²⁰ Our rough estimates agree with the World Bank assessment. Using the partial data from the 1978 *Performance Reports* to make a first approximation, we may estimate that some 35 person-days of work were created for every Tk. 1,000 spent.²¹ Assuming a continuation of this pattern and that 316 person-days are the equivalent of a single full-time calendar year job, the Tk. 324 million actually spent on the Works Programme created about 36,000 jobs in 1982. This amount is equivalent to about 1.3 percent of the economically active population. If we consider only the off-season (say 60 days), then nearly 200,000 jobs annually might be created through the program. In percentage terms the amount is not so great, but in the absolute it is clearly a substantial relief program.

One cannot argue against this kind of accomplishment, especially in a country as impoverished as Bangladesh. Moreover, the other avenues open to job generation in rural areas are not clearly better. Consider the alternatives. The government could provide direct tax relief in amounts equivalent to the size of the Works Programme grant. This option would inject the same amount of taka into the spending stream, but the same amount of money would not be devoted to generating rural employment opportunities, and multiplier effects would likely be smaller. The taxpayer relief would fall to higher income families, a substantial amount would go to the urban areas where taxpaying capacity is greater, and much of the urban to rural redistribution of income could be lost. A second possibility would be for the central government to undertake larger projects in rural areas, generating employment benefits, but concentrated regionally rather than spread around the country. Moreover, the costs of administration might be greater if projects were larger.

We have no evidence about the employment generation impact of the upazila development fund and special infrastructure projects. On the one hand, the stated intention is to maintain the character and objectives of the

20. From M. Alamgir, *The Experience of Rural Works Program in Bangladesh* (Stockholm: Institute of International Studies, 1977); and Daniel Asplund, "The Public Works Program in Bangladesh and Swedish Aid Objectives" (February 1979), p. 25 as cited in The World Bank, *Bangladesh: Selected Issues in Rural Employment* (Washington, DC: The World Bank, 1983), p. 73.

21. This number was obtained by dividing person-days by total expenditures for rural local governments for those schemes shown on the 1978 *Performance Report*, pp. 12-14.

Rural Works Programme grants. On the other hand, the development fund is focused more on construction, gives the local government some latitude in defining larger projects, and appears to be less oriented to providing jobs than to stimulating capital investment.

Does the Works Programme strengthen local governments as an institution?²² The answer here depends on how one defines "strengthen." We suggest two definitions: increased citizen participation in local projects, and increased local government fiscal autonomy. On the first count the Rural Works Programme would appear to be a success. On the second, it would not.

The RWP's decentralized approach to project selection and implementation clearly involves local residents and local officials. However, one must draw a distinction between "involvement" and responsibility. For all their involvement in project selection and implementation, local governments are not accountable to the central government for how well these projects are carried out or maintained, or to local residents for how their contributions are spent. The upazilla grant system may improve accountability. It gives local governments some discretion in choosing their portfolio of projects; hence there is an increased accountability to the local constituency. Moreover, the central government has put in place a monitoring cell which can lead to better accountability to the central government.

The second aspect of strengthening local governments is whether the Rural Works Programme grant encourages fiscal autonomy, i.e., whether local governments are encouraged to become more self-reliant. This goal is accomplished in many countries by structuring the grant program to require local governments to mobilize own resources (taxes, fees, charges, voluntary contributions) as a condition of receiving and spending the grant. Neither the Works Programme grants nor the development fund block grant have such "matching" provisions, and neither provides an incentive for local governments to increase their revenue effort.²³ How much local

22. See also M. Asaduzzaman, "The Role of Grants in Local Government Finance in Bangladesh," in *Decentralization, Local Government Institutions and Resource Mobilization*, edited by Hasnet Abdul Hye (Comilla: BARD, 1985), pp. 342-360.

23. There was an option under the RWP grant program where local participation projects were financed by a combination of central grants, union parishad taxes and voluntary contributions by individuals. See Barbara D. Miller and Showkat Hayat Khan, "Incorporating Voluntarism into Rural Development in Bangladesh," *Third World Planning Review*, 8, (2) (1986): 146.

"involvement" really takes place when no local revenue effort is involved in financing the projects? Local governments in such a system are still very much financial appendages of the central government.

Our next area of assessment involves revenue adequacy—has the flow of revenues from Works Programme grants been adequate to meet infrastructure needs? Adequacy requires us to define these "needs," i.e., to determine if grants are increasing in step with expenditure needs. Without a measure for needs, one might argue that a growth that kept pace with population and prices (constant real per capita grants) would pass the adequacy test. The growth in real per capita amounts of RWP grants has been erratic, quite slow and, at best, a constant real per capita performance has characterized them. Certainly, the amounts have not increased faster than population and the general price level in recent years; for example, the real per capita amount of budgeted Works Programme grants is the same in 1982 as it was in 1976, while the per capita allocations have fallen.

Another approach to measuring the adequacy of revenue growth is to treat Works Programme grants as a tax, and to evaluate its income elasticity—does its yield increase at least in proportion to GNP? For the 1974-1982 period, for every 1 percent increase in GNP, there was a 0.96 percent increase in Works Programme grant revenues. If income growth is a rough indicator of the increased demand for local public services, we might conclude that Works Programme grants have not quite kept up with income growth. One might take yet another approach: Works Programme grants are for construction purposes, and the growth in grant revenues should be related to the growth in construction costs. Between 1973/74 and 1980/81, grant revenues increased by 144 percent, but the general index of building construction²⁴ increased by 171 percent. In other words, whereas a given amount of Works Programme grants would purchase 100 units of "construction" in 1974, they would purchase only 84 units in 1981.

No matter how the revenue adequacy of the Rural Works Programme grant is measured, it cannot be said that revenue growth has exceeded needs. The development assistance grant might get better marks in that the total amount of grant assistance was increased significantly immediately after the decentralization policy was implemented. However, this may well have been a one-time increase and the real year-to-year growth in grant revenues may be no greater than in the past. The same flat amount allocation per upazila was made in 1985 as in 1984—the real per capita amounts fell. By

24. *1981 Statistical Yearbook of Bangladesh* (Dhaka: Bangladesh Bureau of Statistics, 1982), p. 419.

the late 1980s amounts allocated to upazila development grants fell even in nominal terms. Moreover, the special infrastructure grant was phased out after upazila facilities were improved.

Yet another important issue is financial planning. Financial planning at the local government level in Bangladesh is not well developed. There are planbooks, but no capital budgets or long term plans for generating funds to maintain public works projects. Since local governments are so heavily dependent on central government grants, their fiscal planning is almost wholly dependent on their ability to predict central grant receipts. The question at hand is whether the annual flow of Rural Works Programme grants provides enough certainty to enable effective financial planning.

There are two potential problems with grant programs in all countries in this regard. The first is that actual allocations by the central government may not match the amounts budgeted. This creates an important problem because the budgeted amount is the planning target used by the local government. The second is that the releases of the allocated amounts may not be timely, thereby resulting in delays in project implementation.

Both of these problems plague the Rural Works Programme in Bangladesh, but the first is more serious. The total allocation to this program has been erratic (Table 3-3). Such fluctuations are not unusual in grant systems where the total allocation is determined annually on an ad hoc basis. As other national priorities emerge, and as central government budgets grow tight, local government grant distributions are often an early casualty. The difficulty is compounded in Bangladesh because these local units have virtually no resources of their own on which they may fall back. Multi-year fiscal planning is discouraged by this uncertainty and, as a result, it is difficult to gain much continuity in Works Programme activities.

Another source of uncertainty, also arising in many developing countries, is that the central government may release a grant amount which is far less than what it had originally budgeted for that fiscal year. In other words, the fourth quarter release by the central government may be delayed until the following year because of some budget exigency. The result is that local governments can face serious fiscal shortfalls. It is difficult to know how much of a problem this is in aggregate, because of the lack of good data. Though the data in Table 3-3 suggest a reasonably good record (relative to other countries) of distributing 90 percent or better of amounts budgeted, the problem can still be serious for individual local governments. For example, in our survey data on 132 thana parishads, it was reported that an average of 79 percent of amounts allocated were actually received. Even the "average" shortfall of 20 percent can be a serious problem for local governments with very little of their own revenues. During its first two

TABLE 3-3
RURAL WORKS PROGRAMME ALLOCATIONS AND SPENDING
AS PERCENT OF AMOUNTS BUDGETED,
1974/75 - 1984/85

Fiscal Years	Total Budgeted Amounts (in millions of takas)	Allocation as Percent of Budgeted Amounts	Spending as Percent of Budgeted Amounts
1974/75	173.7	66.2	59.5
1975/76	192.8	107.4	140.3
1976/77	237.2	86.4	91.5
1977/78	172.4	102.4	104.0
1978/79	251.2	90.1	90.1
1979/80	321.1	99.5	99.3
1980/81	335.7	96.7	96.4
1981/82	404.3	92.4	—
1982/83	498.3	87.3	—
1983/84	28.0	—	—
1984/85	36.5	—	—

SOURCE: Government of the People's Republic of Bangladesh, Ministry of Finance and Planning, *Demands for Grants and Appropriations (Development)* (Dhaka, various years); Unpublished data from the Ministry of Local Government and Rural Development.

— Not available.

years of operation the upazila development assistance grant did not encounter the same problem, probably due to central government concern that this centerpiece of its domestic program not fail due to delays and revenue shortfalls. It remains to be seen whether, in the face of national resource constraints, this improved performance can be maintained.

Our next criterion of assessing the RWP is its pattern of grant distributions. The distribution of Rural Works Programme grants is the result of a complicated mixture of government decisions about project priorities, the choice of which level of government to emphasize, a population and land area formula, the choice of a population number for use in the formula, and ad hoc decisions about special needs. Is the resulting allocation somehow appropriate or fair? Of course, defining what is "fair" involves a normative judgment. We might take the two most common rules for the distribution of grants—equalization of resource capacity and straight per capita distribution—and compare these against the present distribution in Bangladesh. In effect, we ask whether the distribution of grants equalizes

taxable capacity or is on a straight per capita basis. If the answer is affirmative in either case, then we may say there is a kind of "fairness," or at least objectivity, in the distribution. To investigate this question, we developed a test with data drawn from fieldwork in 16 zillas, 11 thanas, and 27 unions. Simple correlations between population size and Rural Works Programme grants have been estimated, separately, for this sample. As may be seen from Table 3-4, the simple correlation between Rural Works Programme grants and population size is significant at the .05 level only in the case of unions ($r = 0.76$).

A separate question is whether there is a population size bias in the distribution of grants. If grants were distributed without a population bias, the correlation between per capita grants and population would be zero, i.e., there would be no significant difference among local governments in the per capita amounts received. As may be seen in Table 3-4, zillas and thanas with smaller populations tend to receive significantly greater amounts of per capita Works Programme grants.

Ideally, we would also like to determine whether wealthier jurisdictions receive less in grants per capita, i.e., whether the grant system is somehow

TABLE 3-4
SIMPLE CORRELATIONS OF GRANTS AND POPULATION SIZE,
BY TYPE OF LOCAL GOVERNMENT AND TYPE
OF GRANT FOR 1980/81

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

*Denotes significance at .05 level.

^aExcludes Chittagong Hill Tracts which does not receive any property transfer tax.

^bNot applicable because thana parishads do not receive any normal grants.

^cThis correlation coefficient is for the Rural Works Programme grants combined with other occasional specific project grants, e.g., for such purposes as haats and bazaars, food gardens, workshops, farmers' training, etc.

SOURCE: Computed by author from financial data collected from local governments and census data compiled by Bangladesh Bureau of statistics.

"equalizing." Unfortunately, there are no data on personal income or wealth that allow us to make such a computation. What we have done, however, is examine the relationship between per capita revenues raised from own-sources and per capita grants, on grounds that the former variable is a general indicator of financial capacity. Carrying out such an analysis for unions—since unions are the only local government body with any appreciable amount of autonomy in mobilizing own-source revenues—indicates no significant relationship for any of the years between 1977 and 1981. From this evidence, we might conclude that RWP grants are generally distributed on a per capita basis for unions and that there is a bias in favor of less populated zillas and thanas.

Normal Grants

A second type of grant to rural local governments is referred to as normal grants. Rather than a single program with a single objective, this cluster of grants includes 12 specific transfers which are allocated in various ways and earmarked for various purposes. In aggregate, these grants are important, accounting for an amount equivalent to about one-fourth of total Works Programme grants. The total amount allocated under these programs, however, declined in real terms during the period of our analysis.

The three largest of these programs are special purpose grants, grants to union parishads for member honoraria and officers' salaries, and grants to union parishads for rural police force salaries. The special purpose grant is allocated, by historical tradition, 45 percent to municipalities, 7 percent to zilla parishads, and 48 percent to union parishads. It is then distributed through the subdivisions on a per capita basis. The total national amount of the grant is fixed on an ad hoc basis and has been declining. A second large component of "normal" grants is the honorarium paid to chairmen, council members, and secretaries in about 4,500 union parishads. One-third of the chairmen's (1982) Tk. 300 per month honorarium, one-half of the members' Tk. 100 per month honorarium, and one-half of the salaries of the secretaries are paid by government grants. The third major component of normal grants is shown in the budget as a grant to union parishads for half the salary of the rural police force. In fact, in recent years nearly half of this amount has been allocated among union councils as a general budget deficit grant. The allocation is made on a population basis with the subdivision passing the grant funds through to the unions. The remainder is also distributed by the subdivision to the unions based on the number of union parishad policemen and their salaries.

Though there are no clearly stated objectives of the normal grant program, the intent is clear. These grants are meant to support the general operations of the local government sector, i.e., they are in some sense a substitute for general revenues that might be locally generated. In evaluating these grants, many of the same issues as above may be considered: Have local governments been induced to mobilize more resources? Has revenue growth been adequate? Are the grant distributions among local governments fair? Is the program costly to administer?

In theory, some components of this program of normal grants provide an incentive for local government resource mobilization. By paying only a portion of the salary of local officials, it has a built-in requirement that local governments must mobilize matching resources on their own. Though the grant amount, and therefore the potential impact, is small, this is one component of the Bangladesh grant system that would seem to encourage increased local government revenue effort. In practice, the grant program is probably not stimulative of local revenue effort. One problem is that local governments are not required to match the government contribution as a condition of receiving the grant. Our interviews with local officials suggest that the local share often goes unpaid. Moreover, while the salary grants carry a matching provision, many of the other normal grants do not; hence they tend to offset the local resource mobilization impacts of salary grants. For example, a deficit grant is given to cover general budgetary shortfalls.

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

Third, the allocation of some components of normal grants across local governments is "fair" in the sense that allocations are made on a basis of approved salary levels. However, most other components are distributed on an apparently ad hoc basis. Our data suggest that, in total, normal grants are distributed among zillas approximately according to population, and are distributed among unions with a bias in favor of those with smaller populations. There is one final, important disadvantage to normal grants. Because it involves so many programs, it is likely to be costly to administer, and the possibilities for monitoring and coordination are less than would be the case with a smaller number of grant types.

There would seem to be little to recommend the normal grants program. It is a collection of categorical grants which provides some earmarked support for local activities. It is a transfer that probably does not stimulate local revenue effort, it has not grown to keep pace with population or inflation, and its various components are distributed according to several

different criteria. It is somewhat surprising, therefore, that the system of normal grants remained intact with the 1984 reform.

The Food For Work Programme

The Food For Work Programme (FFWP) seems a logical approach to rural development in Bangladesh: make use of surplus labor in rural areas to carry out public works projects and compensate this labor with wheat. At once this program would provide jobs for the rural poor, distribute food, and improve the infrastructure. In fact, FFWP turns out to be an effective relief program. It produces a substantial number of rural jobs for unskilled workers in the season of high unemployment. On the other hand, the FFWP is not without problems some of which stem from the fact that, until recently, there was uncertainty among policy-makers involved in the FFWP about whether the primary goal was development or relief.

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

There are three sources of financing (mostly through wheat) for the government's program: The World Food Program (WFP) component, the USAID financed/CARE administered component (referred to hereafter as the CARE program), and the BDG component (financed by various bilateral donors and the BDG). In total the estimated 1982 disbursements were: 121,512 MT (metric ton) under the WFP component; 90,754 MT under CARE; and 166,860 MT under the BDG. If we assume that all BDG and CARE distributions are "local initiative,"²⁴ that 20 percent (24,300 MT) of the WFP is "local initiative," and that wheat could be properly valued at Tk.

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

127.2 per maund in 1982,²⁵ then we may place the value of the local initiative FFWP at Tk. 960 million in 1982.²⁶ This amount is more than twice the budget estimate for the Works Programme grant in 1982, making the FFWP the major financial component of Bangladesh's rural development program.

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

CARE provides technical assistance to and monitoring of projects under the USAID-financed part of FFWP. This activity includes assistance in scheme preparation, book audits of proposed schemes, on-site evaluation of proposals, and post-project audits of physical accomplishments. While approval rests with the Ministry of Food, CARE has the authority to reduce inflated wheat requirements and reject schemes that are either technically unsound or that face land disputes. In spite of this oversight, considerable decentralization in the local-level project approval process has been taking place. As of the time of the creation of upazilas in 1983, more authority was passed to the local level. In the upazilas, the TNO replaced the SDO as the approving official and may issue the delivery order to remove grain from the local supply depot. The CARE role has remained much the same, with three exceptions: the monitoring of the appurtenant structures program, an improved system of measuring and reporting project and employment accomplishments, and project review in more of an advisory than an approval/rejection role.

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25. One maund equals 82 pounds. The January 1982 price of wheat is taken from "average retail price of coarse rice and wheat in Bangladesh." Compiled by USAID/Bangladesh from Directorate of Supply, Distribution and Rationing, Ministry of Food, April 6, 1982.
26. In addition, 75,000 MT were converted to cash for the "appurtenant structures" program in 1983 and 70,000 MT were programmed for this purpose in 1984.

There are criteria about what kinds of projects are acceptable and priorities are established by the requirement that the projects be drawn from the Thana Plan Book. As of 1983/84, the Ministry of Food had instructed local bodies to prepare WFP and USAID/CARE schemes only for earthwork on roads, embankments and simple drainage canals. Tanks and irrigation canals would not be considered.²⁷ Accordingly, most projects are of the reconstruction nature—substantially upgrading existing alignments including reconstruction and resurfacing of rural roads, re-excavation of canals for irrigation and drainage. There is relatively little new construction, in part because of problems of land acquisition. Still, the distinction between "upgrading and reconstruction" on the one hand, and "new construction" on the other is often indistinct. Though no brick surfaces are involved, the FFWP projects may lead to a substantial upgrading of a roadway over a period of years, e.g., from an embankment-pathway for walking to a surface with a large enough dimension to carry a rickshaw. In the long run, such upgraded embankments may be linked together as part of the area road system.

The distribution of FFWP wheat is done on a combination of a formula basis and an assessment of project accomplishments. In contrast to what had been the practice in recent years, the present method of allocation across thanas is objective and the distributions under the three programs are integrated.²⁸ The first step in the procedure is the establishment of a notional allocation for the overall distribution among thanas. This is done according to the following formula: 0.1 maund per capita based on 1981 thana population with an additional 10, 25, and 50 percent depending on the degree of distress. The measure of distress has been arrived at on a basis of judgment and familiarity with individual thanas, rather than on a basis of straightforward statistical manipulation. Factors considered in deriving the degree of distress include the level of rice prices, unemployment, and "susceptibility to disasters." After the notional distribution is established, the allocation to each thana is divided into CARE, WFP (local initiative and

Water Development Board) and the general government allocation. This involves several steps:

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

The final distributions may not match the notional allocation for two reasons. The first is that good information on WDB projects may be late in coming and cannot be "plugged into" the formula. The second is that CARE allocations may not match CARE disbursements. Actual disbursements against these initial allocations depend on post-audits of project completion, amount of earth moved, etc. In any given year, the distribution of final disbursements across thanas may differ markedly from the initial allocation. For example, in 1981, the average disbursement among 373 thanas was only 85 percent of the proposed amount.²⁹

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

27. Ministry of Food memoranda of March 17, 1983, and April 20, 1983, respectively.

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

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

Evaluating the FFWP as a Grant Program

How does FFWP measure up as an intergovernmental transfer? In assessing the performance, we consider the same criteria as were considered above for the Rural Works Programme grants: infrastructure development, employment generation, strengthening local governments, revenue adequacy, financial planning, and distributional equity. A related issue is the interaction between the RWP and FFWP. It is important to remember that, while the FFWP was originally designed as a temporary relief program, it now functions as a major part of the intergovernmental grant system and therefore can and should be assessed as a part of that system.

Has the FFWP led to a substantial improvement in the rural infrastructure? The question is very difficult to answer. One can point to the number of schemes completed per year, or to the cubic feet of earth moved, but such figures do not provide good information on how the quality of the rural infrastructure has been improved—whether the schemes were originally sound in design and construction, whether they were the "right" projects to enhance development, and whether they have been adequately maintained. Some evidence of a positive development impact may be obtained from one evaluation of the FFWP. The study concludes, on the basis of respondent interviews and field visits, that the FFWP "...appears to have stimulated rural development in positive social and economic directions since 1980 through major improvements in local transportation and communications."³⁰

The primary objective of the FFWP has been to generate employment for the rural poor. An evaluation of the job creation success of this grant program would ask if significant numbers of jobs have been created, and could another design of the FFWP grant, or even another type of grant program, have done better?

Using data generated by CARE and by the WFP, a rough estimate can be made of the employment impact of FFWP.³¹ A first approach is

30. Abt Associates, *The Development Impact of Title II, Food For Work Roads in Rural Bangladesh* draft report to USAID, (January 1984), p. 51.

31. Good data on the job creation power of FFWP projects are not available. The projects are implemented during a six-month work season and the size of the work crew varies from day to day. Since wheat is distributed according to cubic feet of earth moved rather than per hour or per day of work, it is very difficult to get a firm estimate of the number of jobs created.

straightforward deduction. Valuing the total local initiative program at Tk. 960 million in 1982, and assuming that the average worker earned about five kilos of wheat per day³² (17 taka per day), the program could have generated about 350,000 jobs during the 1982 season.³³ This amount is equivalent to about 57 person-days per 1000 taka of FFWP resources. Second, according to CARE data, one maund of wheat purchased 13 man-days, and 53 cu. ft. of earth was moved per man-day purchased. If we assume a six month, 158 working day season, we reach the conclusion that the care component alone generated 320,000 seasonal jobs. If this estimate is taken as correct and applied to the 53 percent of the local initiative portion operated by BDG and WFP, the total estimated jobs would be about 600,000 per season. The World Bank has estimated more than 500,000 jobs in 1982. By all of these estimates, the FFWP is a powerful job generator.

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

The FFWP, in achieving its employment generation goals, has sacrificed some development potential in its projects. This shortcoming has led to two important adjustments in the program. The first was a program to monetize wheat assistance in order to make cash grants for appurtenant structures. The second is the BDG initiative to reduce the number of schemes in each thana in order to improve the technical design and implementation of each scheme. Moreover, the BDG has also moved to limit the earthworks component of the Rural Works Programme. These steps are in the direction of a development orientation, and further underline the need for closer coordination between FFWP and Rural Development grants.

How has the FFWP affected the development of local government institutions? Like the Rural Works Programme grants, FFWP has required no matching contribution from the local government. As a result, FFWP has not stimulated the mobilization of more local resources nor has it led to increased local government fiscal autonomy. So long as it was primarily a relief program, a no-matching block grant was an appropriate strategy.

32. Estimate supplied by CARE.

33. Assuming 158 working days in a six month season.

Improving the income position of the rural poor is not a proper responsibility of local governments and not the sort of activity for which their residents would likely be willing to tax themselves. FFWP as a relief program could not contribute substantially to local government revenue mobilization. As a development program, on the other hand, it has such potential.

A first step in the direction of using FFWP to develop local government financial performance has come with the recent program of cash grants to be used for construction of appurtenant structures such as bridges, culverts, etc. Each upazila is required to match the cash-FFWP allocation with an amount equivalent to five percent of that allocation. For 1984-85, the matching share was supposed to rise to 10 percent. Unfortunately, the general idea behind this matching provision may be better than the actual practice. Three caveats are apparent. First, the matching amounts are quite small and will not lead to a substantial mobilization of local tax resources. Second, if the local match can be drawn from the central government Development Assistance grant, no truly local resource mobilization will be required. Finally, own-source revenue mobilization is new to the upazilas with the revenue sources provided quite limited in scope; hence the matching requirement may not stimulate increased local taxation. But, with the appurtenant structures program in place and with increased upazila revenue autonomy, such potential for local resource mobilization now exists.

To evaluate the revenue adequacy of FFWP grants, one must ask whether the overall flow of revenues has exceeded the rate of growth in prices and population. To make such an estimate, we convert wheat allocations to taka amounts, deflate, and analyze the trend. The results show that the real per capita amounts have fluctuated considerably and in 1982 were below the 1979 level (Table 3-5). There are, of course, caveats to this kind of measurement. First, WFP disbursements are sometimes not fully made in the year shown, lending some irregularity to this pattern. Second, cash disbursements under the appurtenant structures program are not shown. Third, under this measurement the size of the program is affected by changes in the amount of work done and changes in the price of wheat.

How does the FFWP affect the financial planning abilities of local governments? In the past, the FFWP has created some problems in terms of certainty of receipts, similar to those for the RWP. One problem stems from local officials not knowing the total amount to be expected in a given year. A second problem is that in some cases, the full amount of allocation has not been received during the fiscal year, and therefore the completion of some projects is delayed or cancelled.

TABLE 3-5
FOOD FOR WORK PROGRAM/ME LOCAL INITIATIVE
PROGRAM DISBURSEMENTS

Fiscal Year	Total Metric Tons Disbursed ^a	Wheat Price per Maund (in takas)	Total Program Value (in million takas)	Real per Capita Amount (in 1977 takas)
1975/76	150,000.2	90.40	365.35	5.07
1976/77	115,648.0 ^b	78.00	242.02	3.27
1977/78	115,316.6	94.80	293.31	3.37
1978/79	314,140.0	96.80	815.87	8.36
1979/80	208,479.0	131.60	736.10	6.39
1980/81	275,898.2	124.00	917.89	6.98
1981/82	256,960.4	127.20	876.95	5.80
1982/83	—	153.44	—	—
1983/84	272,000.0 ^c	—	—	—

^aSum of 20 percent of WFP disbursements, BDG general allocation disbursements, and CARE reimbursements.

^bExcludes 17,337 MT distributed under FFW Rainy Season Programme.

^cProgrammed amount.

— Not available.

SOURCE: Bangladesh Bureau of Statistics, *Economic Indicators of Bangladesh* (Dhaka: Bangladesh Bureau of Statistics, January, 1982); Unpublished data supplied by Ministry of Food, Directorate of Supply Distribution and Rationing as well as by the World Food Programme and CARE.

The distribution of FFWP grants is made partly on an objective basis—some combination of population, level of distress, and the merit of projects. Does this system lead to any biases, e.g., in favor of the poorest thanas, or against the smallest thanas? In fact, there is no evidence of a population bias in this distribution, the correlation between per capita allocation and population size is not statistically significant. There are, however, two biases in the distribution system which may result in a differential treatment of some local governments. One is the fact that where WDB projects are located, the local government receives a significantly smaller overall share. In the 1983/84 FFWP allocations, the average maunds per capita received in those 210 thanas which have no WDB project is 0.11 whereas the average in those 213 thanas which do have WDB projects is 0.05. As a result, the project accomplishments by these local governments may be low by comparison with local governments in the rest of the country. The second bias is that not all districts are covered by the CARE program and therefore not subject to more careful monitoring of

project accomplishments. If these projects do not pass the monitoring test, actual disbursements may depart from the BDG "notional" allocations. To determine whether this potential bias is important, the 1981 estimates of CARE allocations and reimbursements across 373 thanas have been analyzed. The simple correlation between reimbursements and population size is significant,³⁴ indicating that CARE reimbursements are distributed in proportion to population size. This sample also shows that 47 percent of the thanas received 90 percent or more of the proposed allocation, and 25 percent received less than 70 percent. The simple correlation between the amounts initially allocated, and that actually reimbursed, is 0.89. We could not find evidence of any particular biases according to physical or economic conditions of the thana.³⁵ Can we, in sum, say that the FFWP leads to a "fair" distribution? Certainly forcing the overall distribution to a BDG notional allocation is a major step in the right direction, but there remain important biases. Local governments in some districts receive less because of WDB projects, in CARE districts they receive less because projects are more closely monitored for reimbursement.

In a country like Bangladesh where resources are so scarce, different grant programs should reinforce rather than offset one another's impacts. Thus, it is important to consider the coordination of the FFWP with the RWP (now the Development Assistance grants). The former is administered by the Ministry of Food and the latter by the Ministry of Local Government. Allocation formulae are not coordinated between the two programs, even though they are meant to serve similar goals. As far as we could learn, the two responsible Ministries did not scrutinize each other's lists of approved

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

35. We estimated the following relationship:

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

where

PCT = the percent of total allocation reimbursed

P = population

A = land area (in square miles)

D₁ = very high distress (dummy variable)

D₂ = high distress

D₃ = above average distress.

None of the independent variables were significant at the .05 level.

projects in order to achieve conformity. Information gained in field visits, from the questionnaire to 132 thanas, and from the Ministries of Food and Local Government suggests that local units see the FFWP and the RWP as different methods of financing similar projects. In both cases the projects are supposed to be drawn from the same planbooks, the local planning and implementation committees are similar groups, the constituencies are the same and even the same local labor pool is used.

Data from our sample of 132 thanas have been used to estimate the relationship between the distribution of the RWP and FFWP distributions prior to the 1984 reforms. The results for 1981/82 show:

$$RWP_p = 1243.6 + 0.0057 FFWP_p - 2.323 POP$$

(0.028) (-3.083)

$$\bar{R}^2 = 0.10$$

where

RWP_p = per capita Rural Works Programme grants

FFWP_p = per capita Food For Work Programme grants (in maunds)

POP = population

(t-statistics in parenthesis).

These results show that, after correcting for the population size bias in allocations of per capita RWP grants, there is no apparent relationship between FFWP and RWP allocations. The food grant is used neither as a substitute or a supplement to the monetary grants. While each are distributed by different bodies, the allocations are essentially similar.

What is to be said overall about FFWP as an intergovernmental grant? It has been in the past a very good relief/relief program, a powerful job generator in rural areas. Not surprisingly it has been less effective in achieving other goals. It may not do as good a job of infrastructure development as would a grant program that involved more capital, less labor, and larger projects, and that made some provision for maintenance. It does not encourage local government revenue mobilization as much as would a matching grant aimed at financing projects with localized benefits.

Moreover, there is some evidence that the targeting of FFWP grants on more distressed areas probably "costs" some positive development impact.³⁶ The biggest problem is to increase recognition among government officials that the FFWP is a grant program, should be evaluated and reformed as such, and should be coordinated in an effective way with other rural local government grant programs.

Urban Local Government Grants³⁷

Central grants to urban local governments—paurashavas and municipal corporations—are of three types: Urban Works Programme grants, urban "normal" grants, and Octroi Compensation grants. As may be seen in Table 3-1, the Works Programme and Octroi Compensation grants account for over half of total grant revenues, and special project grants to the Dhaka Municipal Corporation for almost all of the remainder.

Urban Works Programme Grants

The general objectives of the Urban Works Programme grants are the same as that for the Rural Works Programme grants: to generate jobs, promote development projects, and decentralize government decision-making. There are a few differences in procedure between the urban and rural systems. First, the approving authority for larger (Class I) paurashavas is the Ministry level and for all others it is the division level. Second, the paurashava's own technical staff implements and oversees the works projects. Third, the allocation of grants across paurashavas is supposedly made according to population, rather than population and land area as in the case of Rural Works Programme grants.

There was little growth in real revenues under the Urban Works Programme grant from the mid-1970s to the early 1980s, but a substantial growth in real terms occurred after 1983 (Table 3-6). Furthermore, when it is recognized that, as a municipal corporation, Dhaka has not shared in

36. Abt Associates, *The Development Impact of Title II, Food for Work Roads in Rural Bangladesh*, p. 50.

37. The more recent data and discussion in this section are drawn from Larry Schroeder, "Bangladesh: Urban Government Finance and Management," June 1985, unpublished paper.

TABLE 3-6
TREND IN REVENUES FROM URBAN WORKS PROGRAMME GRANT^a

Fiscal Year	Budgeted	Revised Estimate	(in millions of takas)			Actual Per Capita in Real 1977 Takas
			Actual	Actual in Real 1980 Takas ^b	Actual as Percent of the Budgeted	
1974/75	10.0	10.2	10.2	12.5	101.1	5.6
1975/76	10.0	30.0	30.0	48.3	300.0	6.1
1976/77	26.7	35.0	35.0	58.3	131.1	2.1
1977/78	15.8	17.2	17.2	22.0	109.2	1.9
1978/79	18.5	—	18.5	21.0	100.0	2.6
1979/80	31.4	24.0	31.4	31.4	100.0	2.1
1980/81	30.0	30.0	30.0	27.2	100.0	2.7
1981/82	50.0	48.0	48.0	38.6	96.0 ^c	3.6
1982/83	70.0	70.0	70.0	53.6	100.0 ^c	3.0
1983/84	100.0 ^d	73.1	73.1	48.1	73.1	—

^aThe Works Programme budget figures for 1979-83 were available in both sources quoted here (the MLG and the Bangladesh Budget) and there was discrepancy between the two for some of the years. For the sake of consistency the former was chosen because this source provided most of the Works Programme data used in other tables.

^bThe deflator used in the calculation is the deflator for GDP. The reason for choosing this from among alternative indexes is that it exists for the entire time period.

^cRevised estimate as percent of budgeted amount.

^dOnly Tk. 50 million of this amount will be allocated to Municipal Corporations and paurashavas.

— Not available.

SOURCE: Government of the People's Republic of Bangladesh, Ministry of Finance and Planning, *Demands for Grants and Appropriations (Development)* (Dhaka, various years); Unpublished data from the Ministry of Local Government and Rural Development.

the funds since 1983, it becomes clear that the per capita amount available to the remaining urban jurisdictions has risen.

In comparison to rural local governments, paurashavas tend to be less reliant on Works Programme grants. Our estimates show that paurashavas received about one-fourth of their revenues from Works Programme grants in 1980-81, about the same percentage as in 1976-77. The design of the Urban Works Programme grant does not, however, encourage a reduced reliance on grants, since there is no matching required of urban governments.

Urban Normal Grants

Urban normal grants are a small component of paurashava budgets (Table 3-1). In general, they are a collection of small grant programs earmarked for certain salary subventions and some general purpose assistance. In general, this grant program fails to meet the tests of revenue growth, equity and efficiency. The amounts have not grown, the amounts distributed to cities are not closely related to current spending needs, and the program does not promote additional mobilization of resources.

Urban Special Project Grants

Special capital grants to the Dhaka Municipal Corporation (DMC) provide a significant share (about 40 percent) of total urban grants (Table 3-1). These grants support multi-year schemes which are approved by the MLG and the Planning Commission, and ultimately included in the Plan. Those few loans which have been made to the DMC carry a 5-year forgiveness, a 12-year repayment schedule, and an 11 percent interest rate. In effect, however, these are grants since "repayments" supposedly will come from reduced future allocations for Plan projects. All Special Project grants have in the past gone to the Dhaka Municipal Corporation, but the Chittagong Municipal Corporation began to receive funding in 1984. A major problem with the special project financing schemes is that there is some uncertainty among local government officials about the total amount of funds that will eventually be distributed. For example, Schroeder reports that the amounts originally budgeted for Chittagong were reduced by half by the Planning Commission.³⁸

Octroi Compensatory Grant

The government abolished the octroi tax in July 1981. It was replaced in 1981/82 with a compensatory grant equivalent to 75 percent of 1980/81 octroi collections, with the distribution across municipalities to be made in proportion to actual 1980/81 octroi collections. This formula implies a marked cut in the real level of these grants for 1982 and 1983. However,

38. Ibid.

1983/84 saw a dramatic increase in octroi grant funds distributed. It is not clear, however, whether or not the full budgeted amount of Tk. 750 million was actually disbursed. In each of the two previous years (1981/82) and 1982/83) only about half of the amounts shown were actually distributed.

Evaluation of Urban Grants

We consider three factors in evaluating urban grants: whether local government resource mobilization has been stimulated, whether revenue growth has been adequate and certain, and whether the distribution among urban governments is somehow fair. On the first count, there is no compelling reason to think that any of the transfers to urban local governments stimulates local resource mobilization. None of the grants require local matching of funds nor are the allocations based upon local revenue performance. Furthermore, the Octroi Compensation grant has resulted in an overall decrease in reliance on own-source revenues by urban local governments.

Concerning the second criterion, revenue growth, there has been no real growth in either Urban Works Programme or Octroi Compensation grant amounts. Indeed, if we assume an inflation rate of 10 percent, we can estimate a real decline of about 34 percent in these two programs between revised 1982/83 and budgeted 1983/84.³⁹ Urban Special Project grant funding, by virtue of its constant taka amount between 1982/83 and 1983/84, also declined in real terms.

Third, distribution of the urban grants must be considered. Urban grants are actually distributed according to three different criteria: Urban Works grants according to population, Octroi Compensation grants on a derivation basis and according to previous collection level, and Urban Special Project grants principally to Dhaka. The first would seem to favor the most needy jurisdictions, the second would seem to favor the wealthiest cities, and the third favors Dhaka. To understand better the relationship between the first two of these criteria, we have estimated a simple correlation between population size and 1980/81 octroi collections for our sample of 16 paurashavas. The results show an almost perfect correlation, whether the Dhaka Municipal Corporation (DMC) is included (0.979) or excluded (0.984). Almost exactly the same relationship may be observed across

39. While the initial 1983/84 budgeted amount on Urban Works Programme grants was Tk. 100 million, the actual allocation was Tk. 50 million.

paurashavas for the relationship between population and Works Programme grant revenues (Table 3-4). Another aspect of fairness has to do with the distribution of urban grants as between Dhaka and the rest of urban Bangladesh. We found that the DMC receives a disproportionate share of total urban grants—it has 37 percent of the urban population, but receives about 60 percent of total urban grants.

The Overall System

More important than an assessment of each grant's impact is an assessment of the impact of the entire grant system on development, especially rural development. Again, we may fall back to an evaluation based on what the evidence suggests about how well the system has accomplished the many diverse goals which have been set for it. The context, however, is clear. The fiscal system transfers resources from the urban to the rural sector. The contribution to central taxes made by urban areas far exceeds the amount they receive back in the form of grants. Moreover, the major intergovernmental grant changes introduced in 1984 dramatically accentuated this transfer.

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

It must be emphasized is that the RWP and FFWP were originally designed for relief/relief goals, and it has generated considerable employment for the rural poor. Using the rough estimates of RWP and FFWP allocations as discussed above, it is conceivable that the two programs together generated as many as 90 jobs per 1000 taka expended on each during the 1982 work season.

The total flow of rural grants to local governments declined in real terms through the 1970s and early 1980s. Even if we monetize the FFWP grant, there appears to have been a decline in per capita real grants since 1978/79. A turning point was reached in 1983/84 with the introduction of the Upazila Development Assistance Fund and the Infrastructure grants. Real per capita grants to rural local governments increased by eightfold in one year and

consumed a significantly greater proportion of GDP and central government taxes. This trend continued into fiscal 1985 and may signal the beginnings of a dramatic change in the role of intergovernmental transfers in the Bangladesh economy. On the other hand, we can also say that the basic structure of the new grant system is not designed for revenues to keep pace automatically with population growth or inflation.

Some estimate may be made of the overall distributional impact of the rural grant system. To make such an estimate, we converted proposed 1983/84 FFWP wheat grants into a taka equivalent, combined it with RWP grants in 1982/83, and studied the resulting distribution for 437 thanas. The linear regression results presented in Table 3-7 reveal several points. First, about one-half of the variation in per capita rural grants received may be attributed to population, land area, or degree of distress. Next, even though FFWP grants are not distributed by land area, those thanas with greater land areas do receive significantly more wheat per capita. And, finally, the FFWP "distressed" thanas, *et. par.*, tend to receive significantly less in RWP grants per capita and significantly more under FFWP. This is an example of an offsetting effect which results from a lack of coordination.

The 1984 reform of the rural grant system will not improve this situation. The development fund grants are allocated on a flat amount basis without regard to need, and the infrastructure grants appear to be distributed on an ad hoc basis. The need to rationalize the distribution of rural grants within the country is a high priority for the Bangladesh government.

Apart from revenue yield and distribution, it is difficult to quantify the impact of the rural grant system. It is possible, however, to discuss the potential effectiveness of this grant system, based purely on its design. That is, what tradeoffs among objectives result from this grant structure, and in what areas are the grant impacts offsetting rather than reinforcing? We can say that the Bangladesh grant system has been more relief/relief than development oriented. As noted above, the grant programs create employment, spread these employment benefits across the country, and involve local residents in project selection and implementation. These choices, and successes, were made at the expense of other possible impacts. The spreading of benefits across all rural areas means that the government passes up the chance to target disproportionate amounts of money on either those local governments with the best "development potential" or on those which are most needy. The government also has chosen a grant program which does not encourage local government resource mobilization or foster increased local government fiscal autonomy. In addition, the revenue flow is not certain, in the past it has not been adequate, the program results are not monitored effectively, and there has been little coordination among the

TABLE 3-7
 LINEAR REGRESSIONS OF PER CAPITA GRANTS TO RURAL
 LOCAL GOVERNMENTS AGAINST SELECTED
 INDEPENDENT VARIABLES^a

	Dependent Variable		
	Per Capita Food for Work Programme (in maunds)	Per Capita Rural Works Programme (in takas)	Per Capita FFWP plus RWP (in takas)
Constant	0.11305 (51.574)	1.39084 (15.265)	17.66976 (51.509)
Population (in thousands)	-0.00006 (7.004) [-0.0995]	-0.00546 (15.260) [-0.8058]	-0.014148 (10.497) [-0.1506]
Land Area	0.00002 (1.825) [0.0251]	0.00815 (14.911) [0.7608]	0.011609 (5.640) [0.0782]
Very High Distress	0.04581 (13.398)	-0.23846 (1.703)	6.359001 (12.060)
High Distress	0.02892 (12.032)	-0.17362 (1.738)	3.990075 (10.609)
Above Average Distress	0.01268 (5.244)	-0.18863 (1.877)	1.637132 (4.327)
\bar{R}^2	0.4307	0.4633	0.4354
N	438	438	438

^aAbsolute t-values are in parentheses beneath the coefficient values. Elasticities at the mean are shown in brackets.

SOURCE: Computed by author.

major components of the grant system. It is not yet clear that the 1984 reforms have effectively addressed these structural problems.

4

The Immovable Property Transfer Tax

James Alm

A major source of revenues for zilla parishads and paurashavas is the immovable property transfer tax (IPTT), levied upon the value of land and buildings that are bought and sold. Similar taxes are common in developed as well as developing countries.¹ Transfer taxes are often a central government tax, collected at the time a deed is legally registered. They have sometimes been imposed at high rates. Due to the overlap of tax bases, transfer taxes are also related to other taxes, such as property, capital gains, and wealth taxes. Despite the widespread use of transfer taxes, they have seldom been analyzed in detail, especially for local governments in developing countries. This chapter helps fill the void. Specifically, the

1. For a discussion of property transfer taxes in other countries, see George E. Lent, "The Taxation of Land Value," *International Monetary Fund Staff Papers* 14(1) (1967): 89-123; Carl S. Shoup, *Public Finance* (Chicago, IL: Aldine Press, 1969); Richard M. Bird, *Taxing Agricultural Land in Developing Countries* (Cambridge, MA: Harvard University Press, 1974); and Roger S. Smith, "The Effects of Land Taxes on Development Timing and Rates of Change in Land Prices" in *The Taxation of Urban Property in Less Developed Countries*, ed. Roy Bahl (Madison, WI: The University of Wisconsin Press, 1979), pp. 137-162.

allocative, distributional, and revenue effects of the IPTT are analyzed, and then ways to improve the performance of the tax are suggested.²

Transfer taxes are unpopular with many scholars. The most common criticism is that transfer taxes hinder the efficient exchange of property, thereby discouraging development.³ Nevertheless, these taxes remain popular with governments because they are an attractive source of revenue. They are sometimes progressive in their patterns of incidence, depending on the specific tax base and rate structure. Typically, such taxes are levied on some measure of the value of the transaction and are collected at the time the transaction is legally registered. Collection of the tax is therefore relatively simple, and the legal necessity of deed registration makes complete evasion unlikely. Finally, in Bangladesh, the absence of alternative tax bases at the local government level means that the IPTT is likely to remain important for some time. A thorough analysis of the IPTT is therefore appropriate, both to understand its current operation and to suggest ways to improve it.

General Features and Administration

The IPTT constitutes a revenue source to both zilla parishads and paurashavas. Tables 4-1 and 4-2 indicate that the IPTT contributes substantial amounts of revenues to these governments, particularly to zilla parishads. In 1980/81, IPTT revenues were 76.2 percent of the total own source revenues of zilla parishads and 4.2 percent of those of paurashavas. It must be emphasized, however, that at no point in the administration of the IPTT—determining the base and rate of the tax and collecting the revenues—do zilla parishads and paurashavas play an active role. Instead, the tax is under the control of the Ministry of Law and Land Reform. Describing the IPTT as a local tax is therefore misleading; it is actually a shared tax, little different from an intergovernmental grant. This fact has

2. Many of the substantive results of this chapter are contained in James Alm and Larry Schroeder, "Tax Administration and Local Public Finance in Developing Countries," *The Asian Journal of Public Administration* 9(1) (June 1987): 2-24.
3. This point is forcefully made in Oliver Oldman et al., *Financing Urban Development in Mexico City* (Cambridge, MA: Harvard University Press, 1967); Shoup, *Public Finance*; and Bird, *Taxing Agricultural Land in Developing Countries*.

TABLE 4-1
IMPORTANCE OF IMMOVABLE PROPERTY TRANSFER TAX
IN PAURASHAVA FINANCES

Year	Paurashava Revenues from Immovable Property Transfer Tax (in takas)				Transfer Tax Revenues as Percent of Paurashava Own Source Revenue	Transfer Tax Revenues as Percent of Paurashava Total Revenue
	Nominal (total)	Nominal (mean) ^a	Real (total) ^b	Real (mean) ^{a,b}		
1976/77	2,609,690	173,979 (15)	2,609,690	173,979 (15)	3.2	2.7
1977/78	3,445,156	229,677 (15)	2,990,587	199,372 (15)	6.8	2.9
1978/79	4,611,542	307,436 (15)	3,631,135	242,076 (15)	3.9	3.5
1979/80	7,357,514	490,501 (15)	5,015,347	334,357 (15)	5.2	4.5
1980/81	7,986,926	532,462 (15)	4,861,184	324,079 (15)	4.2	3.8

^aThe number in parentheses represents the number of observations used to compute the mean.

^b1976/77 is the base year.

SOURCE: Computed by author from paurashava records.

important implications for the efficiency with which the tax is currently administered.

Reported market value of all immovable property that is exchanged is the base on which the IPTT is levied. The tax therefore falls on the value of land and permanent buildings with movable assets such as vehicles, animals, or personal property not subject to the tax. There are no exemptions. While the legal base of the IPTT is the market value of immovable property, the tax is actually collected on the reported value of the transaction. The two values obviously may differ. Because the amount of the IPTT that must be paid increases with the reported value of the property, the buyer will often understate the sale price. In addition, the buyer must pay other fees and duties that increase markedly with the reported value, again providing an incentive to underreport. The seller may also wish to underreport the sale price because a higher price means greater

TABLE 4-2
IMPORTANCE OF IMMOVABLE PROPERTY TRANSFER TAX
IN ZILLA PARISHAD FINANCES

Year	Zilla Parishad Revenues from Immovable Property Transfer Tax (in takas)				Transfer Tax Revenues as Percent of Zilla Parishad Own Source Revenue	Transfer Tax Revenues as Percent of Zilla Parishad Total Revenue
	Nominal (total)	Nominal (mean) ^a	Real (total) ^b	Real (mean) ^{a,b}		
1976/77	45,104,550	2,819,034 (16)	45,104,550	2,819,034 (16)	69.2	40.6
1977/78	58,241,679	3,425,981 (17)	50,557,013	2,973,942 (17)	74.5	41.1
1978/79	72,057,218	4,003,178 (18)	56,737,967	3,152,109 (18)	75.4	45.9
1979/80	99,901,744	5,257,986 (19)	68,099,348	3,584,176 (19)	77.3	49.7
1980/81	85,474,641	4,498,665 (19)	52,023,519	2,738,080 (19)	76.2	46.3

^aThe number in parentheses represents the number of observations used to compute the mean.

^b1976/77 is the base year.

SOURCE: Computed by author from zilla parishad records.

capital gains and wealth taxes.⁴ In short, it is in the interest of both the buyer and the seller to understate the value of the property in order to reduce the

- Officials interviewed suggested that overvaluation may occur in some instances. For example, the governmental right of preemption at declared value may lead a buyer to overstate the sale price. Overvaluation may also occur when property owned by a partnership is sold by an individual partner to a non-partner. Bangladesh law provides that in this instance the remaining partners have the option to purchase within four months the transacted property at the declared price. The new owner may therefore be willing to overstate the sale price in order to reduce the likelihood of this

amount of taxes and other fees that must be paid.⁵ If detection of the undervaluation is unlikely, or if detected undervaluation goes unpenalized, evasion of the IPTT through underreporting will be great. Indeed, our interviews with local officials suggest that undervaluation is the factor most responsible for reducing the revenues of the IPTT below its potential, although there is no good evidence on the extent of undervaluation.

The IPTT is imposed at the rate of one percent of the reported value of the property, a rate set by the central government. Taken alone, the rate of the IPTT is low and so is unlikely to have a significant effect on such things as the incentive to undervalue property, the volume of transactions, or the efficiency of land use. There are, however, numerous additional registration fees and stamp duties that must also be paid when property is transferred, many of which depend on the value of the transfer. When looked at in their entirety, transfers can have quite high effective tax rates.

The stamp duty is the most important of these additional charges. The Stamp Act was enacted in 1899, and the duties remained unchanged until the Finance Act of 1980, which established a new rate schedule (Table 4-3). The stamp duty also depends on the declared value of the property. Stamps are required to establish the transfer deed as a legal document and to create legal evidence of title to the property. This factor gives a strong incentive for an individual to register the purchase of property and makes full evasion of the stamp duty and the other taxes unlikely. But the steepness and progressivity of the stamp duties make evasion through undervaluation attractive.⁶ Since the recording official does little to verify the value of the property, most officials believe that evasion through this means is quite common. Various registration fees must also be paid. The most important of these is the A fee (Table 4-4). In addition, the purchaser must pay the E fee (four takas per document) and the N fee (two takas per page in the registration book). Unlike the stamp duty and the A fee, these latter fees do not depend on the value of the property.

- option being exercised. Finally, a buyer anticipating to sell the property in the near future may overstate the purchase price in order to reduce capital gains upon sale. Nonetheless, the officials believed that undervaluation is far more common than overvaluation.
- The transfer tax may be completely evaded by failing to report the transfer at all. However, officials believed that outright evasion is uncommon, due to the necessity of establishing legal claim to the property. Again, there is no evidence on this practice.
- Stamp duty may also be avoided by splitting the transaction into several smaller ones, due to the progressivity of the rate structure.

TABLE 4-3
STAMP DUTY AND REGISTRATION FEE A

<u>Value of Property (in takas)</u>	<u>Stamp Duty</u>	<u>Marginal Duty Rate (in percent)</u>
1 - 10,000		6
10,001 - 30,000		9
30,001 - 60,000		12
60,001 - 100,000		15
above 100,000		17.5

<u>Registration Fee A</u>	
1 - 50	1
51 - 100	2
101 - 250	3
251 - 500	8
501 - 1,000	12
1,001 - 1,500	18
1,501 - 2,000	26
2,001 - 2,500	30
2,501 - 3,000	36
3,001 - 4,000	42
above 4,000	70, plus ten for each additional 500 in value or fraction thereof

SOURCE: Government of Bangladesh, Finance Act of 1980.

The total payments—IPTT, stamp duty, and A fee—on transfers of various values are given in Table 4-4. The average tax rate on transfers is very high. It rises from about 8 percent on transfers whose value is Tk. 1,000 to well over 15 percent for property valued above Tk. 100,000, and the maximum tax rate (average and marginal) approaches 20.5 percent for properties exceeding Tk. 1 million in value. It is the stamp duty that is responsible for the high tax rate; the IPTT contributes a small and declining proportion of the liability as property values increase.

TABLE 4-4
EFFECTIVE TAX RATES ON THE TRANSFER OF IMMOVABLE PROPERTY
FOR VARIOUS PROPERTY VALUES

<u>Value of Property (takas)</u>	<u>IPTT</u>		<u>Stamp Duty</u>		<u>A Fee</u>		<u>Total</u>	
	<u>Amount (takas)</u>	<u>Average Tax Rate (percent)</u>	<u>Amount (takas)</u>	<u>Average Tax Rate (percent)</u>	<u>Amount (takas)</u>	<u>Average Tax Rate (percent)</u>	<u>Amount (takas)</u>	<u>Average Tax Rate (percent)</u>
1,000	10	1.0	60	6.0	12	1.2	82	8.2
5,000	50	1.0	300	6.0	90	1.8	440	8.8
10,000	100	1.0	600	6.0	190	1.9	890	8.9
25,000	250	1.0	1,950	7.8	490	2.0	2,690	10.8
50,000	500	1.0	4,800	9.6	990	2.0	6,290	12.6
75,000	750	1.0	8,250	11.0	1,490	2.0	10,490	14.0
100,000	1,000	1.0	12,000	12.0	1,990	2.0	14,990	15.0
250,000	1,500	1.0	38,250	15.3	4,990	2.0	45,740	18.3
500,000	5,000	1.0	82,000	16.4	9,990	2.0	96,990	19.4
1,000,000	10,000	1.0	169,500	16.9	19,990	2.0	199,490	19.9

SOURCE: Computed by author.

A property need not be large to have a substantial total tax imposed on it. For example, in Beani Bazar, Sylhet district, 30 decimals (about 1/3 acre) of farm land close to a road reportedly sold in 1982 for 30 to 50 thousand taka. The total legal transfer duties on this property would range from Tk. 3,290 to Tk. 6,290, or an effective rate of from 11 to 12.5 percent. Similarly, officials in Rajoir, Faridpur district, estimated that 52 decimals (slightly more than 1/2 acre) would sell for 10 to 20 thousand taka, depending on irrigation; the total duties here would range from Tk. 890 to Tk. 2,090, or a rate of from 9 to 10.5 percent. A recent study of land transfer in Sherpur thana, Bogra district, found that the average price per acre of land in 1980/81 takas varied from Tk. 9,500 to Tk. 13,000, with the average size transfer equal to 1/4 acre; the taxes on such transfers varied from Tk. 196 to Tk. 269, or a tax rate of about 8.3 percent.⁷ Thus, even for small properties, the total transfer charges can be substantial, with the bulk of the charges paid in stamp duties.

Even more than in the case of the IPTT, there is a strong incentive for individuals to evade the stamp duties and registration fees through undervaluation of the property. For administrative purposes, the IPTT, the stamp duty, and the A fee are effectively the same. Unfortunately, the enforcement mechanisms in all cases are also the same and offer little effective deterrence to underreporting transfer prices. Efforts to improve the collection efficiency of the IPTT would obviously aid in the collection of the other fees.

The IPTT is collected by officers of the Ministry of Law and Land Reform located at the district and upazila level. Although the IPTT is a major source of zilla parishad and paurashava revenues, neither of these lower levels of government has any control over its collection.

To establish legal claim to a property, the purchaser of a property must register the deed of ownership at a ministry office. The IPTT, along with the other fees, is collected in full at the time the deed is registered. As noted above, the bulk of these charges depends on the value of the transaction, and the value that is used is that given by the purchaser. The recording officers do not attempt to verify that the true market value of the transaction is reported; indeed, their operating procedures, unchanged since 1928, are explicit in stating that their duties do not include verification of the actual value of the property. The officers are concerned only that the amount of the fees that must be paid to register the deed corresponds to the reported

7. M.M. Sultan, "Land Transfer—A Survey of Sherpur Thana of Bogra District" (Bogra: Rural Development Academy, 1982).

value of the transfer. As a result, officials we interviewed indicated that detection of undervaluation is extremely rare. Moreover, even if undervaluation is detected, an individual is not penalized but instead must simply pay the remainder of the tax that is due. The fact that there are no sanctions against undervaluation suggests that evasion through this means will be widespread.⁸

The allocation of IPTT revenues is also straightforward. The Ministry of Law and Land Reform retains 3 percent of total IPTT collections to cover the administrative costs of the tax, in addition to all stamp and registration fees. The remaining 97 percent of the taxes is distributed either to the zilla parishads or the paurashavas, depending on the location of the transferred property. The zilla parishads and the paurashavas learn about their tax revenues through a statement sent by the collecting officer. The 97-3 allocation formula was established in 1981/82. In previous years, the Ministry of Law and Land Reform (then the Ministry of Land Reform and Land Administration) kept 5 percent of the tax revenues and distributed only 95 percent to the appropriate local government. As in many other aspects of the administrative process, the roles of officials at the zilla parishad and paurashava levels in the IPTT allocation process are entirely passive. Officials have no way to know whether they are receiving their correct share of the tax revenues. Rather, they are simply told the amount of the tax revenues that they are to receive.

Evaluation

In evaluating the IPTT, three major issues must be addressed: the effects of the tax on the use of resources (allocative effects), the impact of the tax on the income distribution, and its ability to generate revenues. These criteria are discussed in turn in this section.

Because the IPTT is imposed at a low rate, it is tempting to think that its presence will exert no influence on the transfer of property. In fact, this assumption is correct, but misleading. As discussed earlier, the IPTT is only

8. It can be shown that some tax evasion will occur if the probability of being detected and penalized is less than $1/(1+P)$, where P is the rate at which the penalty is imposed. Since there is no penalty, an individual will benefit on average by undervaluation as long as the probability of detection is less than 100 percent.

one of several duties levied on transfers. The tax rate from all duties together is at least 8 percent and rises to over 20 percent. Such combined tax rates are likely to affect decisions about property transfers.

A transfer tax is essentially a tax on differences of opinion about the desirability of holding property.⁹ In the absence of the tax, a transfer will occur if a buyer believes the property to be worth more than does the seller; with the tax, the buyer must believe the property to be worth more than does the seller by at least the amount of the tax. If opinions differ widely, as is likely when the economy is growing and markets are active, or if the tax rate is low, the tax may have little effect on transactions. At other times, however, the tax may be a significant deterrent to the exchange of property. In the latter case, the tax has particularly harmful effects. By reducing the volume of transactions, the tax hinders the transfer of properties to more productive uses. In addition, methods used to avoid the tax—division of parcels to avoid the progressive rates of the stamp duties, or transfer of effective but not legal control of the property (e.g., long leases)—may be wasteful. Finally, the timing of development may be delayed if the presence of the tax leads the owner to delay the sale of the property to developers until the owner can accumulate funds to develop the property (the lock-in effect).¹⁰

A smoothly working market in property serves a useful economic purpose by encouraging the transfer of resources to more productive uses. Of course, transfers are not always productive. For example, property may be bought or sold for purely speculative reasons. Still, an individual will generally purchase property only if a positive return from the transaction is expected. As noted long ago by Ricardo, transfer taxes "prevent the national capital from being distributed in the way most beneficial to the community."¹¹ Because the transfer duties in Bangladesh are imposed at high rates, it is likely that they discourage productive transfers of property and so diminish the efficiency of the economy. Like other developing countries, however, Bangladesh has few available tax handles, or economic activities that can easily be taxed. This fact is particularly true at the local government level. The government therefore faces the difficult choice between finding revenue sources and encouraging efficient transfers.

9. See Shoup, *Public Finance*.

10. See Smith, "The Effects of Land Taxes on Development Timing and Rates of Change in Land Prices."

11. The quotation is from Carl S. Shoup, *Ricardo on Taxation* (New York: Columbia University Press, 1960), p. 57.

Because revenue mobilization is often perceived as more important, transfer taxes like the IPTT are leading candidates for adoption, and their use is almost certain to grow.

Distributional and equity effects of transfer duties are the second evaluative feature examined here. Although transfer duties are nominally paid by the buyer, this fact does not necessarily mean that it is the buyer who ultimately pays, or "bears the burden," of the tax. Just like a commodity tax may be borne by the buyer or the seller or both, the true burden of the transfer tax—which is very much like a commodity tax—may bear no relation to its legal burden. The division of the transfer duties between the buyer and the seller depends upon the elasticities of demand and of supply. If buyers are willing and able to pay the price inclusive of the transfer duties without significantly decreasing their purchases—that is, if their demand is inelastic—then they are likely to bear most of the tax burden. On the other hand, if sellers must offer for sale the same amount of property without much regard to the price that they receive, then it is the sellers who will pay the tax. With buyers and sellers both responsive to the price of property, the division of the tax burden is more difficult to determine. In general, those with the less responsive actions will bear the bulk of the burden.

Without information on the elasticities of demand and supply, it is not possible to determine precisely whether it is the buyer or the seller of the property who pays the transfer duties in Bangladesh. There is, however, some suggestive evidence. The study of land transfer in Sherpur thana by Sultan suggests that the burden there is borne more by sellers than by buyers.¹² Sultan found that sellers usually owned small amounts of land (less than 1/2 acre) while buyers tended to be larger landowners, that the income of buyers was on average higher than that of sellers (although both had above-average income), and that the main cause of sale was "economic hardship." These results suggest that there may be more economic pressure on sellers than on buyers, so that sellers bear more of the burden than buyers. Using a different data set, Choudhury and Rahman reach a similar conclusion.¹³ But Sultan also found that the main cause of purchase was to become "economically solvent," which implies some urgency for the purchase. In sum, firm conclusions on the share of tax burden are not possible. At another level, however, the division of the burden between

12. Sultan, "Land Transfer—A Survey in Sherpur Thana of Bogra District."
13. Md. Hossain Ali Choudhury and M.M. Rahman, "Transfer of Ownership of Agricultural Land in Two Villages in Mymensingh District," *Bangladesh Journal of Agricultural Economics* 3(2) (December 1980): 57-66.

buyer and seller is unimportant. Because the duties are borne by either the buyer or the seller of the property, and because either party is among the landed (i.e., wealthier) members of Bangladesh society, it is likely that the taxes fall more heavily on the richer than on the poorer sections of the population.

Statements about the distributional effects of transfer duties depend on the pattern of distribution of land and property in Bangladesh. Jannuzi and Peach present evidence on the 1978 distribution of land ownership in rural areas, summarized in Table 4-5.¹⁴ It is apparent that there is extreme inequality in the distribution of landholdings. The first six deciles of households, or 51.8 percent of the sample population) own only 4.2 percent

TABLE 4-5
DISTRIBUTION OF POPULATION AND LANDHOLDINGS

Decile of Households with Plot-Size Range (acres)		Percent of Sample Population within Each Decile ^a		Percent of Total Landholdings within Each Decile ^a	
1st	0	11.6	(11.6)	0	(0)
2nd	0 - .03	3.9	(15.5)	.1	(.1)
3rd	.04 - .10	8.7	(24.2)	.4	(.5)
4th	.11 - .29	8.9	(33.1)	1.1	(1.6)
5th	.30 - .60	9.4	(42.5)	2.5	(4.2)
6th	.61 - 1.04	9.3	(51.8)	4.6	(8.8)
7th	1.05 - 1.63	10.1	(61.9)	7.6	(16.4)
8th	1.64 - 2.53	10.7	(72.6)	11.9	(28.3)
9th	2.54 - 4.42	12.1	(84.7)	19.3	(47.6)
10th	4.43 - 76.27	15.3	(100.0)	52.4	(100.0)

^aCumulative percentages are in parentheses.

SOURCE: Computed from the 1978 Land Occupancy Survey.

14. F. Tomasson Jannuzi and James T. Peach, *The Agrarian Structure of Bangladesh: An Impediment to Development* (Boulder, CO: Westview Press, 1980). These data are discussed in more detail in Chapter 5.

of the land, while the top 15.3 percent of the households own 52.4 percent of the land. Alamgir and Ahmad summarize evidence that land ownership (and that of other productive assets) has become more concentrated since 1960.¹⁵ They also conclude that urban poverty and income inequality is an extension of that in rural areas; in fact, urban income is more unequally distributed than rural income. Alamgir and Ahmad conclude that "unequal distribution of landholding has been found to be highly correlated with unequal distribution of income and high incidence of poverty."¹⁶ Because the distribution of income is found to be closely linked to the distribution of land ownership, transfer taxes that fall on land and property owners will be borne largely by the relatively wealthy.

It is also likely that the transfer duties are even borne, in part, by those owners who do not trade their property. For example, consider a tax on the transfer of ownership shares (or stock) of a business. To the extent that the price net of tax falls—that is, to the extent that sellers of the stock bear some of the burden—all owners of the stock pay the tax because their shares are worth less. This result is known as tax capitalization, and it means that those who own the stock at the time of the tax bear part of the burden. In the case of transfer duties, capitalization implies that all owners of property pay part of the tax. Because ownership of property is concentrated in upper income groups, the burden of the transfer duties will again fall more heavily on the relatively wealthy.¹⁷

Transfer duties fall short of several other criteria for an equitable tax. They are not tailored to the individual circumstances of the taxpayer. They may be evaded by those who are dishonest and avoided by those who find

15. Mohiuddin Alamgir and Sadiq Ahmad, "Poverty and Income Distribution in Bangladesh: Evidence and Policies," Harvard Institute for International Development, Development Discussion Paper No. 119 (Cambridge, MA: Harvard University, 1981).
16. *Ibid.*, p. 21.
17. To the extent that property owners raise the rents charged to tenants or sharecroppers, or lower the wages paid to laborers, the progressivity of the tax burden is lessened. However, it seems likely that if the owners were in fact able to do these things, they would already have done so; the imposition of the tax per se gives them no opportunity to do so. Only if property owners were not extracting the maximum amount from clients in the absence of the tax would the tax be shifted in these ways. Of course, property owners may not in fact maximize their returns. Market imperfections, government intervention, tradition, paternalism—all these factors may explain prices that are not competitively determined.

legal means to circumvent the tax. Nevertheless, the duties are likely to contribute to the overall equity of the Bangladesh tax system because those who have the greatest ability to pay are taxed most heavily.

Revenue performance of the IPTT is the third major criterion of evaluation considered here. The IPTT revenues of selected paurashavas and all zilla parishads for the fiscal years 1976/77 to 1980/81 are given in Table 4-6.¹⁸ The revenues of all paurashavas showed a substantial increase both in nominal and real (1976/77) terms over this period. In current taka, paurashava IPTT revenues rose by over 200 percent; adjusted for inflation, revenues rose by 86.3 percent. The revenues of all zilla parishads in nominal terms show a steady increase up to 1979/80, with revenues falling by over 14 percent in 1980/81. Despite the fall in the last fiscal year, nominal revenues rose by 89.5 percent over this period, and real revenues of all zilla parishads rose slightly by 15.3 percent.

The overall increase in tax revenues for all paurashavas and zilla parishads hides substantial variation in the performance of the IPTT for individual local governments. For example, the paurashavas of Faridpur, Khulna, Dhaka, Barisal, and Chittagong had increases in nominal tax revenues of over 200 percent, while increases in Sylhet, Kurigram, Habiganj, Mymensingh, and Gaibandha were less than 100 percent. The experiences of zilla parishads also differed widely. Dhaka, Khulna, and Pabna zilla parishads had increases in nominal tax revenues by amounts ranging from 100.1 to 214.2 percent. On the other hand, several zilla parishads, notably Dinajpur and Kushtia, experienced little gain in nominal revenues.¹⁹

The increases in nominal tax revenues were large enough to increase nominal revenues per capita for nearly all paurashavas and zilla parishads (Tables 4-7 and 4-8). However, real per capita revenues fell for many zilla parishads due to the sharp decline in revenues in 1980/81. Again, there were great differences for the individual governments. Real per capita revenues rose by over 50 percent for the paurashavas of Faridpur, Khulna, Chittagong, and Dhaka but fell for Madaripur, Sylhet, Kurigram, Rangpur,

18. Central government data on IPTT revenues give the aggregate collections by district, including revenues that are allocated to paurashavas, and they are not therefore comparable to the data in Tables 4-6 and 4-7.
19. Note that the nominal (and real) revenues of Sylhet and Jamalpur declined in 1980/81. In the case of Sylhet this change is due to the use of a revised estimate for revenues in 1980/81; for Jamalpur, it is due to the lack of data from earlier years.

TABLE 4-6
PAURASHAVA AND ZILLA PARISHAD REVENUES FROM
IMMOVABLE PROPERTY TRANSFER TAX

Paurashava or District ^a	Percentage Change 1976/77 to 1980/81			
	Paurashava		Zilla Parishad	
	Nominal	Real	Nominal	Real
Barisal	214.2	91.2	89.2	15.2
Chittagong	211.8	89.8	69.7	3.3
Dhaka	235.9	104.5	214.2	91.2
Faridpur	283.2	133.3	62.5	- 1.1
Gaibandha	99.2	21.3	—	—
Habiganj	81.0	10.2	—	—
Khulna	249.4	112.7	116.0	31.4
Kurigram	74.8	6.4	—	—
Madaripur	-69.9	-81.7	—	—
Maulavibazar	132.6	41.6	—	—
Mymensingh	94.2	18.2	27.2	-22.6
Rajbari	119.8	33.8	—	—
Rajshahi	113.5	29.9	64.2	- 0.1
Rangpur	105.8	25.3	34.9	-17.9
Sylhet	36.6	-16.8	-77.5	-86.3
Comilla	—	—	89.3	15.2
Noakhali	—	—	54.8 ^b	8.5 ^b
Jamalpur	—	—	-24.6 ^c	-32.7 ^c
Tangail	—	—	59.1	- 3.2
Jessore	—	—	56.4	- 4.8
Kushtia	—	—	20.1 ^d	- 7.2 ^d
Patuakhali	—	—	63.9	- 0.2
Bogra	—	—	85.6	13.0
Dinajpur	—	—	7.5	-34.6
Pabna	—	—	100.1	21.8
TOTAL	206.0	86.3	89.5	15.3

^aNames of some paurashavas are identical to the districts in which they are located.

^bThe percentage change is calculated for the period 1977/78 to 1980/81 due to data limitations.

^cThe percentage change is calculated for the period 1979/80 to 1980/81 due to data limitations.

^dThe percentage change is calculated for the period 1978/79 to 1980/81 due to data limitations.

SOURCE: Computed by author from zilla parishad and paurashava records.

TABLE 4-7
PER CAPITA PAURASHAVA REVENUES FROM IMMOVABLE PROPERTY TRANSFER TAX
(in takas)

Paurashava	1976/77		1977/78		1978/79		1979/80		1980/81		Percentage Change 1976/77 to 1980/81	
	Nominal	Real	Nominal	Real	Nominal	Real	Nominal	Real	Nominal	Real	Nominal	Real
Barisal	0.53	0.45	0.52	0.46	0.71	0.54	1.08	0.74	1.30	0.79	145.3	49.1
Chittagong	0.62	0.46	0.53	0.46	0.98	0.77	1.57	1.07	1.59	0.97	156.5	56.5
Dhaka	0.46	0.58	0.67	0.58	0.75	0.59	1.12	0.76	1.16	0.71	152.2	54.3
Faridpur	0.47	0.49	0.56	0.49	0.83	0.65	1.23	0.84	1.49	0.91	217.0	93.6
Gaibandha	0.63	0.59	0.68	0.59	0.94	0.74	0.95	0.65	1.05	0.64	66.7	1.6
Habiganj	0.93	0.84	0.97	0.84	1.47	1.16	1.57	1.07	1.39	0.85	49.5	-8.6
Khulna	0.39	0.56	0.65	0.56	0.68	0.54	1.03	0.70	1.12	0.68	187.2	76.9
Kurigram	0.53	0.46	0.53	0.46	0.68	0.54	0.76	0.52	0.74	0.45	39.6	-15.1
Madaripur	0.37	0.008	0.01	0.008	0.11	0.09	0.55	0.37	0.09	0.05	-75.7	-86.5
Maulavibazar	3.03	2.13	2.45	2.13	4.07	3.20	4.39	2.99	5.68	3.46	87.5	14.2
Mymensingh	0.65	0.57	0.66	0.57	0.68	0.54	0.96	0.65	1.05	0.64	61.5	-1.5
Rajbari	0.44	0.29	0.33	0.29	0.58	0.46	0.64	0.44	0.77	0.47	75.0	6.8
Rajshahi	0.48	0.43	0.50	0.43	0.46	0.36	0.65	0.44	0.90	0.55	87.5	14.6
Rangpur	0.68	0.49	0.57	0.49	0.76	0.60	0.88	0.60	0.98	0.60	44.1	-11.8
Sylhet	0.82	1.11	1.28	1.11	1.22	0.96	1.49	1.02	0.71	0.43	-13.4	-47.6

SOURCE: Computed by author from paurashava records.

TABLE 4-8
PER CAPITA ZILLA PARISHAD REVENUES FROM IMMOVABLE PROPERTY TRANSFER TAX
(in takas)

Zilla Parishad	1976/77		1977/78		1978/79		1979/80		1980/81		Percentage Change 1976/77 to 1980/81	
	Nominal	Real	Nominal	Real	Nominal	Real	Nominal	Real	Nominal	Real	Nominal	Real
Chittagong	0.85	0.88	1.01	0.88	1.12	0.88	1.22	0.83	1.29	0.79	51.8	-7.1
Hill Tracts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	na	na
Cocnilla	0.57	0.58	0.67	0.58	0.78	0.61	1.14	0.78	1.00	0.61	75.4	7.0
Noakhali	—	0.93	1.07	0.93	1.27	1.00	1.62	0.10	1.56	0.95	45.8 ^a	2.2 ^a
Sylhet	0.69	0.83	0.96	0.83	0.98	0.77	1.47	1.00	0.14	0.09	-79.7	-87.0
Dhaka	0.85	1.00	1.15	1.00	1.56	1.23	2.68	1.83	2.57	1.57	202.4	84.7
Faridpur	0.57	0.50	0.58	0.50	0.58	0.46	0.82	0.56	0.86	0.52	50.9	-8.8
Jamalpur	—	—	—	—	—	—	0.90	0.61	0.67	0.41	-25.6 ^a	-32.8 ^a
Mymensingh	0.58	0.68	0.78	0.68	0.74	0.58	1.13	0.77	0.94	0.57	62.1	-1.7
Tangail	0.59	0.64	0.74	0.64	0.89	0.70	1.12	0.76	0.87	0.53	47.5	-10.2
Barisal	0.43	0.52	0.60	0.52	0.67	0.53	0.88	0.60	0.76	0.46	76.7	7.0
Jessore	0.53	0.60	0.69	0.60	0.86	0.68	0.96	0.65	0.74	0.45	39.6	-15.1
Khulna	0.76	0.74	0.85	0.74	1.11	0.87	1.22	0.83	1.49	0.91	96.1	19.7
Kushtia	—	—	—	—	0.84	0.66	1.23	0.84	0.95	0.58	13.1 ^a	-12.1 ^a
Patuakhali	0.59	0.81	0.93	0.81	0.91	0.72	1.08	0.74	0.90	0.55	52.5	-6.8
Bogra	0.66	0.79	0.91	0.79	1.08	0.85	1.33	0.91	1.12	0.68	69.7	3.0
Dinajpur	1.04	1.17	1.35	1.17	1.12	0.88	1.31	0.89	1.01	0.62	-2.9	-40.4
Pabna	0.53	0.63	0.72	0.63	0.92	0.72	1.16	0.79	1.01	0.62	90.6	17.0
Rajshahi	0.81	0.21	0.24	0.21	1.12	0.88	1.57	1.07	1.20	0.73	48.1	-9.9
Rangpur	0.63	0.59	0.68	0.59	0.66	0.52	0.78	0.53	0.79	0.48	25.4	-23.8

—not available

na - not available

Habiganj, and Mymensingh. For zilla parishads, only Dhaka, Khulna, and Pabna had an increase of more than 10 percent in real per capita revenues over the entire period.

Both the level of IPTT revenues and the growth in these revenues are matters of concern. It is important to note that the level of IPTT revenues is quite low. That is, nominal and real per capita revenues are on the average very small, even with the growth that occurred subsequent to 1976/77. Only Maulavibazar among the paurashavas and Dhaka among the zillas received more than one taka per person in real terms in 1980/81. If per capita revenues are taken as a measure of tax effort, then such effort is extremely low. Growth in IPTT revenues is a different issue. Revenues from the IPTT may grow for several reasons. The value of all properties that are exchanged may increase, either because there is a greater volume of transactions or because the prices of the properties increase. An increase in the tax rate may also generate more revenues. Finally, revenues may increase if there is an improvement in collection efficiency, notably detection of undervaluation. Of these three forces, it is likely that only the first has been a major factor in the growth of revenues here, since the tax rate has not been changed and there have been few administrative changes that could have improved collection efficiency. The revenue growth is primarily due to the larger volume of transfers that normally accompanies economic growth, as well as to the inflation that Bangladesh experienced during the late 1970s. Given the importance of the IPTT in individual paurashava and zilla parishad finances, automatic growth in revenues from the IPTT is particularly important. There are constant pressures for increased government expenditures, and it is necessary that revenues increase with these demands. Since discretionary changes in any tax may be costly, slow, and unpopular, automatic growth in revenues is desirable.

One measure of the responsiveness of the IPTT to changes in economic conditions is its income elasticity, or the percentage change in revenues divided by the percentage change in income. There are no estimates of personal income by paurashava or by district; however, there are two proxies for district income. One measure of district income is value added in agriculture. If agricultural income grows at the same rate as all income, then its use in calculating the income elasticity does not create any errors; if agricultural income grows faster (slower) than all income, then the calculated elasticity underestimates (overestimates) the true income elasticity. A second approximation of zilla incomes is gross district product (GDP). The problem with this measure is that it is for the entire district, including urban areas, rather than just the rural portions of districts. Similar biases in the elasticity estimates will occur if district product is a

biased estimate of income in the jurisdictions. Estimates of the district level income elasticity of the IPTT are presented in Table 4-9, based on average growth rates in tax revenues and both of the proxy measures for income during the period 1976/77 to 1980/81. While these estimates must be used with caution, they suggest that on average the IPTT grows only slightly slower than income, measured either by agricultural value added or district product. The slightly lower GDP estimates probably reflect both the somewhat faster growth of incomes in urban areas and the inclusion of only the rural tax base in these estimates.

Although income elasticities provide some indication of the buoyancy of the IPTT, it is of interest to determine if particular factors associated with the locality affect its yields in a systematic manner. Since the IPTT is based on the value of property bought and sold within a jurisdiction, land values and rate of turnover are the primary determinants of tax yield. In addition,

TABLE 4-9
GROWTH IN REVENUES FROM THE IMMOVABLE PROPERTY
TRANSFER TAX, GROSS DISTRICT PRODUCT, AND
AGRICULTURAL VALUE ADDED,
1976/77 TO 1980/81

Zilla Parishad	GDP Elasticity	Agricultural Value Added Elasticity
Chittagong	0.88	
Comilla	1.39	1.04
Sylhet	1.07	2.17
Dhaka	2.47	0.84
Faridpur	0.74	2.74
Mymensingh	0.38	0.85
Tangail	0.70	0.39
Barisal	1.09	0.77
Jessore	0.93	1.19
Khulna	1.05	1.32
Patuakhali	0.76	1.09
Bogra	1.06	0.82
Dinajpur	0.10	1.00
Pabna	1.02	0.11
Rajshahi	1.10	1.08
Rangpur	0.37	1.48
		0.38
TOTAL	0.81	0.96

SOURCE: Zilla parishad records and 1981 *Statistical Yearbook of Bangladesh* (Dhaka: Bangladesh Bureau of Statistics, 1982).

however, the more random effects of differential tax administration within the several jurisdictions are likely to affect the observed, as opposed to the potential, tax liabilities. Testing models of this sort is constrained greatly by the availability of data; however, sufficient proxy indicators are available at the district level in Bangladesh to allow a first approximation of the effects of those factors that influence tax yields.

One variable that is likely to influence property values is the general level of economic activity, as measured by gross district product. One might argue that this measure is inappropriate because it is based on economic activity in rural and urban areas alike, while district revenues came only from rural areas. However, if there is a spillover of urban economic activity to the value of property in nearby rural areas, the GdP data will reflect it. Another similar variable that reflects the impact of urbanization on property values is urbanization itself, measured by the proportion of total district population (city plus noncity) living in cities. Again, one would expect that the greater the level of urbanized population within a district, the greater would be the rate of turnover and the value of property. Finally, since land constitutes the principal form of property bought and sold in these rural areas, the amount of land contained in the jurisdiction itself might be considered to be a positive influence on the yield of the IPTT.

The specification of the model also requires determination of the most appropriate dependent variable. There are several ways of standardizing total yields. One is simply to examine the differential per capita performance of the IPTT. A second is to standardize on the basis of the area size of the zilla parishad and use tax yields divided by acres of land to indicate per acre yields from the levy. Both measures are used here.²⁰

The final specification issue concerns the method of estimation. The available data constitute a time series of cross sections; therefore some method based on pooled data is most appropriate. Three different estimation techniques have been used—simple ordinary least squares (OLS) estimation of the model using pooled data, covariance estimates, and error components techniques. Simple OLS estimates assume a unique underlying structural model without regard for differentials in levels of the dependent variables either across zillas or across time. These differentials can be accounted for through the use of covariance estimates. The covariance technique is especially attractive because no good measures of

20. A third way to standardize is on the basis of economic performance within the district, or by measuring tax yields divided by GdP. The results from using this measure are similar to the ones reported here.

differential district administrative efficiency exist, although it is recognized that administration probably holds the key to collections of the IPTT. Finally, the error components model provides a formal structure to account for unexplained random variations due to the separate cross sectional and time series effects.

The choice of estimation technique is not clear-cut. OLS estimates are a useful benchmark, particularly if there are no differences across districts or years. On the other hand, more sophisticated techniques may be preferable. If administrative differences across districts mean only that the average levels of tax collections are significantly different across districts, covariance estimators may be as useful as the more complex error components approach.²¹ However, these differences in administrative procedures may also mean that the response to changes in the independent variables also differs across districts, suggesting a "random coefficients" model. In such instances the error components model is preferable to the simpler covariance technique.²² In addition, the error components model has substantially more degrees of freedom than the covariance model. We employ all three techniques here.

Regression results for two different specifications using each of the three estimation techniques are shown in Table 4-10. The dependent variable is real IPTT revenues per capita. In general, the results suggest a lack of systematic response in this variable to differences in any of the three independent variables used. Including district indicators (the covariance model) produces a significant F-statistic with approximately one-third of the variability in IPTT per capita revenues explained. When these systematic cross-section related errors are taken into account in the error components model, real gross district product per capita shows a slight negative association with revenues per capita—a result contrary to *a priori* expectations that would suggest that greater local economic activity would produce increases in property values and, hence, greater revenues from the IPTT.

21. See T.D. Wallace and Ashiq Hussain, "The Use of Error Components Models in Combining Cross Section With Time Series Data," *Econometrica* 37 (January 1969): 55-72; and Yar Mundlak, "On the Pooling of Time Series and Cross Section Data," *Econometrica* 46 (January 1978): 69-85.
22. See K.H. Johnson and H.L. Lyon, "Experimental Evidence on Combining Cross Section and Time Series Information," *The Review of Economics and Statistics* 55(4) (November 1973): 465-474.

TABLE 4-10
 POOLED REGRESSION RESULTS: REAL TRANSFER TAX PER CAPITA
 (absolute values of t-statistics in parentheses)

<u>Regression</u>	<u>Real Gross District Product Per Capita</u>	<u>Percent Urban</u>	<u>Land Area</u>	<u>F</u>	<u>R²</u>
<u>Straight Pooling (OLS)</u>					
1	0.0002 (1.55)	0.001 (0.50)		2.32	.03
2	0.0002 (1.50)	0.002 (0.57)	-1.08E-7 (0.59)	1.65	.02
<u>Covariance Model—District Intercepts</u>					
3	-4.77E-5 (0.22)	0.062 (1.72)		3.29**	.34
4	-0.0001 (0.42)	0.063 (1.72)	-5.53E-7 (0.46)	3.11**	.33
<u>Error Components</u>					
5	-2.98E-5 (3.24)**	0.0003 (1.65)		2.49	.08
6	-2.96E-5 (3.19)**	0.0003 (1.60)	5.90E-9 (0.42)	1.63	.07

**Significant at less than the 0.01 level.
 SOURCE: Computed by author.

Considerably stronger results are obtained when the dependent variable is taxes per acre (Table 4-11). Whereas taxes per capita can be especially high in either relatively low populated rural districts or in the more urbanized districts, using taxes per acre avoids these problems and tends to capture better the relationship between land values and IPTT collections. The results are particularly interesting and reflect the effects of urban development on transfer tax collections (the tax ratios are based on taxes collected only in the noncity areas of districts). Urbanization has a strong positive effect on per acre tax revenues. This result reflects the spillover

TABLE 4-11
 POOLED REGRESSION RESULTS: REAL TRANSFER TAX PER ACRE
 (absolute values of t-statistics in parentheses)

<u>Regression</u>	<u>Real Gross District Product Per Capita</u>	<u>Percent Urban</u>	<u>Land Area</u>	<u>F</u>	<u>R²</u>
<u>Straight Pooling (OLS)</u>					
1	-0.67 (1.88)	43.78 (5.66)**		16.71**	.26
2	-0.74 (2.19)*	46.89 (6.35)**	-0.002 (3.30)**	16.04**	.34
<u>Covariance Model—District Intercepts</u>					
3	-0.56 (1.75)	394.20 (6.13)**		26.99**	.88
4	-0.87 (2.32)*	409.92 (6.36)**	-0.003 (1.55)	26.58**	.88
<u>Error Components</u>					
5	-1.11 (3.63)**	54.01 (8.35)**		35.72**	.47
6	-1.22 (4.20)**	55.85 (9.04)**	-0.001 (3.26)**	29.48**	.52

* Significant at less than the 0.05 level.
 **Significant at less than the 0.01 level.
 SOURCE: Computed by author.

effects of urbanization on land values surrounding these urban areas and is even more pronounced when land area of the zilla is included explicitly in the equation. The finding that district product is negatively associated with tax revenues per capita probably reflects the fact that districts with greater economic activity are those with greater nonagricultural production, which is less directly reflected in the IPTT base. As in the case of per capita collections, the results indicate the considerable effect on revenues from differential administration of the tax across districts. This finding is most

apparent from a comparison of the straight pooled results and those obtained when district dummy variables were included (the covariance model). About 50 percent of the variability in IPTT revenues per acre can be attributed simply to these district indicators. To a lesser extent, the error components model also supports this conclusion. Tax administration and improvements therein must play a dominant role in any reform measures.

In sum, the IPTT has generated increasing amounts of taxes in the last several years, both in nominal and real terms. Its revenues have also tended to increase at a rate roughly the same as income. However, its yield is still quite low when viewed in per capita terms, due to administrative weaknesses. The main problem with the IPTT as a source of revenues thus appears to be the level, not the growth, of its revenues. If the level can be increased by improvements in administration and collection efficiency, then revenues can be expected to keep pace with growth in the economy.

Potentials for Change

One area in which changes may easily be made in the IPTT is the level of tax rates. Because the IPTT tax rate is both low in the absolute and low relative to the total tax rate on property transfers, an increase is likely to generate additional tax revenues with little adverse effect on the exchange of property. For example, if there are no changes in collection efficiency and in the level and value of total property transferred, a doubling of the tax rate would double the revenues currently earned by the local bodies from the IPTT. One might anticipate that the increase in total rate will discourage some transfers; however, it is unlikely to expect that a doubling of the IPTT rate would result in a halving of properties transferred, when the IPTT is considered in conjunction with other stamp duties. One possible outcome is that the reported value of transferred property would decline proportionately to the percentage increase in the overall rate. If an average rate for the stamp duty is 11 percent, an increase in the IPTT from 1 to 2 percent amounts to an 8.3 percentage increase in the effective overall rate associated with the transfer of property. Even if reported transfers of property declined by 8.3 percent, the effect of the new higher IPTT rates would be to increase local government revenues by 83.4 percent. In the case of zilla parishes, which already are highly dependent upon the IPTT as a revenue source, such an increase would greatly improve their abilities to meet the demands for public services. The high existing combined tax rates, however, may significantly discourage the efficient exchange of

property. The central government should consider decreasing the maximum stamp duties to reduce this problem.

The IPTT could also be used to strengthen the fiscal autonomy of local governments if local governments were given an option to add a surtax up to some specified ceiling rate. Such authority would be a very important step toward fiscal decentralization. The principal difficulty associated with such local autonomy concerns administration of the IPTT. Currently, transferred property can be registered and duties, fees, and taxes can be paid at any district headquarters, regardless of property location. District rate differentials would complicate the collection process by requiring the registration officer to determine the appropriate rates for the district in which the property is located. If this procedure is seen as overly complicating the tax collection process, registration of property could be restricted to the district in which it is located, although this strategy would increase tax compliance costs. Again, a choice must be made between greater local government autonomy and increased administrative or compliance costs.

A second essential area of reform concerns tax administration. The single factor most responsible for restraining the yield of the current IPTT is understatement of the value of the transfer. Improving this situation, with or without changing tax rates, will require changes in administration of the tax. Improvements in administration could occur in a number of areas. Under current procedures, local collection officials are not encouraged to detect and correct undervaluation. Indeed, registration officials have been instructed to accept the stated value. This practice should be changed. The fact that the central government already administers the IPTT in conjunction with the stamp duties provides an advantage in implementing such a change; that is, the Ministry of Law and Land Reform has an incentive to raise greater revenues. Thus, in conjunction with amending the manual of instructions, the Ministry should make it a policy to reward those officials who are successful in detecting undervaluation. One way to implement this policy would be to base the evaluation of the job performance of collection officials on their effectiveness in detecting undervaluation of property.

The detection of undervaluation would also be greatly facilitated if additional information were available to local officials. A reasonable selling price for a parcel of property is likely to be related to its value when previously sold. If such information were made available, chances are improved that undervaluation would be detected. This information could be provided by requiring at transfer the presentation of the previous deed of ownership, along with evidence of its previous purchase price. Property values differ greatly throughout the country. Still, similarly situated

properties within a paurashava or upazila are likely to have similar prices, with factors such as nearness to roads, access to water and irrigation facilities, and types of structures playing the dominant roles in price differentials. Based on experience elsewhere, it should be possible to construct a table of average property values per decimal for each upazila.²³ The table could then be used as a check on stated values at the time of transfer (see Chapter V for another use of such data).

While detection of undervaluation is a necessary condition for its elimination, it is also important that the individuals participating in such illegal activity be punished. At present there are no penalties on undervaluation. These penalties for undervaluation should be imposed, enforced, and publicized. Some type of system whereby either the government or a private individual is allowed to buy the property at the declared value might also be considered. However, such schemes have usually failed to work well.²⁴

Finally, it is essential that local government be given a greater role in the administration of the tax. One way—some local discretion over the IPTT tax rate—has already been mentioned. Property registration and collection of the IPTT along with other transfer duties and fees are fully the responsibility of the central government, and this situation should not be changed. However, the zilla parishads and paurashavas take an entirely passive attitude regarding the collection of IPTT. Even though the local bodies have no direct leverage over the local Ministry collection officials, periodic inspections of the registration process with reports written to supervisors of the personnel involved are in order. These inspections should investigate the manner in which the tax is being administered locally to insure that undervaluation is being detected and that the total tax liability due the jurisdiction is properly being credited to its accounts.

The IPTT is an imperfect tax. But it is a revenue source that can yield significant revenues in developing countries such as Bangladesh, with large revenue demands at the local government level.

23. Use of such tables is widespread in the administration of value-based property taxes in developing countries. For further discussion, see Bird, *Taxing Agricultural Land in Developing Countries*.

24. Such "self-assessment" programs were originally proposed by John D. Strasma, "Market-enforced Self-assessment for Real Estate Taxes," *Bulletin for International Fiscal Documentation* 19 (September and October 1965): 353-363, 397-414. For a critical discussion, see Shoup, *Public Finance*.

5

The Land Development Tax

James Alm, Barbara Diane Miller and James Wozny

The diversity of property tax systems in Bangladesh parallels that of many developing countries.¹ Zilla parishads and paurashavas receive revenues from a tax on the transfer of immovable property, as discussed in the previous chapter. Paurashavas and union parishads impose a holdings tax on the annual value of buildings and the land on which they are located (Chapter 6). Unlike these taxes, which are local government revenue sources, the Ministry of Law and Land Reform administers and collects a central government tax in rural and urban areas called the land development tax (LDT). This chapter provides information on the administration of the LDT, its effects on resource use and the distribution of income, and its revenue performance.² The principle conclusions are that the LDT has some favorable effects on efficiency and equity, but the tax's low rates mean that these effects are minor. In addition, its revenues have grown slowly and are at a very low level. If the LDT is to play a role in development and in decentralization, some changes are needed.

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1. See Haskell P. Wald, *The Taxation of Agricultural Land in Underdeveloped Economies* (Cambridge, MA: Harvard University Press, 1959); Richard M. Bird, *Taxing Agricultural Land in Developing Countries* (Cambridge, MA: Harvard University Press, 1974); and Roy W. Bahl (ed.), *The Taxation of Urban Property in Less Developed Countries* (Madison, WI: The University of Wisconsin Press, 1979).
 2. The analysis of the LDT in this chapter is based on the fact that the LDT is a central government tax; however the tax could be a good revenue source for upazilas. The discussion is equally relevant should the LDT become an upazila parishad tax.

History and Administration

The direct taxation of land in Bangladesh has an ancient heritage.³ By the third century B.C. land revenue was the accepted source of income for the government of northern India, which then included Bangladesh. The *Arthashastra*, a text from the era of the Mauryan Empire (321 to 185 B.C.) that deals with government and economics, refers at length to methods and problems of land tax assessment and collection. At that time land revenue was fixed at about one-sixth of the gross product. A centralized government administration was in charge of surveying the fields and maintaining soil classification records. During the Muslim rules of Sher Shah and Akbar in the sixteenth and seventeenth centuries, further refinements in the assessments were made. Akbar classed land into four grades and stipulated that settlements should be reconsidered every ten years. Later under the British, land revenue was still assessed on the basis of the productivity of land, supposedly 9/10th of what the *zamindars* realized from their tenants in rent.

Historical documentation for the change from a tax on productivity of the land to a flat rate per plot size is difficult to find, though it is clear that between the time of the British presence in South Asia and the independence of Bangladesh from Pakistan, the flat rate per acreage had been introduced. The most important changes in the land revenue since Independence include the 1972 exemption by the Awami League government of owners with up to 25 bighas (8.25 acres) from paying land revenue. In 1976 the Land Development Tax Ordinance created the basic form of the present LDT by merging the land revenue with some other land taxes. Although the original ordinance has been amended several times since then, the basic administrative features of the LDT have not changed.

Property taxes worldwide are typically based on some measure of the value of the property, but the LDT tax base is area rather than value. Area-based taxes are particularly common in countries in which elaborate administrative machinery is lacking.⁴ For example, some local

governments in Bolivia, Brazil, India, Liberia, Nepal, and Uruguay use various forms of area-based taxes. Other countries impose land taxes that essentially reduce to a tax on area due to administrative deficiencies. The main advantage of a tax such as the LDT—and it is a significant one—is its administrative simplicity. Many countries have attempted to institute elaborate property taxes based on "presumptive agricultural income," for instance. Without extensive administrative resources, however, the complexity of such taxes has often led to confusion, inefficiency, and inequity. In contrast, an area-based tax requires knowledge of only three facts: the area of the property, its location, and the owner's name. If a finer classification of land is desired (such as between irrigated and nonirrigated land), then additional information is required.

The Bangladesh LDT also requires knowledge of an individual's or a family's total holdings of land.⁵ The tax on agricultural land is based on the total agricultural land held by a family or individual for more than six months, whether or not these holdings are located in different local jurisdictions throughout Bangladesh. That is, the combined holdings in all parts of the country are to be determined for each individual and then, in the case of a family, the holdings of all family members are combined to yield total family holdings.⁶ The policy of aggregation, if enforced, makes the LDT more redistributive than otherwise, but it also greatly complicates tax administration. Ownership records are currently maintained only for an individual's holdings within a single *khatian*, which lists all details relating to each land interest.⁷ Complete aggregation requires adding for each individual holdings in all *khatians* in a single *mauza*,⁸ then for all *mauzas* in each upazila, then for all upazilas in each district, and finally for all

3. The history of land taxation in Bangladesh is briefly discussed in Government of Bangladesh, *Final Report of the Taxation, Enquiry Commission* (Dhaka: Government of Bangladesh, 1979), pp. 260-262.

4. See Bird, *Taxing Agricultural Land in Developing Countries*, and Ursula K. Hicks, *Development From Below* (London: Oxford University Press, 1961), especially pp. 321-346, for a discussion of the experiences of various countries with area-based taxes.

5. Public graveyards, cremation facilities, and religious structures are all exempt from the tax.

6. Under the Bangladesh Land Holding Order of 1972, no family may own more than 100 standard bighas (33 acres). Violators are subject to a maximum of six months imprisonment, Tk. 10,000 fine, and forfeiture of undeclared land; however, numerous exemptions significantly reduce the force of the Order. Furthermore, the Order does not appear to be strictly enforced.

7. A *khatian* is an area of land defined solely for the purpose of administering land taxes.

8. A *mauza* consists of one or two villages. It was the original land revenue unit under the British zamindar system. There are approximately 60,000 *mauzas* in Bangladesh.

districts. Such a task would be enormous. Interviews with local officials indicated that in practice even ownership in different *mauzas* within the same upazila are seldom checked.⁹

The 1976 Ordinance established the original rate schedule. Within five months this schedule was altered slightly (Table 5-1). Since then the rates have been altered several times. The graduated rate structure established in 1982 is shown in Table 5-2. The original 1976 rate system distinguished between agricultural and nonagricultural land. For agricultural land a

TABLE 5-1
1976 RATE STRUCTURE FOR THE
LAND DEVELOPMENT TAX

Description of Land	Tax Rate
For Agricultural Land	3 paisa per decimal on holdings not exceeding 8.25 acres; 15 paisa per decimal on holdings greater than 8.25 acres.
For Nonagricultural Land: Land located within the police stations mentioned in Ordinance No. XLII of 1976	Tk. 15 per decimal for land in commercial or industrial uses; Tk. 3 per decimal for land in residential or uses; or such amount as is equal to the total amount of the rent or land revenue and land taxes payable on the land immediately before the Ordinance.
Land located in any other area	Tk. 3 per decimal for land in commercial or industrial uses; Tk. 1 per decimal for land in residential or other uses; or such amount as is equal to the total amount of the rent or land revenue and land taxes payable on the land immediately before the Ordinance.

SOURCE: Land Development Tax Ordinance of 1976.

9. For a brief period in 1983, aggregation of holdings was not required. This temporary change was instituted because of administrative problems in implementing a new rate structure. The result was a substantial increase in collection efficiency. The original policy has, however, now been reinstated.

TABLE 5-2
1982 RATE STRUCTURE FOR THE
LAND DEVELOPMENT TAX

Description of Land	Tax Rate
For Agricultural Land: Total area held by a family or body: Not more than 2 acres	3 paisa per decimal subject to a minimum of 1 taka.
More than 2 acres but less than 5 acres	Tk. 6 for 2 acres plus 15 paisa per decimal for the land in excess of 2 acres.
More than 5 acres but less than 10 acres	Tk. 51 for 5 acres plus 36 paisa per decimal for the land in excess of 5 acres.
More than 10 acres but less than 15 acres	Tk. 231 for 10 acres plus 60 paisa per decimal for the land in excess of 10 acres.
More than 15 acres but less than 25 acres	Tk. 531 for 15 acres plus 95 paisa per decimal for the land in excess of 15 acres.
More than 25 acres	Tk. 1481 for 25 acres plus Tk. 1.45 per decimal for the land in excess of 25 acres.
For Nonagricultural Land: Land located within the police stations mentioned in Ordinance No. XV of 1982	Tk. 60 per decimal for land in commercial or industrial uses; Tk. 12 per decimal for land in residential or other uses.
Land located within the municipal limits at District Headquarters	Tk. 10 per decimal for land in commercial or industrial uses; Tk. 4 per decimal for land in residential or other uses.
Land located in any other area not specified	Tk. 8 per decimal for land in commercial or industrial uses; Tk. 3.00 per decimal for land in residential or other uses.

SOURCE: Land Development Tax (Amendment) Ordinance of 1982.

slightly graduated, two class rate system was established, with larger holdings taxed at a higher rate. For nonagricultural land two distinctions were made: between land in rural areas and land in urban areas, and between land used for commercial and industrial purposes and land used for residential or other purposes. Urban and commercial/industrial properties

were taxed more heavily than rural and residential properties. The 1982 changes increased the tax rates on all types of land and established a more complex graduated rate system for agricultural land. Taxes per acre now increase for holdings above one-third acre; below one-third acre the minimum one taka tax leads to falling taxes per acre. Under the original rate schedule, taxes per acre were constant up to holdings of 8.25 acres; for larger holdings, taxes per acre were also constant but at a higher level. The 1982 rate structure created much confusion among collection officials, and revenues fell significantly. In response, the tax rates were temporarily changed back to their original 1976 levels, and revenues quickly recovered. The 1982 rate structure was nevertheless reinstated in 1983.

The LDT is administered and collected by employees of the Ministry of Law and Land Reform, based upon an official record of the size, location, and ownership of each plot of land in each *mauza*. Although the process is supervised by officials at the district level, the tax is collected at the upazila level by a tahsildar. The tahsildar is a remnant of the British zamindar system. Upon appointment by the Deputy Commissioner, each tahsildar receives some training at district headquarters, although interviews with several tahsildars indicated that the specific features of this training vary widely. His duties include collection of the LDT, verification of property transfers, and collection of loans for the Bangladesh Agriculture Development Corporation.

Landowners may pay the LDT in two installments without penalty. Indeed, proceedings against a delinquent taxpayer are not started until the landowner has not paid taxes for three years. After that period, a Certificate is issued stating that the tax payment is due. The delinquent taxpayer then has 30 days either to appeal the Certificate or to pay all back taxes plus an (uncompounded) interest penalty of 6.25 percent on unpaid taxes plus the costs of serving the Certificate. If neither of these occurs, the Certificate may be executed by sale of any movable or immovable property necessary to satisfy the Certificate, by attachment (or the issuance of a Distress Warrant) and sale, and/or by arrest of the delinquent taxpayer.

It is difficult to assess the LDT collection efficiency. Local officials interviewed generally believed that at least 75 percent of the LDT is collected. They attribute this relatively high percentage to the use of penalties against delinquent taxpayers. For example, in fiscal year 1980/81 there were over 600 Certificates issued in Beani Bazar upazila of Sylhet district, and 1,094 issued in Bhanga upazila in Faridpur district. Officials stated that at this point most individuals pay all back taxes. Possibly as a result, the use of Distress Warrants and auctions is much less common, and variation in the use of these penalties across areas is very wide. There were

no Distress Warrants issued in Beani Bazar in 1980/81, and no auctions have ever been held there. On the other hand, there were 1727 Distress Warrants in Bhanga in that year, and 273 Distress Warrants and 50 auctions in Nagarkanda. However, without more detailed upazila information on penalties and on tax collections, both current and arrears, the performance of the LDT collection officials is difficult to judge.

Information on collection efficiency at the circle and district levels is shown in Tables 5-3 and 5-4.¹⁰ Collection efficiency is calculated by dividing total collections from both, arrears and current liabilities, by total assessments (or demand) also arrears and current. Collection efficiency for

TABLE 5-3
LAND DEVELOPMENT TAX COLLECTION EFFICIENCY FOR
COLLECTION CIRCLES IN FARIDPUR DISTRICT,
1981/82 (in percents)

Circle	Collection Efficiency
Bhanga	79.8
Boalmari	68.7
Kotwali	93.0
Nagarkanda	58.1
Sadarpur	74.8
aliakandi	94.7
Pangsa	97.3
Rajbari	92.7
Gopalganj	55.7
Kasiani	45.1
Kotwalipara	50.6
Moksudpur	73.5
Kalkini	60.7
Madaripur	74.3
Shibchar	48.1
Damudia	64.4
Naria	77.8
Palong	82.4
Zanjira	77.5
TOTAL	70.2

SOURCE: Revenue Office, Faridpur district.

10. The LDT administration apparatus is organized by "circles" which commonly, but not necessarily, coincide with upazilas.

TABLE 5-4
LAND DEVELOPMENT TAX COLLECTION EFFICIENCY
FOR DISTRICTS, 1980/81
(in percents)

District	Collection Efficiency
Chittagong	97.5
Comilla	89.6
Noakhali	94.1
Sylhet	71.5
Dhaka	91.5
Faridpur	85.0
Jamalpur	88.4
Mymensingh	91.2
Tangail	96.8
Barisal	82.7
Jessore	92.1
Khulna	86.6
Kushtia	68.8
Patuakhali	91.9
Bogra	92.8
Dinajpur	98.5
Pabna	77.9
Rajshahi	94.7
Rangpur	96.0
TOTAL	88.3

SOURCE: Ministry of Law and Land Reform

the entire district of Faridpur was 70.2 percent; however, there was substantial variation from circle to circle, ranging from 45.1 percent in Kasiani to 97.3 percent in Pangsa (Table 5-3). District level collection efficiency for 1980/81 is on average higher, and there is much less variation than at the more disaggregated level (Table 5-4).

Our attempts to explain collection efficiency by regression analysis met with little success. One might expect that collection efficiency would be affected by such factors as population density and urbanization, although each of these variables may work in several dimensions. For example, a larger number of acres per capita may mean that on average each tahsildar has jurisdiction over a larger area, making scrutiny of each owner more difficult. It also may mean that the average ownership size is larger, although the implication of this for collection efficiency is unclear. On the

one hand, this may mean fewer owners from which taxes are to be collected, thereby easing the tahsildars' work loads. On the other hand, larger land owners may also be politically more powerful and, therefore, less willing to comply. Similarly, a greater proportion of total population in urban areas may improve collection efficiency to a point. However, as urbanization increases, effective monitoring of taxpayers may become more difficult. Other variables, especially those representing administrative efficiency, should be included but are not amenable to empirical measurement.

Cross-section regression results for district-level collection efficiency in 1980/81 are presented in Table 5-5. In each case the dependent variable is the proportion of total assessments (arrears and current) that is actually collected. Several specifications of independent variables are used, but the

TABLE 5-5
REGRESSION RESULTS FOR DISTRICT COLLECTION EFFICIENCY^a
(t-statistics in parenthesis)

Income Per Capita ^b	Independent Variable		F	R ²
	Urban Population ^c	Acres Per Capita ^d		
.08 (1.13)			1.271	.070
	.11 (.15)		.255	.015
		-69.74 (-.56)	.309	.018
.08 (.98)	-.04 (-.15)		.610	.071
.10 (1.35)		-120.48 (-.94)	1.073	.118
.17 (1.57)	-.30 (-.89)	-206.95 (-1.28)	.973	.163

^aThe dependent variable is district collection efficiency for 19 districts.

^bGross district product per capita.

^cProportion of the district population in urban areas.

^dAcres (excluding rivers) per capita.

SOURCE: Computed by authors from data in Table 5-4 and from Bangladesh Bureau of Statistics.

choices are limited by the available data. In no case is there a statistically significant relationship between an independent variable and district collection efficiency, although the coefficient on acres per capita has a plausible (negative) sign. The failure to find a relationship between collection efficiency and the various independent variables is most likely due to the difficulty of quantifying administrative efficiency. Data availability difficulties are even more severe at the upazila level. Only acres per capita and a crude measure of agricultural production per capita could be calculated for collection circles in Faridpur.¹¹ Neither of these variables is significantly related to collection efficiency (the results are not reported here).

Even high collection efficiency does not guarantee that the LDT makes a large net contribution to central government revenues because the collection process itself may be costly. For example, the Ministry of Finance estimated that the cost of collecting land revenues for each fiscal year from 1970/71 to 1974/75 was more than the taxes actually collected. However, this outcome was due mainly to the dramatic decline in land revenues during this period, following the War of Liberation and the 1972 Presidential Order that exempted all owners of less than 25 bighas from paying the land tax. Land revenue fell from Tk. 134.9 million in 1969/70 to a low of Tk. 25.4 million in 1972/73, while there was no large increase in collection costs. Furthermore, these estimated collection costs overstate the actual cost of LDT collection per se. LDT collection officials perform duties unrelated to the LDT, but because their entire salaries, as well as the cost of their offices, were attributed entirely to the LDT, the costs allocated to the LDT were greater than the costs actually incurred for the LDT itself. It is still likely, however, that the relative collection costs of the LDT exceed those of other taxes in Bangladesh, as noted by the Ministry of Finance.¹² High collection costs are typical for property taxes, and the LDT appears to be no exception.

11. The gross value of the major crops produced in Faridpur in 1979/80—aman, aus, boro, jute, and wheat—is calculated from data in Bangladesh Bureau of Statistics, *Thana Statistics, Volume II, Major Crops* (Dhaka: Bangladesh Bureau of Statistics, 1982).

12. Information on the collection and the collection cost of the major central government taxes is given in the *1981 Statistical Yearbook of Bangladesh* (Dhaka: Bangladesh Bureau of Statistics, 1981), p. 332.

Evaluation

We first consider the LDT's effects on the use of resources, then its equity effects, and last its revenue performance. Property taxes are often thought to have positive effects on the efficiency of resource use, but these effects depend on the specific features of the tax. Here we present the results of an analysis of the effects of the LDT on the level and composition of production, work effort, marketing, factor mix, and land use. The conclusion is that on balance its effects are beneficial, but minimal.

As emphasized by Wald and Bird, the marginal tax rate, or the rate at which the last increment to income or production is taxed, is an important element in determining the economic effects of a tax.¹³ A higher marginal tax rate reduces the rewards to work and investment and so makes such activities less attractive to an individual; a lower marginal tax rate has the opposite effects. Because the LDT on agricultural land is a fixed assessment that depends only on the holdings of an individual, its marginal tax rate against income is zero. For nonagricultural land the LDT is also a fixed amount per acre, and its marginal tax rate is also zero.¹⁴ In short, the LDT does not tax increments to income or production.

A zero marginal tax rate has several implications. Because the LDT must be paid from income, it does not discourage efforts to increase income. Individuals will work harder in order to increase production. They will also increase the efficiency of land use. For example, idle land will be cultivated or sold, and land will be used to grow those crops or produce those goods that are most profitable. The LDT may also increase the amount of output—agricultural or otherwise—that is marketed because the LDT must be paid in cash. Finally, the LDT increases the cost of land relative to other

13. See Wald, *The Taxation of Agricultural Land in Underdeveloped Economics*; and Bird, *Taxing Agricultural Land in Developing Countries*.

14. Nonagricultural land is further classified into either commercial/industrial property or residential property, with the latter being taxed less heavily. If land is easily switched between uses, the different tax rates will act the same as a higher marginal tax rate on commercial/industrial property. But such switching seems unlikely, due to the low tax rates.

factors and so may encourage more labor-intensive techniques of production.¹⁵

The graduated rate structure on agricultural land may affect land productivity. There is some evidence that per acre yields for most agricultural commodities are higher on small farms than on large farms.¹⁶ Because higher per acre assessments on a larger holding may encourage a landowner to divide his property into smaller parcels, or to sell part of his holding, the LDT may work to raise per acre yields.

Not all effects are positive. The higher tax rates on nonagricultural land than on agricultural land may decrease the incentive for switching land to nonagricultural uses, and thereby slow industrial development. A similar disincentive may exist because of higher tax rates on commercial/industrial land than on residential land. The magnitudes of these effects are uncertain, but the evidence does not suggest they are significant. For example, the 1976 LDT rate schedule imposed a considerably higher per acre tax rate on holdings above 8.25 acres than on holdings below that level. This tax rate differential might be expected to generate a cluster of families with holdings slightly less than 8.25 acres. However, Jannuzi and Peach found no evidence of such a high concentration of ownership in their study of rural land ownership.¹⁷

On balance, the effects of the LDT on the efficiency of resource use are favorable. However, the extremely low level of taxation also means that the effects are very small. The LDT at current levels is therefore unlikely to have any appreciable effect—positive or negative—on resource use.

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15. In a country in which a large and growing population makes employment difficult to find, this effect is desirable. Of course, the actual magnitude of these effects is an empirical question. It is unlikely that these forces are very strong, given the low level of land taxation. Nevertheless, to the extent that these forces are present, they are favorable.
 16. R.A. Berry and William Cline review the empirical evidence for a wide range of developing countries in *Agrarian Structure and Productivity in Developing Countries* (Baltimore, MD: Johns Hopkins University Press, 1979), especially Chapter 3 and Appendix B. For a study of agriculture in Bangladesh that reaches the same conclusion, see Mahabub Hossain, "Farm Size, Tenancy, and Land Productivity: An Analysis of Farm Level Data in Bangladesh Agriculture," *The Bangladesh Development Studies*, Vol. 5, No. 3 (July 1977), pp. 285-348.
 17. F. Tomasson Jannuzi and James T. Peach, *The Agrarian Structure of Bangladesh: An Impediment to Development* (Boulder, CO: Westview Press, 1980).

Indeed, because the level of taxation is so low, even rates of taxation that are much greater than current levels may have little impact.

Distributional and equity effects are the next consideration. The LDT is a tax on a factor that is fixed in supply. Economic theory is clear on the incidence of such a tax: the burden of the LDT is on the owners of the land, and the result of the tax is that the price of land falls by the capitalized value of the future tax liabilities. As noted by Bird, "the incidence is independent of whether the land is rented or owner cultivated, or whether the landlord or tenant is the statutory taxpayer...[Moreover,] landlords cannot shift the tax to farm laborers or to suppliers of inputs."¹⁸ If the landowner is extracting from tenants as much rent as possible before the imposition of the tax, and if he is likewise paying to input suppliers as low an initial price or wage as possible, then the LDT per se does not give the owner any extra ability to improve his position by raising rent or lowering factor payments. If the landowner was in fact able to do these things, he would already have done so. In short, theory concludes that it is the landowner who pays the LDT.

This conclusion depends on several assumptions that may not always hold, especially in a developing country like Bangladesh. First, the landowner may not be receiving the maximum rent or be paying the minimum input prices before the imposition of the LDT. Market imperfections, government intervention, tradition, paternalism—all these factors may explain prices that are not competitively determined. In this environment the LDT may be shifted in part to tenants, input suppliers, and/or consumers. Second, while the total supply of land to all uses is essentially fixed, the supply to specific uses is variable and may be changed over a period of time. If the amount of land in cultivation declines over time due to taxation, the initial tax-induced fall in land value will be partially offset. Both possibilities may lead to partial shifting of the LDT from landowners, but the latter does not appear important because land use has apparently varied little over time.¹⁹

The income distributional effects of the LDT depend on who bears the tax and their incomes. Assuming that landowners bear most of the tax, we can use the Land Occupancy Survey (LOS) data on land ownership in rural

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18. Bird, *Taxing Agricultural Land in Developing Countries*, pp. 163-164.
 19. See the data on land use in the *1981 Statistical Yearbook of Bangladesh* (Dhaka: Bangladesh Bureau of Statistics, 1981), pp. 140-142.

areas collected by Jannuzi and Peach to analyze the incidence of the LDT on owners.²⁰ Evidence on the distribution of land ownership in rural areas and that of potential LDT liabilities (the amount of tax that should be collected from each taxpayer given the rate structure and the reported holdings of the taxpayer) are shown in Table 5-6. The extreme inequality in the distribution of land holdings is obvious. The bottom half of the households (the first five deciles of households, representing 42.5 percent of the sample population) own only 4.2 percent of the land, while the top

TABLE 5-6
DISTRIBUTION OF POPULATION, LANDHOLDINGS, AND
POTENTIAL TAX REVENUE

Decile of Households With Plot-Size Range (acres)	Percent of Sample Population Within Decile ^a	Percent of Total Landholdings Within Each Decile	Percentage of Total Revenue Potential	
			1976	1982
1st 0.00	15.5 (15.5) ^b	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)
2nd 0.00		0.1 (0.1)	0.0 (0.0)	0.2 (0.2)
3rd 0.04- 0.10	8.7 (24.2)	0.4 (0.5)	0.2 (0.2)	0.3 (0.5)
4th 0.11- 0.29	8.9 (33.1)	1.1 (1.6)	0.5 (0.7)	0.3 (0.8)
5th 0.30- 0.60	9.4 (42.5)	2.6 (4.2)	1.2 (1.9)	0.4 (1.2)
6th 0.61- 1.04	9.3 (51.8)	4.6 (8.8)	2.0 (3.9)	0.7 (1.9)
7th 1.05- 1.63	10.1 (61.9)	7.6 (16.4)	3.4 (7.3)	1.2 (3.1)
8th 1.64- 1.53	10.7 (72.6)	11.9 (28.3)	5.3 (12.6)	2.4 (5.5)
9th 2.54- 4.42	12.1 (84.7)	19.3 (47.6)	8.6 (21.2)	8.0 (13.5)
10th 4.43-76.27	15.3 (100.0)	52.4 (100.0)	78.9 (100.0)	86.5 (100.0)

^aCumulative percentages are provided in parentheses.

^bBecause more than 10 percent of the households own no land, there is no way to define precisely the upper bound of the first decile. These numbers, therefore, refer to the first and second deciles combined.

SOURCE: Compiled by authors from Land Occupancy Survey data.

20. For a description of the survey, see Jannuzi and Peach, *The Agrarian Structure of Bangladesh: An Impediment to Reform*. We are grateful to the authors for helping us use the data, and to USAID/Dhaka for supplying a copy of the data tape. For more information on the results presented here, see Barbara D. Miller and James A. Wozny, "Land Tenure Patterns in Bangladesh: Implications for the Revenue and Distributional Effects of Changes in Land Taxation," *Journal of Developing Areas*, Vol. 19, No. 4 (1985), pp. 459-481.

decile owns 52.4 percent of the land. There is also a substantial percentage of landless households; the landless include 14.7 percent of all households and comprise 11.6 percent of the sample population. The extreme inequality in land holdings means that the sample distribution of potential LDT liabilities on rural land is borne most heavily by the larger owners. Under the 1976 agricultural rate schedule, 78.9 percent of the total potential tax revenues is paid by the largest 10 percent of all landowners. Under the more graduated 1982 rate schedule, this same group pays 86.5 percent of the total potential tax revenues. It should be emphasized, however, that a progressive tax imposed at a low level has only a marginal effect on income distribution.²¹

Additional information from the LOS data analysis on potential LDT liabilities under the 1976 and 1982 schedules is provided in Table 5-7. The per household and per capita potential tax liabilities increase as land holdings increase under both schedules. Because the 1982 revision increased potential LDT revenues in the sample by 179.8 percent, these liabilities are also substantially higher under the new rate schedule. Per acre liabilities under the 1982 rates are highest for the smallest landowners because of the 1982 provision that establishes a minimum LDT of one taka. On a per acre basis, the existing agricultural rate structure is therefore regressive for small landowners (holdings less than one-third acre) and progressive for large landowners (holdings more than two acres). The fact that per capita LDT liabilities are quite small for the small landowners, however, reduces the importance of regressivity on small landowners.

The progressive incidence of the LDT does not mean that it is an equitable tax. Indeed, property taxes in general may not be equitable if they are cast in an impersonal or *in rem* mold. The commonly accepted criterion for interpersonal equity in tax administration requires that a tax be tailored to the individual circumstances of the taxpayer.²² A tax based solely on land area is not personalized. Two individuals with holdings of equal size

21. Using land ownership as a measure of ability to pay, the Suits Indices are .382 and .516 for the 1976 and 1982 rate schedules, respectively. A Suits Index of +1 indicates maximum progressivity; values of 0 and -1 indicate proportionality and maximum regressivity, respectively. The calculated values therefore suggest that both rate schedules are, at the least, moderately progressive. The Gini Indices for the two schedules—.612 for original rates and .859 for the new ones—indicate the same conclusion.
22. For further discussion of equity in taxation, see Richard M. Musgrave, *The Theory of Public Finance* (New York, NY: McGraw-Hill, Inc., 1959), pp. 61-115.

TABLE 5-7
COMPARISON OF THE DISTRIBUTION OF LDT LIABILITY
FOR LAND OCCUPANCY SURVEY VILLAGES UNDER THE
1976 AND 1982 RATE STRUCTURES
(in takas)

Decile of Households	Total Liability		Per Household Liability		Per Capita Liability		Per Acre Liability	
	1976	1982	1976	1982	1976	1982	1976	1982
1st	0	0	0	0	0	0	0	0
2nd	121	1,786	.04	.50	.50	.01	3.0	44.1
3rd	715	3,553	.21	1.02	.04	.20	3.0	14.9
4th	1,912	3,482	.55	1.00	.11	.19	3.0	5.5
5th	4,691	4,726	1.35	1.36	.25	.25	3.0	3.0
6th	8,322	8,322	2.40	2.40	.44	.44	3.0	3.0
7th	13,801	13,801	3.97	3.97	.67	.68	3.0	3.0
8th	21,453	27,294	6.17	7.86	.99	1.26	3.0	3.8
9th	34,861	91,240	10.03	26.26	1.40	3.73	3.0	7.9
10th	321,632	985,917	92.57	283.76	10.40	31.94	10.2	31.2
TOTAL	407,508	1,140,121						

SOURCE: Computed by authors from Land Occupancy Survey data.

but unequal value will pay the same tax, two individuals with holdings of equal value but unequal size will pay a different tax, and two individuals with holdings of equal size and value but with unequal income will pay in tax a different fraction of respective incomes. Thus, the LDT may not always satisfy a society's notions of horizontal and vertical equity, but no tax can always meet these standards. The LDT is likely, on balance, to contribute slightly to the equity of the Bangladesh tax system.

Revenue Performance

The official assessments (or demand) and total LDT collections for all of Bangladesh between 1976/77 and 1980/81 are given in Table 5-8. Collections during the first year of the revised rate were low relative to the subsequent years, due to the newness of this levy and the need to educate both taxpayers and collectors of its details. Between 1977/78 and 1980/81 nominal total collections rose by only 27.0 percent. Nominal current demand also fell during the first three years of the tax, most likely in

TABLE 5-8
OFFICIAL ASSESSMENTS AND COLLECTIONS OF LAND
DEVELOPMENT TAX FOR ALL BANGLADESH

	1976/77		1977/78		1978/79		Average Annual Percentage Change, 1976/77 to 1980/81
	Nominal	Real ^a	Nominal	Real	Nominal	Real	
Official Assessments							
Arrears							
Current	157,787,069	---	69,066,238	59,953,332	56,873,911	44,782,607	
Total	157,787,069	---	152,879,281	132,707,709	138,990,381	109,441,245	
Collections							
Current	90,141,230	---	221,945,519	192,661,041	195,864,292	154,223,852	
Total	90,141,230	---	151,421,666	131,442,418	157,702,000	124,174,803	
	1979/80		1980/81		1980/81		
	Nominal	Real	Nominal	Real	Nominal	Real	
Official Assessments							
Arrears							
Current	81,195,559	55,348,029	57,776,762	35,165,406			-5.5
Total	144,624,910	98,585,487	159,995,436	97,380,058			.3
Collections							
Current	225,820,469	153,933,517	217,772,198	132,545,464			9.5
Total	178,200,413	121,472,674	192,305,264	117,045,200			29.3

^a 1976/77 is the base year.

SOURCE: Ministry of Law and Land Reform.

response to appeals by taxpayers of the amounts assessed. Only by 1980/81 had current demand returned to its original level in nominal terms. Slow growth in assessments highlights one of the problems associated with an area-based tax whereby discretionary rate changes and alteration in the composition of holdings constitute the only factors promoting growth.

Because prices rose by 60 percent between 1975/77 and 1980/81, real assessments declined by 16 percent over that period. Although real collections have increased at an average annual rate of 7.5 percent during the late 1970s, this rise was due primarily to the poor collection performance in the first year of the tax. From 1977/78 through 1980/81 real collections fell in total by 11.0 percent.

The 1982 rate schedule was introduced partly in response to the poor growth performance of the LDT. According to estimates from the LOS, the rate changes should increase the potential LDT revenues in rural areas by 179.8 percent. Unfortunately, difficulties in administering the new rates substantially reduced the revenue impact. Official district level assessments and collections for 1980/81 are shown in Table 5-9, and those of circles in Faridpur district for 1981/82 are given in Table 5-10. Because these jurisdictions differ in total area, in land ownership patterns, and in industrial and residential development, official assessments vary considerably across both circles and districts.²³ Current annual district demand in 1980/81 varied from Tk. 2.4 million in Tangail to Tk. 23.8 million in Dhaka, due largely to the concentration of commercial/industrial property in Dhaka. There was also much variation in current annual demand in the collection circles of Faridpur in 1981/82. The official assessments in Naria totaled only Tk. 155,937, while the assessments in Rajbari were over three times that much. The collection circles are also likely to differ widely in administrative capabilities, adding another source of variation to actual collections. District-level total collections were again smallest in Tangail and largest in Dhaka. Circle-level total collections were smallest for Kasiani (Tk. 169,968) and largest for Rajbari (Tk. 614,739).

Examination of the variation in potential LDT collections across villages can be done using the LOS data (Table 5-11). The coefficients of variation reveal that there is considerable variation in tax potentials—measured either in per capita or per acre terms—across villages, even after controlling for village size. Because the LOS data reveal only levels of tax potential, any variation in this potential is due entirely to variation in the size distribution

23. Since circles may include more than a single upazila, the data in Table 5-9 may exaggerate variability across upazilas.

TABLE 5-9
DISTRICT LEVEL ASSESSMENTS AND COLLECTIONS FROM
THE LAND DEVELOPMENT TAX, 1980/81
(in taka)

District	Assessments		Collections	
	Arrear	Current	Arrear	Current
Chittagong	2,980,485	10,093,151	2,911,805	9,830,939
Cornilla	2,283,174	6,172,700	1,799,545	5,780,385
Noakhali	1,613,441	4,297,365	1,708,191	3,851,041
Sylhet	6,466,529	12,999,073	3,313,641	10,595,036
Dhaka	11,153,757	23,847,736	11,686,937	20,338,512
Faridpur	3,628,053	6,556,094	4,038,120	4,621,736
Jamalpur	878,161	3,680,883	795,179	3,235,914
Mymensingh	3,252,928	10,303,054	2,922,796	9,366,500
Tangail	1,150,595	2,428,187	1,214,907	2,249,039
Barisal	2,739,343	8,133,326	2,049,690	6,937,414
Jessore	2,866,918	8,021,721	2,550,343	7,482,117
Khulna	6,534,881	11,557,322	5,000,707	10,661,243
Kushtia	4,256,641	5,063,989	2,743,907	3,671,802
Patuakhali	1,168,932	4,830,241	1,478,483	4,036,898
Bogra	809,072	4,588,207	705,646	4,303,745
Dinajpur	1,011,448	8,676,407	1,086,912	8,452,808
Pabna	1,756,173	5,866,700	1,547,694	4,386,758
Rajshahi	2,219,469	11,769,905	2,188,345	11,060,877
Rangpur	1,006,812	11,109,375	1,018,916	10,610,536
TOTAL	57,776,762	159,995,436	50,831,764	141,473,500
		217,772,198		192,305,264

TABLE 5-10
LAND DEVELOPMENT TAX ASSESSMENTS AND COLLECTIONS
IN FARIDPUR DISTRICT CIRCLES, 1981/82
(in taka)

Circle	Assessments		Collections	
	Arrears	Current	Arrears	Current
Bhanga	142,863	213,342	117,843	166,383
Boalmari	212,930	496,546	169,577	317,549
Kotwali	106,689	497,829	89,604	472,378
Nagrakanda	270,265	311,611	181,752	156,502
Sadarpur	102,058	202,606	110,435	117,438
Baliakandi	93,858	328,428	157,770	242,170
Pangsa	93,943	471,129	138,331	411,654
Rajbari	121,992	541,415	123,622	491,117
Gopalganj	96,673	422,115	88,024	201,127
Kasiani	119,061	257,615	68,767	101,201
Kotwalipara	168,400	259,992	94,969	121,812
Mokosdipur	192,778	252,135	144,739	196,979
Kalkini	181,061	219,092	155,629	87,139
Madaripur	327,661	401,078	360,782	180,763
Shubchar	308,534	302,941	179,604	114,679
L-amudia	162,684	410,072	166,906	202,068
Nania	67,782	155,937	56,512	117,483
Palong	84,536	165,521	96,477	109,665
Zanjira	101,284	172,859	118,069	94,348
TOTAL	2,955,052	6,082,263	2,619,412	3,902,975
				6,522,387

SOURCE: Revenue Office, Faridpur district.

TABLE 5-11
VARIATION ACROSS VILLAGES IN POTENTIAL LAND
DEVELOPMENT TAX COLLECTIONS

	Potential Revenue Per Capita		Potential Revenue Per Acre	
	1976 Rate Structure	1982 Rate Structure	1976 Rate Structure	1982 Rate Structure
Unweighted Mean	2.03	3.68	5.73	15.60
Weighted Mean ^a	1.96	5.65	6.56	18.94
Coefficient of Variation ^b	88.28	101.22	38.10	49.96

^aThe weighted mean is weighted by population for the per capita variables and by acreage for the per acre variables.

^bThe coefficient of variation is the ratio of the standard deviation of the variable to the mean of the variable.

SOURCE: Computed by authors from Land Occupancy Survey data.

of landholdings across villages and not to any differences in the effectiveness of tax administration. Examination of inter-village variation in tax potential reveals a clear regional pattern. High-tax-per-acre villages are found predominantly in the moribund delta districts on the periphery of Bangladesh, extending from the northwestern corner eastward to Sylhet and southward to Khulna.²⁴ This region is generally characterized by relatively lower population density and less rich soil than the active delta districts. In the active delta region, comprising the districts of Dhaka, Faridpur, Noakhali, Barisal, and Patuakhali, population densities are the highest and the soil is the most fertile. Along with Chittagong, this group of active delta districts contains mainly low-tax-per-acre villages.

The regional contrast becomes even more distinct when high- and low-tax-per-capita villages are examined. Villages in the active delta region have a higher population density than the rest of the country. Their potential per capita taxes are correspondingly lower, and there is much greater variation across villages in potential revenue per capita than in revenue per acre.

24. A high-tax (low-tax) village is defined as one in the highest (lowest) quartile of the sample villages, ranked according to potential tax revenue per acre or per capita, depending upon the context.

Some indication of the level of taxation may be found in Tables 5-11, 5-12, and 5-13. Table 5-11 shows the potential revenue in villages in per capita and per acre terms, under the 1976 and the 1982 rate structures; Table 5-12 expresses the current demand and total collections by district in 1980/81 in per capita and per acre terms; Table 5-14 does the same for the circles of Faridpur District in 1981/82. These tables illustrate the great variation in assessments and collections across circles and districts. They also illustrate the extremely low level of taxation. Khulna, the district most successful in per capita total collections of the LDT, collected only Tk. 3.42

TABLE 5-12
DISTRICT LEVEL CURRENT ASSESSMENTS AND TOTAL COLLECTIONS
FROM THE LAND DEVELOPMENT TAX, 1980/81

District	Current Assessments		Total Collections (Arrears and Current)	
	Per Capita	Per Acre	Per Capita	Per Acre
Chittagong	1.75	6.22	2.21	7.85
Comilla	.87	3.92	1.07	4.82
Noakhali	1.09	4.38	1.41	5.66
Sylhet	2.22	4.29	2.38	4.59
Dhaka	2.38	13.81	3.20	18.55
Faridpur	1.34	4.18	1.78	5.53
Jamalpur	1.49	4.37	1.64	4.79
Mymensingh	1.11	4.43	1.33	5.32
Tangail	.95	2.99	1.36	4.27
Barisal	1.73	5.91	1.92	6.53
Jessore	1.88	4.94	2.35	6.18
Khulna	2.53	4.49	3.42	6.08
Kushtia	2.07	6.06	2.62	7.68
Parua khali	2.65	5.50	3.03	6.28
Bogra	1.65	4.89	1.80	5.34
Dinajpur	2.65	5.23	2.91	5.75
Pabna	1.66	5.30	1.68	5.36
Rajshahi	2.16	5.11	2.43	5.75
Rangpur	1.63	4.96	1.70	5.19
TOTAL	1.80	5.33	2.16	6.41

SOURCE: Ministry of Law and Land Reform.

per person.²⁵ The least successful district was Comilla, which collected about one taka per person. There is even more variation in per capita collections at the circle level, as shown in Table 5-13. Only Damudia collected more than four taka per person, and two circles—Kasiani and Naria—collected less than one taka per person. Per acre assessments and collections demonstrate the same variation and low level of taxation.

The level of LDT revenues, however measured, is low. Even if all current assessed taxes under the 1976 rate structure at the district level were collected, per capita assessments would average less than two taka per

TABLE 5-13
CURRENT ASSESSMENTS AND TOTAL COLLECTIONS FROM THE LAND
DEVELOPMENT TAX IN FARIDPUR DISTRICT CIRCLES, 1981/82

District	Current Assessments		Total Collections (Arrears and Current)	
	Per Capita	Per Acre	Per Capita	Per Acre
Bhanga	1.09	3.97	1.46	5.29
Boalmari	1.80	4.43	1.77	4.35
Kotwali	1.79	4.99	2.02	5.63
Nagarkanda	1.34	3.33	1.45	3.62
Sadarpur	1.31	3.26	1.48	3.67
Baliakandi	1.72	3.98	2.09	4.84
Pangsa	1.80	4.11	2.10	4.80
Rajbari	2.70	7.98	3.07	9.06
Gopalganj	1.52	4.58	1.04	3.14
Kasiani	1.26	3.44	.83	2.27
Kotwalipara	1.45	2.66	1.21	2.21
Moksudpur	1.02	3.28	1.38	4.45
Kalkini	.93	3.17	1.03	3.51
Madaripur	1.49	5.80	2.02	7.83
Shibchar	1.14	3.79	1.10	3.68
Damudia	4.47	18.31	4.01	16.47
Naria	.82	2.87	.92	3.20
Palong	1.13	3.92	1.41	4.88
Zanjira	1.07	2.90	1.32	3.57

SOURCE: Revenue Office, Faridpur district.

25. These are per capita data based on total populations. Tax payments per land owner would be considerably larger.

TABLE 5-14
REGRESSION RESULTS FOR TOTAL DISTRICT LAND
DEVELOPMENT TAX COLLECTIONS PER CAPITA^a

Income Per Capita ^b	Independent Variable		F	R ²
	Urban Population ^c	Acres Per Capita ^d		
(1.05) (2.05)*			4.397	.206
	3.55 (2.24)**		5.007	.228
		2279.86 (2.74)**	7.483	.306
.62 (1.030)	2.41 (1.24)		3.042	.276
.74 (1.57)		1894.53 (2.27)**	5.297	.398
-.95 (-2.57)**	7.50 (6.27)**	4028.09 (7.10)**	25.083	.834

*Significant at .10 level in 2-tail test.

**Significant at .05 level in 2-tail test.

^aThe dependent variable is total district collections per capita in 1980/81 for the 19 districts shown in Table 5-5.

^bGross district product per capita in 1980/81.

^cProportion of the 1980/81 district population in urban areas.

^dAcres (excluding rivers) per capita.

SOURCE: Computed by the authors from data in Table 5-5 and from Bangladesh Bureau of Statistics.

person, and per acre assessments would average Tk. 5.33 per acre (Table 5-12). Expressed in a different way, assessed taxes were less than .2 percent of total agricultural income in 1980/81. Taxes as a percent of land value are also very small. One acre of land may easily be valued at 20 thousand

taka.²⁶ Even the highest per acre assessment—Tk. 80.03 per acre for total holdings of 33 acres—yields taxes of only .3 percent of value. Using these as measures of the tax burden on agriculture, it is apparent that such a burden is minimal.²⁷

It is important to understand the reasons for different per capita LDT collections. Districts with larger urban centers will have more land in the higher tax categories (commercial/industrial classification). More acres per capita should also generate greater revenues per capita because average landholdings may be larger. The impact of income is less evident. On one hand, greater per capita income may be attributable to greater urbanization and, possibly, greater collection efficiency (see Table 5-5). On the other hand, greater per capita income may be associated with lower per capita collections if smaller, less heavily taxed landholdings are more efficient, thereby generating larger per capita income. Other variables, especially measures of administrative efficiency, may also be important but data for their analysis are not available.

Linear regression results under various specifications for total district per capita LDT collections for 1980/81 are presented in Table 5-14. As expected, the coefficients on urbanization and acres per capita are positive. When used alone or in conjunction with only one of the other variables, per capita gross district product is positively correlated with tax collections and probably reflects industrialization of the district. The final specification is, however, most interesting and explains over 80 percent of the variation in per capita LDT collections. Urbanization and per capita land holdings are again positive, as anticipated, and income per capita is more negative. One

26. Many agricultural studies estimate the net return per acre from various crops or crop patterns. A net return as low as Tk. 2000 per acre, discounted at a 10 percent interest rate, gives a per acre land price of 20 thousand taka. See various publications of the Bangladesh Agricultural Research Institute, the Bangladesh Rice Research Institute, and the Ministry of Agriculture and Forests. Field interviews in 1982/1983 also revealed land prices per acre well over 20,000 taka in many cases.
27. It has been estimated that, when the benefits of public expenditure on agriculture are also considered, the net burden on agriculture in 1975/76 is actually negative; that is, the agricultural sector received more from government than it paid to government. See Mahabub Hossain, Ataur Rahman, and M.M. Akash, "Agricultural Taxation in Bangladesh," (Dhaka: Bangladesh Institute of Development Studies, March 1978).

possible explanation of the negative but significant coefficient on the income variable is that the other two variables reflect the important attributes of the tax rate structure, while larger land holdings are less productive and, therefore, yield lower district products levels even though they are taxed more heavily.²⁸

It is apparent that both the level of collections and their growth over time are inadequate. Of these two problems, the inelastic nature of the LDT is probably its more severe limitation. Unfortunately, the ability of the LDT, indeed any property tax, to generate automatic growth in revenues over time is limited. LDT demand will rise only if agricultural land ownership becomes more concentrated (due to the graduated rate structure for agricultural land), if nonagricultural land is switched from residential to commercial/industrial uses, or if the rate schedule is altered. Actual tax collections will rise only if, in addition to the above factors, collection efficiency improves. None of these sources of growth is automatic because each would require some change in the administration of the LDT. In fact, "automaticity" may not be a useful concept by which to evaluate the revenue growth of any property tax, including the LDT.²⁹ Of greater importance are administrative adjustments that might be made.

Possible Reforms

The LDT has positive effects on the efficiency of resource use and on the distribution of income in Bangladesh, but these effects are minimal, given the low levels of tax rates and collections. Increased LDT revenues

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28. A similar equation may be used to explain total district collections per acre. However, attempts to explain per capita and per acre collections at the circle level were not successful (and are not reported here). Although the coefficient signs are often the same as in the above formulations, the coefficients are not statistically significant.
29. This point is emphasized by Oliver Oldman and Ching-mai Wu, "The Elasticity of Property Taxes on Site Value and Improved Value," in Bahl (ed.), *The Taxation of Urban Property in Less Developed Countries*, pp. 237-245. See also Roy Bahl and Larry Schroeder, "Forecasting Local Government Budgets," Occasional Paper No. 38, Metropolitan Studies Program, The Maxwell School (Syracuse, NY: Syracuse University, December 1979).

would strengthen efficiency of resource use and would mobilize more resources for public sector use. If the LDT were reassigned to become an upazila parishad tax, increased revenues from it would aid in decentralization efforts and provide an important own-source revenue for local governments.

One desirable longer term reform in the tax base would be to change it from area to value. A tax based on value is better able to promote an efficient use of resources, an equitable distribution of the tax burden, and a rising amount of tax revenues.³⁰ Development of a value-based tax tied to specific characteristics of each parcel of land is a difficult task, but the necessary valuation need not be based initially on a sophisticated approach. Similarly situated properties within an upazila are likely to have quite similar values, with factors such as soil quality, nearness to roads, and access to water and irrigation facilities playing dominant roles in the determination of land prices. While not as accurate as a parcel-by-parcel ocular survey of each plot, reasonably good approximations can be made of average land values per decimal in an upazila using these characteristics as the primary determinants of land prices. The values could be based on a survey of transaction prices of land together with information collected from those knowledgeable of local land prices.³¹ Ideally, land values would be updated annually so as to tie tax liabilities more closely to the value-enhancing effects of public sector investments, but it may be more reasonable to reestimate these values periodically, for example, every three to five years. The same data could be used to enhance administration of the property transfer tax as discussed in the previous chapter.

Another reform could occur in the rate structure. LDT administration officials express dissatisfaction with the highly graduated rate structure for

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30. The favorable effects of a value-based property tax are discussed in Wald, *The Taxation of Agricultural Land in Underdeveloped Areas*, and Bird, *Taxing Agricultural Land in Developing Countries*. In the context of Bangladesh, Hossain, Rahman, and Akash recommend a value-based tax; see their study, "Agricultural Taxation in Bangladesh."
31. Use of such tables is widespread in the administration of value-based property taxes in developing countries. A procedure similar to that described here was used to reassess property values in the Philippines; see Roy Bahl and Larry Schroeder, "The Real Property Tax," in *Local Government Finance in the Third World: A Case Study of the Philippines*, Roy W. Bahl and Barbara D. Miller (eds.) (New York: Praeger Publishers, 1982), pp. 53-57. For a discussion of practices in other countries, see Bird, *Taxing Agricultural Land in Developing Countries*.

agricultural land introduced in 1982. The complexity of the six-slab structure created much confusion among collection officials during 1982/83 and led to a temporary change in rates back to their previous levels. A simplification of the rate schedule would aid the collection process and would still keep the LDT a reasonably equitable tax. Estimates using Land Occupancy Survey data reveal that a proportional tax rate of Tk. 20 per acre would generate potential tax revenues from agricultural land slightly greater than those attainable under the 1982 schedule. Based on the conservative estimate of Tk. 20,000 per acre land value, a Tk. 20 per acre LDT results in a tax rate of only 0.1 percent of value, certainly not one that could be judged expropriative. The main advantage of a proportional system is its simplicity. A proportional tax also gives no incentive for artificial, tax-induced break-up of parcels. Moreover, a proportional schedule in Bangladesh will be modestly redistributive given the extreme concentration of land ownership. And, if combined with a provision that exempts the smallest landowners from the tax—a provision that would have little effect on revenues—the progressivity of the tax is increased substantially.³² Whatever the structure of the rates, their level should be increased. The level of LDT collections is very low, whether measured in per capita, per acre, or per land value terms. The beneficial effects of land taxation depend on the existence of substantive (though not prohibitive) rates. Further, to maintain or to increase real revenues as prices increase over time, some regularity should be introduced into rate changes by tying the adjustment in rates to an appropriately chosen price index if a land-value based levy is not adopted.

These changes could be undertaken regardless of which level of government administers the LDT. If the LDT were transferred to upazilas, these bodies should be given some discretion in the choice of local LDT rates. Although the central government should continue to derive some revenues from the LDT, upazilas could share in the revenues and be given the option of imposing an additional surcharge, perhaps up to Tk. 10 per acre, with all revenues flowing to the locality. The fact that these monies would remain in the local area should also aid the collection process.

As is the case with most taxes, administrative improvements are crucial to the development of an effective land tax system in Bangladesh. One obvious requirement for good land tax administration is landownership

32. The LOS indicates that an exemption of plots one-tenth acre or smaller in size would remove 4.2 percent of the sample population from the LDT rolls, at a revenue cost of only 0.5 percent.

records, including land maps. While Bangladesh is more fortunate than many developing countries in having some tax maps, the maps are outdated and, due to resource constraints, new surveys are being completed very slowly. Experience in other countries has shown that tax mapping can greatly improve the administration of property tax, leading to improved equity and collection efficiency.³³ Channeling additional resources to land survey efforts could therefore yield large dividends. In particular, international donors interested in aiding decentralization should seriously consider using grants or long-term loans to help support mapping efforts. Other administrative improvements could be made by strengthening the penalty process, upgrading the training of collection officials, and instituting rigorous and regular evaluation of the officials.

The Land Development Tax as currently imposed in Bangladesh cannot be faulted greatly on the usual grounds of economic efficiency, equity, and collectibility, but improvements could be made. Short-term changes in the rate structure with regular updates would result in a tax that is easier to administer while producing revenue growth. In the longer run, the base of the tax should be changed to reflect the productivity of the land rather than simply the size of the holding. Since the tax lends itself well to conversion to a local levy, thought should be given to reallocating it to the upazila parishads where the LDT could be a significant aid to decentralization.

33. See, for example, Daniel Holland, Michael Wasylenko and Roy Bahl, *The Real Property Tax Administration Project (the Philippines)*, Monograph 9, Metropolitan Studies Program, The Maxwell School (Syracuse, NY: Syracuse University, October 1980).

The Holdings Tax

Showkat Hayat Khan and Hasan Murshed

Property-based taxes have traditionally been the principal tax revenue source for union parishads in Bangladesh. Two different levies are assessed on permanent structures and the land on which they are situated: the union rate and the rate for the remuneration of village police, known as the chowkidari tax. Each tax is subject to the same set of rules and regulations as specified in the *Rules Under the Basic Democracies Order*.¹ Since these levies are so similar, we have lumped them under the term holdings tax. Likewise, many union parishads do not differentiate between the union rate and chowkidari tax in their accounts; the holdings tax is shown as a single entry.

As explained in Chapter 2, own-source financial resources of union parishads prior to the decentralizing reform consisted of property taxes, a tax on professions, trades and callings, a vehicle tax and fees, including income derived from haats, bazaars and ferry ghats. Property taxes constituted the primary own-source revenues for most of the union parishads, although some earned substantial revenues from sources such as markets and fees. Union parishads can also levy minor fees on births, marriages and feasts, and can impose a community tax (see chapter 8).

One of the results of the reform is an erosion of the already small set of resources available to union parishads. Indeed, nearly all of the revenue sources made available to the upazila parishads were previously assigned to the union parishads, and union parishads became almost entirely

1. Government of East Pakistan, *Rules Under the Basic Democracies Order (those applicable to Union Councils)* (Dhaka: East Pakistan Government Press, 1969), pp. 17-22.

dependent upon the holdings tax. If union parishads are to be fiscally sound, this tax must carry the load in revenue production.

Statutory Basis

According to the Local Government Ordinance,² both the union rate and the chowkidari rate are to be levied against the annual value of property. For rented properties, the annual value is defined as the gross annual rent less two months' rent for maintenance expenses. If there is a mortgage on the property, the annual mortgage interest costs are also to be deducted from the annual value.

For owner-occupied property, the annual value is to be established either by surveying comparable rental property in the area, or at 7.5 percent of the estimated capital value of the property, whichever is less. Owner-occupiers are also granted a deduction of one-sixth of the annual value (two months' rent) as a maintenance allowance. An additional one-fourth of the net rental value is deducted for owner-occupied housing. This second deduction provides an incentive for owner-occupancy but is difficult to justify on grounds of economic efficiency or equity. Owner-occupiers can deduct annual mortgage costs as well. While these provisions were undoubtedly included to improve the perceived equity of the levy, they have the effect of narrowing the tax base and unduly complicating tax assessment.

The ordinance stipulates that the union rate is to be levied at a rate not exceeding 7 percent of the annual value of buildings and land, but it does not fix a lower limit on the rate. The chowkidari rate is also to be levied as a percentage of the annual value of buildings and land. The rate should be set so as to ensure adequate funds to meet the salary, equipment, and other costs of supporting the village police and the cost of collecting the rate. Thus, the ordinance provides room for nonuniform rates across union parishads.

The statutes specify that the union parishads should appoint assessors to determine the annual value of immovable property. The rules do not specify who is qualified to serve in these posts. Assessments are to be updated every five years. The revised assessment list is to be published and any dissatisfied taxpayer can apply for a review of the valuation. Subcommittees of union parishad members are to act upon these appeals.

2. See Local Government Ordinance, 1976, pp. 77 and 81.

Subsequent appeals to the controlling authority, the upazila, are also possible.

Holdings taxes can be paid on a quarterly, instalment basis. The payments may be made to the union parishad office directly or to any person authorized by the union parishad as a collections agent. When the tax bill is paid prior to the payment deadline, a 5 percent rebate is allowed. If a resident fails to pay the tax within the specified time, the union parishad is supposed to serve a notice on the defaulting individual. If a person fails to pay within 15 days of receipt of the notice, the union parishad chairman is empowered to recover the taxes, ultimately through the sale of movable property.

Actual Practice

Statutory and actual administration of the holdings tax differ significantly in rural Bangladesh, as they do in most developing countries. The differences are evident in all aspects of tax administration: assessments, record-keeping, and collections. The following review of administrative practice is based on interviews with and questionnaires administered to 31 union parishad chairmen and secretaries and on a long-term study conducted in a single union parishad in Sylhet district.³

Tax assessment is carried out by union parishad members in their respective wards rather than by professional assessors. While the statutes define in detail how an assessment is to be conducted, it appears that these are seldom followed. Rather than being a tax on the annual rental value of buildings and land, the holdings tax is administered as if it were a combination of income and wealth tax, assessed primarily on an ad hoc basis. In nearly all unions we studied, the tax was said to be assessed by taking into account the economic condition of the taxpayer. Some of the responses to our question about the basis for assessed values were: "wealth of the taxpayer," "economic condition of the taxpayer as determined by the union parishad members," or "paying capacity." In some unions the process of "assessment" is more systematic with all potential taxpayers divided into four groups according to their perceived ability to pay; each group is

3. Details on the nine-month field study in Kushiara are provided in Showkat Hayat Khan, "Local Leadership and Rural Development in Bangladesh: A Case Study of Kushiara," doctoral dissertation, Department of Anthropology, Syracuse University, forthcoming.

assessed at a flat rate, with the poorest group tax exempt. In several union parishads, local officials knew the statutory rate of the tax, but they did not know whether the rate was to be applied to the annual rental value or the capital value of buildings and land. Furthermore, even respondents with a knowledge of the statutory tax base admitted that the particular economic situation of the taxpayer was taken into consideration when determining tax liabilities.

Information gathered from a case study conducted in a five-village area of Kushiara union parishad, Sylhet district, provides additional insight into the tax administration process. The computation of tax liabilities in Kushiara is not based on a determination of annual values and a uniform tax rate. Instead, union officials simply decide, on a more or less arbitrary basis, what the tax liability of each resident will be. It is little wonder, then, that the tax liabilities of different parcels vary considerably.

In the study area, there is only one brick building with a concrete roof in the five villages. One of the richest farmers of the area owns it. His union and chowkidary rates were assessed to be Tk. 15. The house next to him is kutcha (iron roof and mud plaster walls) and is owned by a small farmer. This man was also assessed at Tk. 15.⁴

The concrete roof building could earn approximately Tk. 12,000 annually in rent; the Tk. 15 tax thus amounts to an effective rate of only 0.00125. The kutcha building would earn, at most, Tk. 3,600 annually yielding an effective tax rate of 0.0041. Four other persons owning houses of lesser, yet obviously unequal values, were all assessed Tk. 60 each.

Since land constitutes a reasonable proxy for wealth, further indication of nonuniformity in the property tax can be gained from an examination of the relationship between land ownership patterns and holdings tax assessments (although the tax is levied only on buildings). While the data in Table 6-1 suggest a general positive relation between land ownership and amounts of holdings tax due, the relationship is far from uniform. Some of those owning between one and three acres of land were assessed no taxes whereas several others owning the same amount of land were to pay Tk. 11 or more.

Even though local officials purportedly base tax liabilities on "economic well being," the ad hoc nature of the assessment process revealed in the case

4. *Ibid.*

TABLE 6-1
HOLDINGS TAX ASSESSMENTS BY LAND OWNERSHIP IN
FIVE VILLAGES OF KUSHIARA UNION PARISHAD,
SYLHET DISTRICT, 1981/82

Land Ownership (acres)	Household Holdings Tax Liability (in taka)							Total Land- owners
	0	1-2	3-5	6-10	11-25	26-50	51 and Above	
0	6	1						7
0.01 - 0.50	58	22	7					87
0.51 - 1.00	18	14	14		1			47
1.01 - 3.00	12	17	29	9	3			70
3.01 - 6.00		3	3	14	2			22
6.01 - 10.00			1	4	2	2		9
10.01 - 20.00					3		2	5
20.01 and above					1	1	1	3
Total	94	57	54	27	12	3	3	250

SOURCE: Compiled by authors from Kushiara case study data and union parishad tax records.

study makes it more likely that noneconomic factors will enter into the determination of assessed values. Particularly important is favoritism toward the kinsmen and political supporters of the union parishad members. Such inequities in the tax undermine the people's confidence in the local government and discourage payment of the taxes that are levied.

Holdings tax collection results are quite poor in rural Bangladesh. Table 6-2 provides two indicators of collection performance in 1980/81 for 31 union parishads in the districts of Faridpur, Rangpur and Sylhet.⁵ The per capita yields from the holdings tax in this sample of unions are extremely low, averaging Tk. 1.32 per person. Due to the ad hoc nature of the assessment process, collection efficiency ratios are not necessarily good measures of how successful a jurisdiction is in mobilizing resources. If tax assessments are low, a greater proportion of the taxes are likely to be collected than if the initial assessments are high. Therefore, the overall average tax collection ratio of nearly 50 percent cannot be viewed as an indicator of acceptable collection performance. Nevertheless, there are

5. Only those union parishads for which both questionnaire information as well as financial data available are included in Table 8.2.

TABLE 6-2
UNION PARISHAD PROPERTY TAX PERFORMANCE INDICATORS

District	Union Parishad	1980/81 Property Taxes	
		Per Capita Revenues	Collection Efficiency ^a
Faridpur	Panch Khola	Tk. 0.38	—
	Ghat Majhi	1.76	.60
	Jhoudi	3.59	—
	Alipur	0.78	.16
	Mizanpur	0.62	.52
	Ramkantapur	0.50	.16
	Kaziani	1.69	—
	Maheshpur	2.68	.65
Rangpur	Ulipur	0.67	.31
	Gunaigach	1.23	.53
	Dharanibari	0.79	.45
	Holokhana	0.86	.30
	Kanthabari	1.02	.40
	Kholahati	0.46	.48
	Ramchandrapur	0.40	.20
	Boali	0.84	.73
	Badiakhali	0.73	—
	Malibari	1.01	.58
	Kuptala	0.97	.67
	Darshana	0.83	—
Sylhet	Gopaya	1.35	.78
	Shaitaganj	0.53	.61
	Noorpur	0.95	—
	Richi	0.44	.38
	Chadnighat	2.70	—
	Kamalpur	1.01	.50
	Mustafapur	2.59	—
	Akailkura	2.52	.27
	Ekatuna	0.02	—
	Beani Bazar	0.51	—
	Kulaura	0.56	.57
Average ^b	Tk. 1.32	.47	

^aRatio of taxes collected to those imposed.

^bUnweighted.

— Ratio not available.

SOURCE: Compiled by authors from union parishad sample, financial records, personal interviews, and questionnaire data.

instances of extremely low collection efficiency ratios in the range of only 16-20 percent.

The Kushiara case study found collection ratios within the range of the three-district survey data: 44 percent in 1979/80, 78 percent in 1980/81, and 54 percent in 1981/82. Given what are probably fairly consistent assessments year-by-year in this area, the relatively high ratio in 1980/81 prompted further inquiry. The union secretary reported that toward the end of 1980/81, the area experienced a severe food shortage. The central government provided grain which was distributed through local ration dealers. The people of the area rushed to the union parishad office for ration cards. The union parishad made the payment of the holdings tax a precondition for receiving the ration cards, and the collection rate that year thus improved.

What reasons can be given for such generally poor performance of the holdings tax? Primarily, it can be attributed to a very inadequate collection process which is further impeded by political factors. Tax collection in most union parishads is performed by appointed tax collectors who, rather than being full-time employees of the local government, are compensated on a commission basis—usually about 15 percent of total collections. The appointments tend to be granted to kinsmen and followers of elected leaders. Collectors may continue in their positions even with poor records of tax collection as long as they maintain a cordial relationship with union parishad officials. It is rare for tax collectors to be dismissed no matter how poor their performance. Taxpayers in the Kushiara case study union parishad preferred to pay their taxes directly to the union parishad representatives, primarily to obtain political patronage which the representative can provide.

Many people default on their holdings tax payments, but few jurisdictions maintain accounts of arrears and seldom do they pursue delinquent taxpayers with much enthusiasm. The two primary reasons for the failure to pursue delinquents are the fear of provoking public criticism and loss of political popularity. In some instances, negotiations between the union parishad and the delinquent taxpayer are used to attempt to raise revenues. This technique is viewed to be more politically acceptable than use of formal, legal pursuit of delinquent taxpayers.

There is a vast difference between the statutory basis of the holdings tax and the manner in which it is actually administered in the union parishads. The socio-political environment tends to discourage political decision-makers from fully discharging their duties in the area of tax collection. Furthermore, the system permits considerable political interference in the role elected union parishad members play in the assessment and collection process. There is also a circular dilemma in union

parishad finances: local revenues are small and, therefore, provide for few public services; in turn, the low level of public services discourages local residents from paying their taxes. Finally, the intergovernmental grants system does nothing to encourage local resource mobilization (Chapter 3).

Holdings Tax Revenues

The discussion above suggests that the overall level of holdings tax collections in the union parishads is low. But the tax nevertheless constitutes the primary form of own-source revenue in these jurisdictions. Information from 31 union parishads in Faridpur, Rangpur and Sylhet, shows that the holdings tax generally accounted for more than one-half of total own-source revenues during the five-year period 1976/77-1980/81 (Table 6-3). The relative importance of the tax in the overall revenue structure of the unions declined over the period from 48 percent in 1976/77 to only 35 percent in 1980/81, due primarily to increased flows of grant money from the central government. In nominal per capita terms, holdings tax revenues in these union parishads increased during the first three years of this time period only to fall in 1979/80 and then rise again 1980/81.⁶ We have derived the population estimates for the interim years by linearly interpolating union populations observed in 1974 and 1981.

The observed fluctuation in per capita collections may be attributed to several factors. First, there is much variability in the per capita amounts, as shown in the ranges exhibited in Table 6-3. To the extent that this variability also occurs within a jurisdiction over time, overall means can be affected significantly. Second, it may be that the lifting of martial law in 1979 had a detrimental effect on the willingness of taxpayers to comply with the local statutes. Several local leaders indicated that the national political environment definitely affects the revenue-raising ability of local governments in the country.

When adjusted for declines in the purchasing power of the taka as estimated by the consumer price index, the per capita holdings tax revenues exhibit very little growth over the period. In general, the data suggest that the purchasing power of holdings tax revenues in these union parishads just barely kept pace with the twin pressures of inflation and population growth.

6. *Bangladesh Population Census, 1981: Union Statistics*, Bangladesh Bureau of Statistics, November 1983.

TABLE 6-3
FEATURES OF UNION PARISHAD HOLDINGS TAX, 1976/77-1980/81

	Fiscal Years				
	1976/77	1977/78	1978/79	1979/80	1980/81
Mean Holdings Tax Revenues (in taka)	10,131 (34) ^a	13,322 (37)	17,920 (38)	16,299 (40)	21,319 (41)
Mean Per Capita Holding Tax (in taka)	0.66	0.84	1.06	0.94	1.20
Range of Per Capita Holding Tax (in taka)	0.06-3.58	0.19-2.43	0.09-4.49	0.25-3.22	0.02-3.59
Mean Real Per Capita Holding Tax (in 1976 taka)	0.66	0.73	0.83	0.64	0.73
Share of Holdings Tax in Own- Source Revenue (in percent) ^b	69.60	75.67	56.03	47.61	60.99
Share of Holdings Tax in Total Revenue (in percent) ^b	48.30	34.30	33.89	29.21	35.48

^aThe number in the parentheses represents the number of observations used to compute means.
^bBased on 31 union parishads for which data were available for the entire period.

SOURCE: Compiled by authors from union parishad sample, fiscal records and questionnaire data.

The ratio of per capita holdings taxes to per capita personal income constitutes one common measure of tax effort, but the lack of local personal income data in Bangladesh make it impossible to estimate such a ratio. Table 6-4 provides an alternative indicator of relative tax effort disaggregated by districts. Per capita gross district product is used as a proxy for per capita personal income. Among the three districts, union parishads in Rangpur district have the lowest property tax effort. Interestingly, even though per capita district product among these three districts is lowest in Faridpur, the tax effort in that district consistently exceeds that in the other two districts. This finding indicates that either district product is not an adequate measure

TABLE 6-4
UNION PARISHAD PROPERTY TAX REVENUE EFFORT IN FARIDPUR,
RANGPUR, AND SYLHET DISTRICTS, 1976/77-1980/81

	<u>1976/77</u>	<u>1977/78</u>	<u>1978/79</u>	<u>1979/80</u>	<u>1980/81</u>
Per Capita District Product (in taka)					
Faridpur	921	1108	1243	1468	1535
Rangpur	1121	1358	1405	1864	1980
Sylhet	982	1412	1451	1951	2152
Relative to Faridpur					
Rangpur	1.22	1.22	1.13	1.27	1.29
Sylhet	1.07	1.27	1.17	1.33	1.40
Property Tax Revenues Per Capita (in taka)					
Faridpur	0.74	1.12	1.31	0.97	1.30
Rangpur	0.44	0.52	0.84	0.73	0.83
Sylhet	0.80	0.98	1.20	1.06	1.28
Relative to Faridpur					
Rangpur	0.59	0.46	0.56	0.85	0.64
Sylhet	1.08	0.88	0.92	1.09	0.98
Tax Effort Relative to Faridpur^a					
Rangpur	0.48	0.38	0.43	0.59	0.50
Sylhet	1.01	0.69	0.79	0.82	0.75

^aComputed as the ratio of relative (to Faridpur) taxes per capita to relative per capita district product.

SOURCE: Union Parishad Financial Records, 1976/77-1980/81; Bangladesh Bureau of Statistics, 1981 *Statistical Yearbook of Bangladesh* (Dhaka: Bangladesh Bureau of Statistics, 1982), pp. 363, 366-67.

of tax capacity or that administrative practices outweigh economic factors in determining the success of union parishad resource mobilization efforts. Given the case study findings that local leaders are unwilling to collect the holdings tax, it may also be that political considerations in tax administration play important roles in generating the results shown in Table 6-4.

Growth of holdings tax revenues in these union parishads was erratic both in nominal and real terms.⁷ Elasticity estimates can be made to estimate the linkage between local economic growth and property tax revenues. Such elasticity is measured as the percentage change in per capita property tax revenues divided by the percentage change in per capita income, in this instance measured by per capita gross district product. If per capita GdP grows at the same rate as personal per capita income, then the results are equivalent to income elasticity estimates. If per capita GdP grows faster (slower) than personal per capita income, then the calculated elasticity underestimates (overestimates) the true income elasticity. Estimates of the gross district product elasticity of per capita property tax revenues shown in Table 6-5 are based on average growth rates in per capita holdings tax revenues and per capita GdP for the period 1976/77 to 1980/81; they were calculated separately for the union parishads in different districts.

In the two districts experiencing slower economic growth—Faridpur and Rangpur—per capita property tax collections grew slightly more rapidly than did district product. This finding is somewhat unexpected, but, because of the large year-to-year fluctuations in revenue, quite different results would have been obtained had 1979/80 been used as the terminal year of the time series. In Sylhet, which exhibited a considerably stronger growth in economic performance, union parishad holdings tax revenues grew only about one-half as fast as did district product. Unchanged tax rates and an unwillingness to raise assessments or to pursue payments of the tax may have led to these results.

7. For a discussion of local revenue instability in developing countries see William Duncombe and Larry Schroeder, "Tax Instability in Developing Countries and its Effect on Budgeting and Financial Management," *International Journal of Public Administration* 11(3) (1988): 271-309.

TABLE 6-5
ELASTICITY OF DISTRICT LEVEL UNION PARISHAD
PROPERTY TAX, 1976/77-1980/81

	Percent Change in Per Capita Property Tax Revenue	Percent Change in Per Capita Gross District Product	Gross District Product Elasticity
Faridpur ^a	75.5	66.7	1.13
Rangpur ^b	89.4	76.6	1.17
Sylhet ^c	60.7	119.1	0.51

^aIncludes six union parishads for which we have data for the entire period.

^bIncludes eleven union parishads for which we have data for the entire period.

^cIncludes fourteen union parishads for which we have data for the entire period.

SOURCE: Computed by the authors from union parishad financial records and estimates of gross district product.

Future Role

Our study of the holdings tax in union parishads of Bangladesh involves both the statutory and actual basis of the levy as well as its revenue performance. In general, the tax, as currently administered, leaves much to be desired. At issue is whether and how performance might be improved. The importance of such improvement is greater than ever before, since union parishads are now almost entirely dependent upon this tax for own-source revenues. If union parishads are to become fiscally sound and have some sense of local fiscal autonomy, the holdings tax must be strengthened.

The current statutory basis of the holdings tax is adequate, although overly complex. One can argue that with effective administration, the tax could have desirable economic outcomes. In less developed localities the bulk of any increment from holdings tax revenues is likely to be spent on development projects. Since most development projects in the rural areas are site-specific, such as a road, embankment, or canal, then some portion of the project benefits accrues to property owners at that site.⁸ Given a

functioning property market, benefits of site-specific projects will be capitalized in the value of the property. Properties which benefit more from past and present public investments will have higher values than those which are less benefited, and the property tax should be higher on such properties if the tax base appropriately captures value increments. The property tax collected represents a return of a portion of the benefits to the government. The tax may be seen as a benefit charge with desirable equity implications.

Likewise, with proper assessment and collection practices, revenue growth from the holdings tax should be sufficient to meet increasing public expenditure needs. While there are some statutory inefficiencies inherent in the tax, notably the differential assessments between owner-occupied and rented structures, such inefficiencies could easily be corrected. Overall, the statutory basis of this tax needs only some simplification and minor changes.

The major problems with this tax are attributable to its administration. Each of the components of property tax administration—assessment, record-keeping, and collection—must be improved. Those individuals currently assessing taxes do not, for the most part, have any specialized training in valuation practices. Local politicians annually determine total taxes in an ad hoc or politically-motivated fashion. Good property tax administration is possible only if politics are removed from the valuation function. Politics should enter only in the question of rate setting. One suggestion for removing local politics from the valuation process, while increasing the likelihood that the assessor is trained in valuation techniques, is to station a full-time, paid assessor in each upazila. This valuation officer, working under the upazila finance officer, would be responsible for reassessing all properties in each union parishad every five years as directed in the statutes. Local politicians could then "blame" local assessments on this higher level of government, thereby deflecting the onus of higher assessments from themselves.

It is also clear that there are considerable weaknesses in holdings tax records. Assessment rolls are not up-to-date; the records do not clearly indicate who has or has not paid their tax; and procedures for recording property sales/transfers are not well-defined. The valuation officer, whose total time would not be consumed in reassessment of properties, could also be assigned the task of working with the union parishad secretary to improve bookkeeping procedures so as to increase the accuracy of records on tax payment and nonpayment. Additional formal training programs provided directly to the secretaries could be undertaken under the guidance of the Local Government Division of the Ministry.

8. See Barbara D. Miller, "Benefit Financing in Bangladesh: A Review of the Possibilities for Rural Public Works," *Asian Journal of Public Administration*, 6(2) (1984): 178-192.

Tax collection procedures are also inadequate. Appointments of tax collectors are often politically motivated. Those selected are sometimes not committed to the task or are pressured to overlook the nonpayment of the tax by influential persons and relatives of the union parishad chairman. The use of roving private collectors also presents greater opportunity for taxpayer-collector collusion and, unless policed very closely, for collector fraud through nonissuance of receipts. It may be helpful to abandon this payment method in favor of personal appearances of taxpayers at the union parishad headquarters or at specific preannounced sites throughout the union, such as the local market on specific market days.

Also important is the need for some direct incentive to be given to local taxpayers to comply with the legal tax liability. One method, mentioned above in describing the Kushiara case study, was to tie benefits from centrally-administered programs, such as issuance of ration cards or permission to purchase subsidized rice, to documented proof of payment of the holdings tax. This practice could be extended to other services provided through the union parishad as well as to the issuance of nationality, character, birth, or death certificates.

Education of politicians and taxpayers must go hand-in-hand with these structural changes designed to improve taxpayer compliance. Paying taxes is less painful if taxpayers recognize that they derive some benefit from the taxes they pay. Likewise, political decision makers must be willing to collect the taxes levied and implement techniques for improving tax compliance. The latter is possible both through formal legal methods of collecting delinquent taxes (according to our survey, when these methods are used, people do pay) and informal methods of encouraging compliance. Informal methods include campaigns which build upon a sense of community and stress the importance of everyone paying his share to support projects undertaken by the local government.⁹ The upazila property tax technician could aid in carrying out these educational efforts.

In summary, the holdings tax imposed by union parishads in Bangladesh is a good example of a revenue instrument that contains few major theoretical flaws but has failed in practice. The failure can be traced primarily to difficulties in administering this levy. With some changes in

its statutory basis and the rules which underlie this tax and with considerable efforts to improve administrative practices at the local level with insertion of the proper incentives to implement these practices, the tax could improve revenue performance by union parishads

9. Similar programs were found to yield positive results in the Philippines. See Roy Bahl and Larry Schroeder, "The Real Property Tax," in *Local Government Finance in the Third World: A Case Study of the Philippines*, ed. Roy Bahl and Barbara D. Miller (New York: Praeger Publishers, 1983), pp. 46-81.

Business Taxes and Fees

Larry Schroeder

Local governments in Bangladesh have the authority to use numerous minor revenue sources ranging from taxes on local businesses to taxes on births and marriages. Business taxes and fees are two sources that currently generate some small amounts of revenue but that have the potential to become more important generators of own-source revenues.

Businesses are popular targets of local taxation in many developing countries, particularly in urban areas.¹ At present in Bangladesh the tax on professions, trades and callings does not yield an especially large amount of revenue. It is probably for that reason that not much attention has been paid to this levy in analyses of local public finance in the country. As upazilas develop with each containing a marketing center, there should be increased potential for revenue generation from businesses; however, for this potential to be realized, certain changes in the structure will be necessary.

The second source of local government revenue considered here is from fees imposed on the use of local public enterprises. Particularly important in Bangladesh local governments are fees charged for the use of ferry landings and for markets with additional potential revenues to be earned from some major farm-to-market roads built and maintained by local jurisdictions. Particularly unique in Bangladesh is the use of a private-sector oriented franchise system to operate these facilities. Again,

1. Roy Bahl and Johannes Linn, *Urban Public Finance and Administration in Less Developed Countries* (Washington, DC: The World Bank, forthcoming); and Robert J. Bennett, "Local Business Taxes: Theory and Practice," *Oxford Review of Economic Policy* 3 (1987): 60-80.

there appears to be a potential for increased revenue generation from these sources.

The Business Tax

Prior to the implementation of the decentralization policy, union parishads had the statutory authority to tax local businesses, but this right was transferred to the upazila parishads upon their creation. Paurashavas had, and retained, the authority to impose such taxes. Since each upazila will contain a market center that is at least semi-urbanized, business taxes can become important revenue producers for upazila parishads. At present, however, business-based local taxes are relatively unimportant.

As is the case for all local taxes in Bangladesh, the structure of local business taxes is controlled by the central government. Under the ordinances, taxes on professions, trades and callings are specific taxes, i.e., levied at a fixed amount rather than based upon the amount of business conducted. Localities can, however, impose different rates on different types of business. Nevertheless, the specific rates mean that revenues from this source can grow only through discretionary increases in the rates imposed or from additional businesses being formed within the taxing jurisdiction. There is no automatic growth in revenues directly linked to increased prices or growth in business incomes.

The statutes specify maximum rates which a locality can impose. There is nothing in the rules which states that localities must impose these maximum rates nor even that all types of businesses listed in the rules must be taxed by individual jurisdictions. One major problem associated with the setting of maximum tax rates by the Ministry of Local Government is that there can be long lags between changes in these allowable rates. In fact, new rules written in 1983 replaced rules originally imposed in the early 1960s, long before the independence of Bangladesh.

Table 7-1 displays the maximum rates which upazila parishads are allowed to levy under the tax on professions, trades and callings. These rates are considerably greater than those which union parishads were allowed to impose under the 1960 tax rules. The maximum amount that could be charged by union parishads (also, the maximum allowable rates for urban governments) was only Tk. 50. Even the 1983 rates are not particularly high; the highest rate of Tk. 500 per annum for mills or factories employing more than 100 workers constitutes a small proportion of total labor expenditures and, therefore, probably a very low proportion of total

TABLE 7-1
MAXIMUM UPAZILA PARISHAD TAXES ON BUSINESSES
(in taka)

Source	Maximum Amount
1. (a) Godown	50
(b) Cold storage	100
2. (a) Regular shops (excluding hawkers—those buying or selling goods in open space) with structures	
(i) Large (with investment above Tk. 10,000)	20
(ii) Small (with investment up to Tk. 10,000)	10
(b) Hotel	50
(c) Restaurant	20
(d) Tea-stall	10
(e) Saloon and laundry	10
3. Cinema hall	250
4. Rice mill, flour mill, oil and saw mill (power driven) and other mills not covered	50
5. Mill and factory having fewer than 10 workers	50
6. Mill and factory having 10-50 workers	100
7. Mill and factory having 50-100 workers	250
8. Mill and factory having more than 100 workers	500
9. Rickshaw	10
10. Auto-rickshaw	10
11. Taxi	50
12. Bus, truck and launch (license obtained from the upazila parishad, from where these services are operated)	100
13. Brickfield	100
14. Rate chargeable for enlistment as contractors	
(a) 1st Class (no limit)	500
(b) 2nd Class (up to Tk. 400,000)	300
(c) 3rd Class (up to Tk. 250,000)	100

SOURCE: Government of the People's Republic of Bangladesh, *The Upazila Parishad (Taxation) Rules, 1983* (Dhaka).

revenues. Indeed, the allowable rates should be viewed as little more than regulatory fees rather than as revenue-generators. If additional revenues are to be raised from this source, considerably higher allowable rates will be necessary.

We do not have information regarding actual tax rate structures imposed by upazila parishads since the authority to impose the professions, trades and callings tax was transferred to this level of local government after our

fieldwork was completed.² We do have data regarding the rates which a small number of union parishads in Faridpur, Rangpur and Sylhet districts imposed on businesses in 1982 (Table 7-2). Generally, the rates are extremely low, a finding which supports the statement above that they are used more for regulatory purposes rather than as resource mobilization devices. Further, less than one-half of all union parishads in the sample imposed any taxes at all on local businesses. The combination of low rates and spotty coverage of the tax suggests that not only does it fail as a revenue producer, it is also not a useful regulatory instrument.

TABLE 7-2
TAX RATES ON PROFESSIONS, TRADES AND CALLINGS
IN SELECTED UNION PARISHADS, 1982
(in taka per year)^a

District and Union Parishad	Shops and Traders	Mills and Factories	Medical Practitioners	Contractors
Faridpur				
Khowajpur		50		
Rangpur				
Kanthabari	6-12	12	12	
Holokhana	5			
Boali	2-15	50-100		
Badiakhali	5-300			
Ulipur	24-50			
Ramchandrapur	5-10	50-100		
Darshana		50-500		
Sylhet				
Akaikura	6-14	25		
Noorpur	2-25	25	10	12
Mustafapur	5-15	25-50 250-500 ^b		
Shaistaganj	6-50			
Khalilpur	5-10			
Kamalpur	5-20			

^aWhere ranges are provided, taxes imposed generally depend on size of business.

^bBrickyards only.

SOURCE: Computed by author from union parishad sample and fiscal records.

- In fact, it may be that few upazilas have used this taxing power since the upazila parishads have been recipients of extremely large grants from the government and are thus unlikely to pursue such sources of financial support.

Since we have no information concerning the revenue productivity of the business tax in upazila parishads, the only indicator of revenue yields is based on union parishad data. The revenue performance of taxes on businesses and vehicles by union parishads is not encouraging. The business tax, including taxes on vehicles, constituted only about 2 percent of total union parishad revenues (never more than 4 percent of own-source revenues) and, on a per capita basis, amounted to about Tk. 0.10 in 1980/81.

Given the generally poor state of administrative expertise at the union level, one might anticipate that per capita collections will be greater in upazila parishads. This possibility assumes, however, that upazila parishads will be willing to impose this tax and will not rely entirely upon intergovernmental grants to constitute their only source of revenue.

Evaluating these taxes and fees can be done on grounds of equity, revenue growth, and efficiency. The equity issue is complex and difficult to measure. Taxation of business can be justified on the grounds of benefit-based taxation, although the issue of who ultimately bears the burden of the tax and enjoys the benefits of the spending is far from clear-cut. Many of the services provided by local governments, especially those in more urbanized areas, yield benefits to businesses. Streets and roads, conservancy services, and drainage services all permit businesses to operate more cheaply than if the establishments had to provide these services for themselves. While it is probably the case that all businesses derive some benefits from local public services, it is difficult to judge whether the rates employed accurately reflect differential levels of benefits. With a rate structure that differentiates only crudely between different sizes of businesses engaged in the same industry, there is little reason to believe that vertical equity principles are accomplished.

When taxing businesses at the local level in low-income areas there is always a conflict between finding a base for the tax that is equitable across different business and that can be administered locally. While profits might represent a reasonable tax base that would distinguish among businesses on their relative abilities to pay, determining the tax base for different businesses is a difficult task. Instead of basing taxes on profits, local governments in the Philippines base taxes upon estimated gross revenues; however, even this tax base is not easily determined for many small businesses that do not maintain accounts.³ In many francophone African

- Roy Bahl and Larry Schroeder, "The Business License Tax," in *Local Government Finance in the Third World*, ed. Roy Bahl and Barbara D. Miller (New York: Praeger Publishers, 1983), pp. 82-99.

nations local governments impose the patent, a tax on businesses that is a combination of a flat tax (similar to that currently used in Bangladesh), and a tax based upon the value of the property owned by the business.⁴ Other countries allow localities to base business taxes on the number of employees or on the amount of floor space occupied by the business. Unfortunately, all of these alternative bases can discriminate significantly between different kinds of business pursuits with their differing capital-labor ratios.

Vehicles constitute another form of local tax base that might be used more extensively in upazila parishads. Currently, localities are allowed to tax only nonmotorized vehicles (rickshaws, bicycles, carts). With additional economic growth and increased usage of automobiles, extending this tax base to motorized vehicles would constitute a desirable addition to the local tax base since such taxes would be related to benefits derived from local spending on road maintenance and would generally be progressive in their incidence.⁵ Recent reviews of local government finance in Indonesia have recommended similar changes.⁶

The revenue growth implications of the current tax on professions, trades and callings were noted above. The tax is inherently inelastic with respect to changes in local incomes and prices. Even if the Ministry of Local Government were to change the maximum allowable rates on a regular basis, discretionary changes in the specific rate structures of individual jurisdictions would be necessary for increased revenues to be obtained. While the low allowable rates in Bangladesh limit the amounts of revenue that can be generated by the tax, they also limit any unfavorable neutrality or equity implications of the tax. The low rates make it unlikely that interjurisdictional differences in the tax rates would have any real effects on the location of businesses. Similarly, rate differentials across types of

businesses are probably not important enough to have any significant effect on the composition of business activity.

Just as the low rates minimize any nonneutralities, they also assist tax compliance. There is little reason for businesses to avoid payment of such low tax burdens. In small jurisdictions with relatively few business establishments the task of administering the levy is not particularly great, and it is made even easier by the fact that the statutory rates do not require determination of the level of business activity. Still record-keeping is necessary as are some minimal efforts at collecting the tax. Administration would be benefited if certificates (licenses) issued upon payment of the tax had to be publicly displayed. Yet, unless higher tax rates on profession, trades and callings are imposed, there is little reason to alter current administrative practices since such changes would add to administrative costs without producing substantial revenue effects.

Public Enterprises

One potential revenue source for at least some rural local governments in Bangladesh is public enterprises. Nearly every upazila contains markets, locally called haats or bazaars (with the former open daily and the latter operated weekly or biweekly). In many rural areas of the country where there are numerous rivers but few bridges, ferry boats constitute the primary means of crossing rivers. The Local Government Ordinance permits local governments to provide ferry services. Finally, some other activities are operated by local governments including modern market buildings called "shopping centers" (permanent multi-store structures built by local governments and rented to private leaseholders), slaughterhouses, and a few rural roads.

It is common for local governments in developing countries to operate enterprises which yield benefits to users and which have the potential to generate additional revenues for the locality.⁷ While in many countries throughout the Third World local governments themselves operate the enterprises, few local governments in Bangladesh manage and operate

4. See, for example, Jerry Miner and Robert Hall, *Local Revenue Administration in Burkina Faso*. Monograph 17, The Maxwell School, Syracuse, NY: Syracuse University, 1986 for a discussion of the administration of this levy.

5. The desirability of motor vehicle taxation by local governments is reviewed in Roy Bahl and Johannes Linn, *Urban Public Finance and Administration in Less Developed Countries*.

6. See Nick Devas, "Local Taxation and Related Issues of Central-Local Financial Relations," *Papers on Regional Finance for the Government of the Republic of Indonesia*, Development Administration Group, Institute of Local Government Studies (Birmingham, England: University of Birmingham, 1986).

7. See Bahl and Linn, *Urban Public Finance and Administration in Less Developed Countries*; and David Greytak and Benjamin Dikano, "Local Government Public Enterprises," in *Local Government Finance in the Third World: A Case Study of the Philippines*, ed. Roy Bahl and Barbara D. Miller (New York: Praeger Publishers, 1983), pp. 140-187.

facilities using public sector employees. Instead, leases are auctioned to private operators to provide the service; the entire proceed of the auction is turned over to the local government. All revenues subsequently generated by the enterprise activity are kept by the private lease holder. This is a unique public-private partnership which can have some advantages to the local governments, but it is not without potential problems.

The auction technique is used by localities to provide for the operation of markets, ferry ghats, and toll roads. The leases are generally for one year and are issued to the highest bidder in an auction held between four and six weeks prior to the subsequent lease period.⁸ Most localities use verbal bidding. Commonly, some proportion of the winning bid must be paid immediately with the remainder due within a few weeks to several months of the auction. In the auction process employed for toll roads in Sylhet district, the zilla parishad retains the option to hold additional auctions if it is felt that higher bids could be obtained. If the willing bid at the later auction is less than the previous auction winning bid, the previous auction winner has the right of first refusal, i.e., he can obtain the franchise (at the level of his earlier winning bid) even though he was not the winner in the subsequent auction. The Sylhet zilla parishad put no limit on the number of auctions they hold in any particular year.

The bidding process, if efficient, should result in no excess profits to the winning bidder. A necessary condition for this outcome to occur is that there be a sufficient number of bidders in each auction. Table 7-3 displays the number of bidders participating in each auction for each of the Sylhet roads during the period 1977-1981.⁹ For the cases in which there was more than one auction held, the number of bidders at each auction is shown. In no case was the winner of an earlier auction granted the franchise, suggesting that the option of allowing for subsequent auctions has been successful in extracting additional economic rents from the potential bidders.

The number of bidders has ranged from zero (in two cases) to as many as ten. When a new toll franchise is offered, neither the potential bidders nor the locality is likely to have much information regarding appropriate bids. This fact may explain why, except for Sylhet district's

8. Some urban governments in Bangladesh have used similar methods for tax collection activities with winning bidders given the right to collect octroi taxes imposed on goods entering the city.
9. Sylhet zilla parishad records include the names of individual bidders and the amount of each bid.

TABLE 7-3
NUMBER OF AUCTIONS AND BIDDERS ON SYLHET TOLL ROADS

Toll Road	Fiscal Year					
	1977-78		1978-79		1979-80	
	Number Auctions	Number Bidders	Number Auctions	Number Bidders	Number Auctions	Number Bidders
Tamabeel-Jafiong	1	5	2	4,7	1	8
Shaibhag-Kansighat	3	3,5,4	1	5	1	9
Sari-Gowainghat	2	7,5	1	3	1	7
Sylhet-Badaghat	3	2,0,6	1	7	1	9
Moulvi Bazar-Shamsher Nagar		b	1	5,5	1	8
Sherpur-Biznaghat		b	2	b		b

	1980-81		1981-82			
Tamabeel-Jafiong	1	10	4	1,4,0,8		
Shaibhag-Kansighat	1	8	--	a		
Sari-Gowainghat	1	6	2	7,5		
Sylhet-Badaghat	1	7	2	6,5		
Moulvi Bazar-Shamsher Nagar	1	8	1	5		
Sherpur-Biznaghat	3	3,6,2	1	4		

^aNo one was willing to bid more than the previous year's winning bid and no subsequent auction was held.
^bNo franchise issued.

SOURCE: Sylhet zilla parishad records.

Tamabeel-Jaflong Road in 1977-78, more than a single auction was used in the first year of a toll road's operation.

The auction winners have different responsibilities depending upon the services being provided. Ferry operators must provide the ferry boats and personnel to operate them. Toll road franchise winners provide only toll collectors. Those businessmen earning the right to operate markets must supply the labor to collect the fees and to keep the markets clean. Maintenance of the facility itself is, however, the responsibility of the local government; as well, local authorities are responsible to inspect the premises to insure that proper fees are being imposed, that the fee schedule is displayed, and that the facility is being maintained in a sanitary condition.

Under the auction-lease approach, the leaseholder is permitted to keep all revenues collected. The primary advantages enjoyed by the locality under this arrangement are that all revenues are received near the start of the fiscal year rather than throughout the year and that the locality is not required to use and supervise its own personnel to operate these facilities. Furthermore, in the case of ferry ghats, the local government is not required to maintain the ferry boats themselves. The auction technique is also, at least theoretically, an ideal system to maximize local government revenues mobilized from these activities. Maximization requires, however, that a sufficient number of bidders participate in the auction to make it competitive and to insure that bidder collusion does not occur. Even then the auction market may not maximize local revenues since bidders are unlikely to have full information regarding the revenue potential of a market and, therefore, may be conservative in their bids.

A second form of enterprise administration has been used in a few local governments in Bangladesh, mostly in cities. Under this alternative, a capital investment is made by the city and long-term leases are provided to private entrepreneurs. The most common form of enterprise is shopping center buildings containing shops that are leased to shopkeepers under long-term leases (of at least five to ten years or often longer). The leaseholder pays an initial fee for the privilege to rent space in the shopping center. The sum of these payments from the various shopholders is often sufficient to pay for the construction of the building. Monthly rents are then also imposed on the leaseholders by the local government. These payments are used to provide maintenance and utilities on the structure. At the same time, most local officials admit that the monthly rents are usually only a fraction, seldom more than one-half, of what the private market would charge for equivalent space.

There are a few instances in which local governments provide enterprise activities directly. One example of this arrangement is in Dhaka where daily markets are provided by the municipal corporation. Other things being equal, this approach should yield greater net revenues since the local government would retain the normal profits earned by private enterprises under the franchise system. On the other hand, the local government may be inefficient in its management of the facilities resulting in smaller overall revenues than with the private entrepreneurs managing the operation. In light of increased privatization of public services throughout the Third World additional study of these alternative institutional arrangements seems desirable.

The level of revenues associated with local enterprises is highly variable and dependent upon several different factors. In great part, the amounts of money which can be raised depend upon the opportunities available within a particular jurisdiction. For example, some local governments are located in areas where numerous ferry ghats are not only possible, but are necessary due to the local terrain. Likewise, some localities have traditionally been the site of major haats and, therefore greater revenues can be derived from such locations. Even though the enterprises are operated by the private sector, the leaseholder has no influence over the prices to be charged. The local government has the power to set the fees, although any change in the fee schedule requires the approval of the government.

Fees have never been an important revenue source for zilla parishads, primarily because they have a productive alternative revenue source—the immovable property transfer tax. The only zilla parishad activity for which fees are usually imposed are ferry ghats and zilla parishad roads. During the late 1970s and early 1980s only about 2 to 3 percent of total zilla parishad revenues were generated in this manner (see Chapter II). On the other hand, our study of toll roads in Sylhet found that there is the potential for greater use of such a revenue mobilization technique. Tolls in Sylhet raised more than 20 percent of the total expenditures on those roads for which tolls were being charged.

Upazila parishads are now to be the sole local government beneficiaries of market fees raised within the jurisdiction. While a portion of the monies thus raised are to be used to maintain and improve market facilities throughout the upazila, excess funds can be used however the locality sees fit.

There are several good reasons for local governments in Bangladesh to rely on user fees associated with local public services.¹⁰ Foremost is the fact that user fees constitute the most obvious form of beneficiary charge; users must value the benefits of the services provided since their actions show they are willing and able to pay for the service. To the extent that user fees offset the total costs of producing the public service, tax financing, with the political and economic costs it may entail, is unnecessary.

Although user charges have desirable attributes, there are some limits on their use that should also be recognized. One such limit concerns the extent to which the service being provided yields benefits to society as a whole, in addition to those who were willing to pay the fee. In such situations, the employment of fees can result in a suboptimal level of services. Since the services for which fees are collected in Bangladesh do not have such spillover effects, this problem is not particularly significant.

A second reason to qualify approval for user fees is the equity question. Fees can exclude low-income persons from a service and therefore may be deemed socially undesirable.¹¹ To the extent that markets have some beneficial redistributive effects, market fees which are below full costs are probably appropriate. Unfortunately, the auction method of administering market fees does not lend itself to such subsidized pricing.

Interestingly, the shopping center schemes that have been used in several cities, most extensively in Chittagong, are subsidized even though there is little apparent reason for such subsidization. These shopping centers in cities are permanent structures that contain retail outlets for which the retailers pay a subsidized rent. While this subsidy might result in slightly lower prices, the fact is that the retailers lucky enough to obtain space within

the shopping center are in competition with other retailers who were not so lucky. An unfair advantage will be enjoyed by retailers located in these facilities. Furthermore, it is difficult to argue in favor of income redistributive benefits attainable from these retail outlets rather than for similar benefits from weekly or daily markets located near low-income families. Thus, there appears little justification for subsidy of shopping centers owned by local governments. Indeed, the economic benefit to the general public of such activity is questionable, especially if the activity is subsidized. If the activity is profitable, there is little reason for the public sector to get involved in the activity since its net effect is to crowd out private sector initiative. On the other hand, if the private sector is not engaged in the activity since it is not economically viable, then there is also little reason for the public sector to do so unless there are other major social benefits obtained from such services.

Future Roles

This chapter has addressed some of the general issues associated with the mobilization of resources tied to particular economic activities within Bangladesh localities. In the long-run it will be desirable for local governments to place greater emphasis on business activity as the basis of local revenues. The primary advantage of such instruments, if designed appropriately, is that they can produce revenues which grow automatically in response to increases in prices, population, and incomes. As currently imposed, the tax on professions, trades, and callings does not accomplish this objective. With additional analysis a better instrument could be designed.

User fees, especially those associated with certain basic local government services including markets, ferries, and roads, are more likely to be important revenue producers in the short-run than are local business taxes. The analysis suggests that using auctions and private leaseholders to deliver the services can have the advantage of maximizing local revenues, but only if particular conditions are fulfilled. Finally, local government subsidies of particular enterprises, such as the case of provision of permanent structures to be shopping centers, should be reconsidered as they satisfy neither efficiency or equity criteria.

10. For discussions of the potential roles of user fees by local governments see Ved Prakash, "Role and Structure of User Charges in Financing Urban Services in Developing Countries," *Regional Development Dialogue* 7 (Autumn, 1986): 1-24; and Kenneth Davey, *Financing Regional Government: International Practices and Their Relevance to the Third World* (Chichester: Wiley and Sons, 1983).

11. Although equity considerations may constitute a constraint to the levying of fees for some services, some analyses show that equity goals can be attained while charging for some social services. See Johannes F. Linn, *Cities in the Developing World: Policies for Their Equitable and Efficient Growth* (London: Oxford University Press, 1983); and Emmanuel Jimenez, *Pricing Policy in the Social Sectors: Cost Recovery for Education and Health in Developing Countries* (Baltimore, MD: The Johns Hopkins University Press, 1987).

Voluntarism

Showkat Hayat Khan and Barbara Diane Miller

One often overlooked possibility for augmenting local resources in Bangladesh is to increase local voluntarism (cash, in-kind, or labor donations) and incorporate it into development planning. Voluntarism can be channeled either through the private sector or the public sector; this chapter considers the latter since the government in Bangladesh is largely responsible for rural development projects. Additionally, this chapter is focused on public works-related projects and not the entire range of development efforts.

Local voluntarism has several advantages as a source of local government finance for public works projects in Bangladesh.¹ First, voluntary contributions for development projects are culturally sanctioned and socially feasible under certain conditions. Second, there is an abundance of labor, especially during the dry season, that some developmentalists feel could be mobilized as a local government resource for building and maintaining rural works. Third, the government of Bangladesh has consistently supported various programs that incorporate voluntary activity into the domain of local government. Some important lessons can be learned from these experiences.

It is difficult to define precisely the ingredients for successful incorporation of voluntarism into local government development projects, but three factors are key:

- Indigenous culture, including ideology, social organization, and political factors that promote or inhibit voluntarism;

1. "Voluntarism" is defined, minimally, as "the offering of goods or services through one's own free will."

- Government policies that allow for or inhibit coordination with local patterns of voluntarism;
- The availability of a surplus of wealth, labor power, management expertise, and time among a broad portion of the population.

Within any specific country context, each of these three general factors should be considered in appraising the feasibility and effectiveness of efforts to promote increased voluntarism. It is recognized that several of more specific variables are also important at the local level such as leadership, the nature of a particular public good and its relevance to the area, incentives to participation, and the effects that these have on controlling the free-rider problem.²

These three factors—culture, surplus labor, and central government policies—contain both potentials and problems for greater reliance upon voluntarism in Bangladesh. In this chapter, we discuss each factor on the basis of evidence from the secondary literature, government reports, field interviews with local government officials, fiscal records, and long-term participant observation in Kushiara union, Sylhet district.³

Socio-Cultural Factors

The socio-cultural factors examined here are divided into those related to the ideology of giving, social institutions, and political institutions. Within these sub-categories, various potentials of voluntarism will be discussed as well as the related constraints.

Islam, the predominant religion in Bangladesh, contains important norms about voluntary giving. In 1974 Muslims constituted 85.4 percent of the population of Bangladesh; Hindus, the only other numerically

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2. The free rider problem refers to the situation when someone consumes a good without contributing to its cost.
 3. The fieldwork was carried out by Showkat Hayat Khan. For details see his study, "Local Leadership and Rural Development in Bangladesh: A Case Study of Kushiara," doctoral dissertation, Department of Anthropology, Syracuse University, forthcoming.

significant religious group, formed 13.5 percent of the population.⁴ In the Islamic tradition, the concept of zakat is noteworthy. Scholars of Islamic law dispute the meaning of the term: whether it is a compulsory tax or a voluntary form of charitable giving, whether or not zakat is synonymous with sadaqah as "almsgiving," and what relevance the concept of zakat would have for public finance in a modern state.⁵ Zakat is translated generally as almsgiving and is one of the five pillars of the Islamic faith. But it also has been interpreted as a tax on wealth collected by the state to be used for the poor, or as a voluntary contribution from the wealthy for the poor under supervision of the state. There is some indication that zakat can be used to finance public goods as a "contribution that every Muslim, man or woman, of means must make to further social assistance and subsidize establishments and works of public welfare for the benefit and progress, i.e., the growth of the Islamic Nation."⁶

In addition to doctrinal legitimation, the degree of popular consensus and practice must be considered. In Bangladesh, we know little about the practice of Islam in rural areas, particularly relating to voluntary behavior. One source documents that certain village "assets" such as the burial ground and *madrassa* (Islamic school) are considered public property and are maintained "from public donations."⁷ Another source refers to the giving of annual dues by the mosque congregation as *chanda* (dues) for the upkeep of the mosque and to pay the prayer-reader.⁸

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4. Bangladesh Bureau of Statistics, *Statistical Yearbook of Bangladesh* (Dhaka: Government of the People's Republic of Bangladesh, Statistics Division, Ministry of Planning, 1981), pp. 52-53.
 5. See the discussions in Kenneth Cragg, *The House of Islam* (Belmont, CA: Dickenson Publishing Company, Inc., 1969) pp. 47-48; A. Ben Shemesh, *Taxation in Islam*, Vol. III, (Leiden: E.J. Brill, 1969) pp. 25-32; Peter J. Bertocci, "Models of Solidarity, Structures of Power: The Politics of Community in Rural Bangladesh," *Political Anthropology Yearbook I: Ideology and Interest: The Dialectics of Politics*, ed. Myron J. Aronhoff (New Brunswick, NJ: Transaction Books, 1980) p. 104.
 6. Shemesh, *Taxation in Islam*, p. 27.
 7. A.K.M. Aminul Islam, *A Bangladesh Village: Conflict and Cohesion, An Anthropological Study of Politics* (Cambridge, MA: Schenkman Publishing Company, 1974), p. 46.
 8. Peter Bertocci, "Elusive Villages: Social Structure and Community Organization in Rural East Pakistan," doctoral dissertation, Michigan State University, 1970, p. 125.

Fieldwork in Kushiara reveals that zakat is not involved in any formal way with local government.⁹ Everyone who has amassed a surplus is prevailed upon to give zakat and its giving is widely practiced. There is a tendency, however, for people to underestimate the percentage of what they should give. Zakat is usually given in the form of cloth (saris, lungis) and is distributed first to needy kinspeople and then next to needy neighbors. The distribution is effected from family to family—neither the state nor the mosque is involved in overseeing the operation. On occasion, one's zakat for the year can be partially converted into a cash contribution to a cause promoted by the mosque such as repairs. One would then give less as zakat to relatives and neighbors that year.

Hindu doctrine presents a rather different picture. There is little in the scriptures which legitimizes the kind of almsgiving promoted by Islam. While Hinduism traditionally encourages the giving of food to wandering sadhus (holy men) and destitute beggars, there is no formalized concept of regular redistribution from the wealthy. In terms of voluntary behavior of Hindus in Bangladesh, the giving of *chanda* has been noted by an anthropologist who worked in a rural area of Comilla district.¹⁰ Aziz reports that Hindus give cash contributions on a regular basis for religious festivals held in the *bari* (neighborhood). *Chanda* (or, in some places, *chada*) is a common Bengali word referring to dues, or contributions, made to a specific cause. Although *chanda* is frequently collected in cash or kind for religious purposes, fieldwork reveals that it is also a financing source for secular projects such as repairing a road or constructing a latrine. *Chanda* can be collected through the influence of the mosque or temple, a local government committee, or an ad hoc committee of citizens desiring to undertake a specific project. Village or neighborhood influentials usually collect contributions, and their means of "enforcement" is persuasion buttressed by social norms concerning generosity and the stigma labelled *kripon* (stingy). *Chanda* is collected from the direct beneficiaries of a particular project; those who attempt to avoid paying ("free riders") are easily apparent to the public eye. In a Rangpur village, contributions to

Hindu religious events are called *musti* and are collected by the respected men of the village.¹¹ *Musti* is given in the form of handfuls of rice. A similar practice occurs in Kushiara union among Muslims where housewives regularly put away a handful of rice which is then periodically given to the mosque as *musti*.

Questionnaires we administered in interview sessions with officials in our sample of upazilas and unions in Faridpur district revealed little in the way of *chanda* or other monetary contributions being mobilized for rural works projects. The situation was different in Sylhet district where we found some instances of monetary contributions: one union parishad had received small contributions to the general fund from residents living abroad during two different years; another had built a wooden bridge through monetary contributions and also reported small contributions placed in the general fund. Union-level interviews in Rangpur revealed no income from contributions, but *chanda* is cited in several budgets as a miscellaneous expenditure (perhaps a contribution to poor families in the area).

Zakat, *chanda*, and *musti* are locally accepted concepts relating to contributions that provide for some kinds of collective goods.¹² Some policy alternatives aimed at tapping contributions in Bangladesh present themselves. One could increase efforts to mobilize zakat, but the disadvantages to this option seem to outweigh by far the advantages. Zakat is religiously specific, that is, tied to the Islamic faith and therefore does not have ideological appeal for the many Hindus who still live in Bangladesh, particularly in some regions. It would be preferable to select a religiously neutral term for contributions. Additionally, it is uncertain if either doctrine or popular belief would favor using zakat consistently for public works construction or maintenance since it is generally viewed as a method to redistribute wealth between kinspersons.

Alternatively, increased efforts could be made to mobilize *chanda* or *musti*. The advantages of mobilizing contributions under these names are clear. Both Hindus and Muslims employ the words and they have no religious specificity. *Chanda* implies a one-time donation given for some specific neighborhood purposes. *Musti*, on the other hand, is regularly saved and then deposited for either one project or several. Field interviews

9. See Showkat Hayat Khan, "Local Leadership and Rural Development in Bangladesh."
10. K.M. Ashraful Aziz, *Kinship in Bangladesh* (Dhaka: International Centre for Diarrhoeal Disease Research, Bangladesh, Monograph Series No. 1, 1979) p. 34.

11. William Von Schendel, *Peasant Mobility: The Odds of Life in Rural Bangladesh* (Assen, The Netherlands: Van Gorcum, 1981), p. 70.
12. It is important to note the lack of a widely used term for the donation of labor such as is found in countries as diverse as Sri Lanka (*shramdan*) and Peru (*minga*).

produced a case in which Tk. 20,000 in cash had been generated in one union during one year for four projects: repair of a retaining wall, repair of a kutchra road, and construction of a section of pukka road that also included a drain. Total union revenues for that year were Tk. 207,663 so that contributions represent a substantial addition. In other cases, contributions for the year were smaller but still helped to support minor road repairs.

There is strong evidence that local communities are able to mobilize regular funds to support religious institutions in their neighborhoods, including physical structures. Contributions for road projects are used on roads that lead to local mosques. Contributions on the basis of the number of household members (similar to a head tax) or calculated as a rough percentage of family surplus are culturally accepted forms of donation, but the donation of labor is not. It seems quite feasible that mosques could assume greater responsibility for maintaining transport routes (either roads or canals) in their periphery. Planners should be consulted to decide what is the "area of influence" of mosques, and how local governments could make it known to mosques that future government funding for such roads would be limited or available only on a matching basis. Thus, local governments could use their scarce resources for other projects and communities could promote more self-reliance around a broadly-valued item.

In addition to the ideology of giving, it is important to consider indigenous organizations that might exist which could be mobilized for voluntary contributions to rural development. Effectiveness of voluntarism as a source of local government finance is often a direct result of the quality of voluntary organizations which act as an auxiliary to local governments in the provision and maintenance of public goods. Such indigenous organizations in Bangladesh are not easy to find. A sociologist who did lengthy field research in rural Bangladesh comments that "there are relatively few horizontal formal organizations in the rural areas."¹³ One major indigenous organization is the samaj, a group of influential village maies with strong political functions (discussed in the following section). Neighborhood (*para, bari, or mohalla*) groups are often very cohesive even

13. Jan P. Emmert, "Breakdown of an Organizational Ideology: The Replication of Comilla-Type Cooperatives in Bangladesh," doctoral dissertation, University of Michigan, 1981, p. 7. Another source which notes the lack of local collective action groups is Eirik G. Jansen, "Rural Bangladesh: Competition for Scarce Resources," DERAP Working Papers A-257 (Bergen, Norway: The Chr. Michelsen Institute, 1982) pp. 42-43.

though they are not formal organizations in the strict sense, nor do they have much horizontal spread.

In Kushiara union the key social groupings are the *mohallas*, or mosque-centered neighborhoods comprising three to six lineages. Each *mohalla* grouping takes leadership from the mosque imam (prayer leader). There is no formally designated leader, but one lineage is dominant in decision-making. The *mohalla* occasionally takes collective action for specific projects, usually concerning care of the mosque. In one instance, the mosque was damaged by a storm, and *mohalla* leaders raised funds and in-kind contributions (building materials and land so that an enlargement could be made). In this area of the country, there is little evidence of a "federation" of *mohallas* to undertake joint projects, though at one time in the recent past, two *mohallas* considered the possibility of jointly funding the construction of a school; the project was not implemented because inter-*mohalla* cooperation could not be sustained. There is no formal relationship between the *mohalla* as a collectivity and local government, but key actors have roles in each arena.

It is not certain that *mohalla* groups have potential for voluntary action throughout all of rural Bangladesh (see the section below on "political structures"). Nor are the active *mohalla* groups closely knit with local government; they are mosque-centered. Nevertheless, the *mohalla* could be involved in a way complementary to local government efforts to maintain rural infrastructure. Concepts of public responsibility dictate that the *mohalla* must support the mosque building, grounds, and personnel, and, on occasion, local voluntarism has been mobilized to reconstruct a kutchra road leading to a mosque.

Women's organizations and youth groups have potential for involvement in some aspects of public goods provision, but there are serious enough problems with each of these in Bangladesh that involvement should be encouraged with caution. Women's voluntarism in most developing countries tends to be focused on health and education rather than roads and irrigation.¹⁴ Although women in Bangladesh work on road crews, the work is performed for wages and is thus not voluntarism.¹⁵ Given the current

14. See Barbara D. Miller, "The Role of Women in the Public Domain in Developing Countries," *International Supplement to the Women's Studies Quarterly*, (January 1982): 6-9.

15. Several experimental programs throughout the country employ destitute women.

functional assignments of local governments in Bangladesh (roads, irrigation, drainage), there is little chance that women can be involved directly through voluntary organizations, since the present women's rural organizations are primarily concerned with family planning, family health and nutrition.

Youth groups in many developing countries make significant voluntary contributions to the maintenance of local roads and irrigation facilities.¹⁶ Unfortunately there is little current effort to involve voluntary public service of youth in Bangladesh. One instance was initiated a few years ago when youth groups were given the responsibility of collecting market fees and were allowed to keep a percentage. Little enthusiasm was generated among local officials for this system since there was a general belief that the youth groups often harassed marketeers and kept the funds.¹⁷

Most urban youths spend little time in the rural areas and know little about conditions there; when they assume positions in the government or other institutions, their decisions will suffer from a lack of knowledge of rural conditions. Some form of rural voluntarism involving both urban and rural youth might usefully be implemented.¹⁸ One option is that students at universities who receive subsidies be required to spend service periods in the rural areas helping in the implementation and supervision of small-scale development projects. Here, the experience of other Asian countries such as Nepal, India, and Indonesia are most instructive.¹⁹ Such youth volunteers would need preliminary training; perhaps a private voluntary organization with significant field experience could be involved.

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16. A discussion of the role of youth groups in the repair of local roads in Upper Volta and Mali is provided in Barbara D. Miller, "Local Social Organizations and Local Public Finance in the Third World," *Journal of Voluntary Action Research* 13, (4) (1984): 6-9.
 17. Interview with Florence McCarthy, Women's Section, Planning Cell, Ministry of Agriculture, Dhaka, November 1981.
 18. Rural youths would require a different form of involvement which is currently beyond our experience.
 19. Papers on youth programs in several developing countries of Asia are contained in UNESCO, *Youth Mobilization for Development in Asian Settings*, Final Report, Asian Regional Youth Meeting, 17-22 September 1978, Kathmandu, Nepal (Paris: UNESCO, 1979); a study comparing the Indonesian experience with Nepal is that of Diana Fussell and Andrew Quamby, "Study-Service: Voluntary Service in a Form Suitable for Third World and Other Countries," *International Journal of Comparative Sociology* 21, (3-4) (1980): 281-287.

In addition to long-term service, students could serve internships with agencies and private voluntary organizations in need of extra personnel. Student volunteers would be a valuable asset and would simultaneously receive much-needed experience in rural development.

Aspects of local political structures have direct relevance to voluntarism in rural Bangladesh.²⁰ The most important vertical grouping is called the *reyai*, which refers to a patron-client set, that is, a male lineage head, his descendants, and landless "followers" who look to the leader for many kinds of support and in turn owe him favors.²¹ The extent to which the *reyai* functions as a collective action group is limited, and the more important institution is the *samaj*, or "neighborhood brotherhood." The *samaj* is a multi-*reyai* grouping centered around the mosque; its members are the *sardars* (leaders of the constituent *reyai*). In the area of Comilla district where Bertocci did fieldwork in the 1960s, one *samaj* stretched over an area of eight *mauzas*, with a total population of about 1,800. There is increasing evidence, however, of regional variation in the existence and strength of the *samajreyai* structure. In Dhaneswar village, near where Bertocci studied, it is reported that the *samaj* system is in a state of decline.²² In Kushiara union parishad, there is no *samaj* system and the *mohalla* is the most important grouping.²³

In much of rural Bangladesh the union parishad and the *samaj* (or some similar grouping of local leaders) have overlapping functions. The major differences are: the union parishad is composed of elected persons while the *samaj* is formed of traditionally validated leaders; the union parishad has formal revenue-raising rights while the *samaj* raises resources through social pressure; the functions of the union parishad are more focused on local development than the functions of the *samaj*. It is not appropriate or feasible at this time to consider "co-opting" local political groups in the name of government service. Complementarity of functions and

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20. "Politics" here does not refer to formal parties and processes, rather to the organized power relationships among groups of people.
 21. Bertocci, "Elusive Villages," pp. 139-141.
 22. Von Schendel, *Peasant Mobility*, pp. 215-217. A similar reduction in extent of *samaj* grouping and their control over members' conduct is documented for Jagatpur village in Jessore district; see Kamal Siddiqui, *The Political Economy of Rural Poverty in Bangladesh* (Dhaka: National Institute of Local Government, 1982), pp. 273-277. Siddiqui views the decline of the *samaj* as a necessary precondition for mobilization of the rural poor.
 23. BRAC, *The Net: Power Structure in Ten Villages* (Dhaka: Bangladesh Rural Advancement Committee, 1980).

responsibilities with local government, however, should be the goal. The *samaj*, *mohalla* or local faction leaders cannot be ignored by local governments, but rather encouraged to assume a larger social responsibility.

Central Government Programs

The central government can play a role in mobilizing voluntarism through appropriate policy. A review of past programs that incorporated such policy allows us to assess their relative success. Programs promoting the incorporation of voluntary participation into local government finance in Bangladesh have never been as prominent as they were in India during the 1960s, but there is nevertheless a conspicuous thread of concern for voluntary participation running through the policies and programs of Bangladesh during the last decade. Government policy on voluntarism is apparent in two areas: in the quasi-governmental cooperatives under the Integrated Rural Development Programme (IRDP) following the Comilla model, and in mass mobilization schemes.

One of the major institutional innovations spawned by the development experiments in Comilla during the 1960s under the inspiration of Akhter Hameed Khan was a revised and invigorated system of two-tiered cooperatives.²⁴ The primary cooperative society (the KSS) is formed at the village level, with the secondary level being the Thana Central Cooperative Association (TCCA). In 1978 the program had been launched in 250 thanas

24. For background on the Comilla rural development experiment, see Arthur Raper, *Rural Development in Action: The Comprehensive Experiment in Comilla, East Pakistan* (Ithaca, NY: Cornell University Press, 1970). More recent discussions include S.A. Rahim, "Cooperatives and Agricultural Development in Bangladesh," *Popular Participation in Social Change: Cooperatives, Collectives, and Nationalized Industry* eds. June Nash, Jorge Dandler, and Nicholas S. Hopkins (The Hague: Mouton Publishers, 1976), pp. 173-184; Harry W. Blair, "The Elusiveness of Equity: Institutional Approaches to Rural Development in Bangladesh," Special Series on Local Government, RLG No. 1, (Ithaca, NY: Cornell University, Rural Development Committee, 1974) and "Rural Development, Class Structure and Bureaucracy in Bangladesh," *World Development* 6, (1) (1978): 65-82; Joseph F. Stepanek, *Bangladesh: Equitable Growth?* (New York, NY: Pergamon Press, 1979); and Emmert, "Breakdown of an Organizational Ideology," which contains a useful bibliography.

and over 26,000 KSS's were registered; the interim Two Year Plan for 1978-1980 projected an expansion to 300 thanas.²⁵ The nation is now fairly well covered by rural cooperatives under the IRDP.

These cooperatives represent a form of voluntarism, since membership and participation are of a voluntary nature and the organizations themselves fit into sociological definitions of voluntary organizations.²⁶ Voluntary commitment and activities are important parts of the "Comilla discipline," the standard ideological basis for the Comilla-inspired cooperatives. The Comilla discipline involves: financial voluntarism such as annual share purchase, regular savings deposits, and loan repayment; and non-financial voluntarism including member self-management, generating membership, frequency and conduct of regular meetings, adoption of agricultural innovations, and promoting regular attendance of the cooperative's manager and model farmer at TTDC training classes.²⁷ Major incentives for participation are access to loans, subsidized agricultural inputs such as fertilizer and pumps, and the opportunity to obtain an irrigation scheme for the village-level KSS. Financial participation involves payment of an entry membership fee (Tk. 10) by each farmer and the purchase of an annual share (Tk. 10). Additionally, farmers are expected to make weekly savings deposits (Tk. 25). Each KSS within the TCCA federation ideally contributes a minimum of Tk. 50 annually in shares to the TCCA.

Emmert's study of the cooperatives' financial performance on the basis of accounts data and interviews in Singra thana of Rajshahi district shows a high rate of non-compliance with most aspects of the voluntarism invoked by the Comilla discipline. Nonetheless relatively substantial revenues through KSS share purchases were generated by the Singra TCCA from 1973 to 1978, Tk. 187,780.²⁸ Savings deposited at the Singra TCCA were Tk. 29,707 at the end of the second year of operation (1974) but had grown to Tk. 140,354 in 1978. In spite of low compliance in most of the member KSS's, the annual average capital accumulation of Singra thana, estimated on the basis of Emmert's data, is about Tk. 20,000 annually in shares and Tk. 40,000 annually in savings, an amount which could be increased

25. Emmert, "Breakdown of an Organizational Ideology," p. 40.

26. Estelle James, for example, cites cooperatives as a type of voluntary organization in her paper on "The Non-profit Sector in International Perspective: The Case in Sri Lanka," *Journal of Comparative Economics* 6 (1982): 99-129.

27. Emmert, "Breakdown of an Organizational Ideology," pp. 159-174.

28. *Ibid.*, pp. 297-303.

appreciably if the rules and incentives in the Comilla model were better used.

These figures are roughly similar to those found in Comilla district for cooperatives operating between 1965 to 1970, where the range extended from 26 to 46 percent.²⁹

An important policy question concerns the rate structure of cooperative dues and shares. It seems that the rates have not changed since the initial Comilla model was implemented in the 1960s. If that is the case, rates should be adjusted upward. Although this increase might seem inequitable in that it will exclude smaller farmers from joining, the current situation already excludes smaller farmers. Middle and upper income farmers should be charged a more appropriate rate, while separate mechanisms should be instituted for small and marginal farmers to receive credit on a different format and rate structure.

We turn now to mass mobilization and self-help programs. Programs emphasizing local contributions of physical labor for the construction of rural public works have been periodically prominent in Bangladesh since the War of Liberation. Labor is often seen as a potential development resource. In rural Bangladesh where labor appears abundant during the dry season (approximately January to June, but varying regionally and annually depending on conditions), a logical form of voluntarism is in labor power.³⁰ The Government of Bangladesh has long been aware of this option, particularly for the construction of public works projects:

During the British regime, some missionary-minded officials introduced some projects on the basis of self-help, self-reliance, and self-dependence. In the 1930s, the programs introduced by the Rural Reconstruction Department of Bengal propagated this philosophy. In 1934-35, Mr. M.N. Khan, ex-ICS officer and then SDO at Brahmanbaria, constructed a new canal at Brahmanbaria purely by voluntary labor which created a sensation.

29. Emmert, "Breakdown of an Organizational Ideology," pp. 287-290.

30. Nurul Islam, *Development Strategy of Bangladesh* (New York: Pergamon Publishers, 1978), especially pp. 40-45.

During the 1950s, the Village-AID Programme was launched. It was structured on a self-help basis and involved voluntary labor with a matching grant from the central government.

Several "experiments" with mass mobilization were tried out in Bangladesh in the past decade, notably the *gonomilan* (union of people) and the *swarnivar* (self-reliant) movements. These movements culminated in the Ulashi-Jadunathpur (UJ) Self-Help Canal-Digging Project of 1976.³¹ The original UJ Project was hailed as a successful case of local participation and contribution, and it prompted a nationwide effort to mobilize a voluntary workforce for nation-building projects. The UJ's financing structure involved three sources: one-third from the central government in cash or kind (such as spades or baskets for earthmoving); one-third from the union parishad from either regular tax sources or special contributions (cash); and one-third from labor contributions or an equivalent amount of cash, with these contributions based on wealth.³² Within five years of the original UJ Project, the Ulashi program was nearly defunct.³³

Another important mass mobilization scheme is the Countrywide Canal-Digging Programme (CCDP), launched in 1979, a program inspired by President Zia who personally appeared at many project sites with a spade in hand. Two hundred and fifty projects were begun in the first year and a high degree of enthusiasm was reported.³⁴ The CCDP emanated from the President's House and had a financing structure of 85 percent total project costs to be borne through voluntarism (cash or labor) mobilized at the union

31. Muhiuddin Khan Alamgir, *Development Strategy for Bangladesh* (Dhaka: Dhaka University, Centre for Social Studies, 1980); Quazi Kholiquzzaman Ahmad and Monwar Hossain, eds., *Development Through Self-Help: Lessons from Ulashi* (Dhaka: Bangladesh Institute of Development Studies, 1978); M. Ghulam Sattar, *Rural Development Through Self-Help: A Study of the Self-Help Ulashi-Jadunathpur Project in Jessore, Bangladesh* (Comilla, Bangladesh: Bangladesh Academy for Rural Development, 1979).

32. Interview with Muhiuddin Khan Alamgir, Joint Secretary, External Resources Division, Ministry of Finance (formerly District Commissioner, Jessore District), Dhaka, November 1981.

33. The term "Ulashi-type" project lives on as one minor category of funding available through the Union Parishad Rural Works Programme. The funding is specifically for irrigation projects.

34. No author, "Revolution First Phase: Countrywide Canal-Digging Programme" (Dhaka: Control and Co-ordination Cell for Canal Digging Programme, n.d.).

level, with the rest coming from the central government in the form of wheat. But these two sources of financing did not acknowledge the importance of central government "rewards" to local farmers' cooperatives in the form of free pumps upon completion. This subsidy was said to be necessary in order to secure the farmers' "cooperation."³⁵

The policy of matching grants in cash or kind for local contributions seems a sound one, but the problem of generating local contributions was serious. Applications were made for schemes and grants from the central government allocated, but then the localities have had great difficulty raising their share. The system led to inflated assessments of anticipated costs of the project when the grant was requested, and inflated reporting of the amount of local contributions generated.³⁶

Trying to program mass voluntarism creates unique policy problems. Most successful mass mobilization efforts are spontaneous, irregularly successful, fueled by popular commitment, and involve a charismatic leader. Such efforts by definition do not lend themselves to being systematized into a centralized national program with set guidelines and deadlines. A second policy weakness is that little attention is given to future maintenance needs of mass mobilization projects. Nevertheless, reports on a few of the more famous projects of this nature reveal a fairly clear local knowledge of the major beneficiaries—something that can be learned from a simple social survey.³⁷ One way to mobilize the resources necessary to maintain projects is to assess the long-term beneficiaries of any mass mobilization undertakings (such as those who gain title to reclaimed land). With the recent creation of the upazila level, there may be enough local government strength to implement some form of post-project graduated benefit charges.

The main statutory instrument for mobilizing voluntary labor is the community tax. Under the Local Government Ordinance, 1976, the union has the right to collect a community tax, defined in 1976 the same way it

35. Interview with Habib Ur Rahman, Joint Secretary in the President's House, Control and Co-ordination Cell, Countrywide Canal-Digging Programme, Dhaka, December 1981.

36. Interview with Muhiuddin Khan Alamgir about the W project, November 1981, and field interviews in various upazilas where CCDP projects were in place.

37. Alamgir, *Development Strategy*, Mohammad Faizullah, "A Report on Masulia-Rampur-Khowai Project (MRKP)," unpublished mimeo, Dhaka, 1980.

was during the Pakistan era in the "Rules Under Basic Democracies Order" of 1969:

A special community tax on the adult males for the construction of the public work of general utility for the inhabitants of the local area unless the local council concerned exempts any person in lieu of doing voluntary labor or having it done on his behalf—no model tax schedule is proposed. The rate of levy in respect of a particular work will depend upon the cost of the work or part thereof which a council may decide to recover and the number of adult males who may volunteer to do the work or get it done on their behalf. Whatever sum remains to be realized may be recovered from the remaining beneficiaries in proportion to the benefit derived by each.³⁸

The community tax is thus a combination of a project-specific "head tax" on males and a surcharge levied proportionally on the basis of benefit. The rate of the "head tax" portion is determined on the basis of the total cost of the project in relation to the number of "volunteers."

The idea of a community tax seems well suited to a country such as Bangladesh where there is a great need for recurrent public works construction and maintenance as well as an apparent abundance of surplus labor, particularly during the dry season. There are, however, several important problems with the levy which inhibit the realization of greater labor contributions in the countryside.

First, there is widespread dislike for the term "community tax" itself. At every interview conducted in the thirty-one-union sample, officials stated that they never collect the community tax. Second, aside from scattered and inconsistent labor mobilization for mass participation schemes, there appears to be a pervasive inability of local leaders to generate dependable supplies of labor participation for projects. In all our field interviews, we found no occurrence of a local government body regularly mobilizing voluntary labor for projects.

In contrast to the situation in other developing areas such as Northern Thailand, where annual irrigation crews comprise all able-bodied male members of the community, village-wide collective action is rare in Bangladesh. The elite consistently prefer to pay someone to do their share.

38. "Rules Under Basic Democracies Order," 1969, Dhaka, Government of East Pakistan, Basic Democracies and Local Government Department, p. 82.

The rural poor are too destitute to give their labor free of charge since they lack enough money to replace the calories they would expend. More sensible than trying to extract free labor from either the elite or the very poor would be to institute a form of benefit financing that secures cash from those who gain from specific rural infrastructure projects (generally the landholding elite) and to use those funds for paying landless laborers to maintain the projects—somewhat in the spirit of zakat-style redistribution.

Fostering Voluntary Efforts

Compared to many other developing countries, the level of voluntarism in rural Bangladesh appears to be low, but this appearance is deceptive. It is true that there has been no widely successful movement like *harambee* in Kenya, and there is no ongoing tradition of voluntary labor for public works maintenance. In Bangladesh the arena in which indigenous voluntarism operates is religiously demarcated. Religious leaders inspire voluntarism and religious places and events are traditional targets of support. Religious tradition dictates the way in which contributions are given: in-kind as handfuls of rice from each family, or in cash, and sometimes in labor.

Modern forms of organizations such as cooperatives and attempts at mass mobilization of labor often incorporate strategies that run counter to traditional patterns of motivation and organization. Rather than ignoring local forms of voluntarism, and rather than trying to co-opt local voluntarism by local governments, it might be better to devise policies that allow for and promote a greater role for religiously-inspired voluntarism as a complement to local government efforts. Spheres of public responsibility for local government and mosque are accepted by Bangladeshis. One policy challenge would be to extend the range of non-governmental responsibility in public works maintenance and construction. Without further data-gathering on cases of local contributions to specific projects throughout Bangladesh, it is impossible to say what percentage of regular public works costs could be assumed through voluntarism. Cash and in-kind contributions as supplements to union parishad budgets could be important, though often unrecognized, sources of development finance.

9

Strengthening Local Governments in Bangladesh

Larry Schroeder

As is the case in some other countries of the developing world, local governments are the focal point of the current decentralization policy in rural Bangladesh. While these local self-governing bodies have the potential to improve the efficacy of decision-making and lead to more rapid development of this extremely low income country, the policy is unlikely to be successful unless these local governments are strengthened. One crucial aspect of this strengthening is finance. Without additional fiscal autonomy and an alteration in the incentives inherent in the system, local governments may simply be extensions to the already long arms of the central government with little real decentralization achieved.

The analysis of the previous chapters has shown that the current status of local resource generation in Bangladesh is weak. Local governments do little to mobilize resources nor to spend them effectively, especially so as to meet the recurrent costs of rural infrastructure. There appear to be several reasons for this state of fiscal affairs. In part, it is due to the fiscal instruments provided to these local bodies and to the incentives or disincentives inherent in these revenue sources. The situation is also attributable to the extremely weak state of the revenue administration apparatus; even though certain of the revenue instruments are reasonably well designed, they are not being administered effectively. Finally, some blame must be attached to the structure of transfers being made to local governments from the central government. As long as a flow of funds can be anticipated from the center with few incentives for local governments to be more self-reliant, the politically distasteful action of mobilizing greater resources locally will be avoided.

Altering this situation must be initiated at the center in spite of the local orientation of decentralization. It is the central government that frames the

rules and regulations governing financial affairs at the local level. It is the central government that is also most likely to be able to fund and oversee the necessary upgrading of the administrative apparatus. Indeed, some of the most significant resources flowing to local bodies today, such as the immovable property transfer tax, are administered by central ministries. Improvements in their administration will need to be initiated centrally (with the added effect that central revenue collections could also be enhanced through such administrative improvements). Finally, it is the central government that shapes and controls the transfer of funds to localities; alterations in these grant mechanisms will have to be initiated centrally.

In the short run, one should not expect that local governments in Bangladesh will become financially self-sufficient. They will continue to rely heavily on the flow of funds from the center. Nevertheless, steps can be taken to improve the local mobilization of resources which, over the longer run, can strengthen the fiscal autonomy of local governments and make them more effective participants in the decentralization process. The sorts of policy adjustments mentioned in the previous chapters and reviewed as a package here could provide significant assistance in this strengthening.

Given the current and likely continued significant role that intergovernmental transfers will play in local government finance in Bangladesh, we begin with a discussion of the issues and potential policy initiatives that could be undertaken in this aspect of the local financial system. We then turn to the own-source revenues that have constituted the principal flows of locally-based resources to local governments and which, in our opinion, offer the most reasonable hope for future improvements.

Intergovernmental Transfers

The analysis of Chapter 3 suggests that there is a need to rationalize the distribution of grants to rural local governments. To do so requires a careful examination of the goals of the system which must be done in a context of recognizing tradeoffs. In particular, some equity may be lost in the system in the effort of promoting more development activity by local governments. Regarding the goals of the system, the most important issues are how much the Bangladesh grant system will retain its relief orientation and how much it will be used as a tool for strengthening the development activities of local governments. If relief is to remain the primary goal of the system, the present grants structure does a reasonable job. If strengthening local

governments as a partner in the development process is to be an important goal, further reforms in support of fiscal decentralization are needed.

The changes we propose are: rationalizing the scheme for distributing grants among all local governments including greater coordination of the components of the system; improving the targeting of the flow of grants, including the use of fewer but larger grants; strengthening local government institutions; and encouraging maintenance through improved monitoring of project activities. These reforms are discussed below.

Each of the rural development grant programs is distributed by a different formula, some are reinforcing but others are offsetting. If the objectives of the programs are similar—relief and development with an increased emphasis on development—the approach to distribution among upazilas ought to be more similar. It makes little sense to favor larger/smaller local governments under one grant but to discriminate against them under another. At the very least the distribution formulae ought to be coordinated. A rationalization of the distribution formulae could begin by considering some basic principles. A good distribution formula might reflect need, give incentive to better local government fiscal performance, and be as objective as possible. The first suggests that measures such as population, land area, and degree of distress are appropriate for inclusion in the formula; the second would call for measures to stimulate improved local revenue effort, improved project implementation, and better provision for maintenance; and the third calls for the use of indicators that are measurable and can be easily described to recipient governments.

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

There are also important horizontal equity issues to be faced in rationalizing the grants distribution system, i.e., eliminating some of the differential grant treatment of similar upazila parishads. The overall system needs to be better coordinated so that upazilas are treated differently on more reasoned basis, for example, because they have larger populations or land areas, or because they are poorer. The integration of the Food For Work and Development Fund grant programs should resolve some of this problem.

Further, the independent designs of the Development Fund Programme grant and the Food For Work Program are an unnecessary waste of resources. Grants from both programs tend to be used for the same kinds of projects. By treating these as completely separate programs, the

government forgoes the opportunity to use them in concert to promote development activities. A number of important advantages could be gained by coordination. First, a combined program could be used to provide more cash for materials and equipment while still retaining the public employment orientation of the grants. Second, the distribution of funds under these programs could be coordinated to insure that the desired allocation across local governments could be attained. That is, one could avoid the possibility that FFWP would provide a relatively heavy grant for an upazila while the Development Fund grant would have an offsetting effect by providing relatively less to that same upazila parishad. Third, the FFWP could draw more heavily on the engineering staff if the programs were better coordinated. Finally, the upazila parishad would be in a better position to allocate efficiently the full amount of its resources for development purposes—if the total of the grant amounts were known some time ahead.

There is not great agreement, in any country, on how intergovernmental grants should be allocated among local governments. Some favor "targeting" the grant distribution to those local governments which have the most potential for making effective investments and maintaining these assets. Others favor a targeting on the most needy local governments, and still others favor a "spreading" of grant funds, more or less on a population basis. The Bangladesh grants system has traditionally fallen in the latter category. So long as the focus of the Bangladesh grant system is on providing relief to the rural poor, the spreading strategy is a good one. It distributes money according to where the people are, and if one assumes that rural unemployment is severe throughout the country, the population allocator is as good as any.

If the focus of Bangladesh grant policy were to continue its move from relief to development, however, the spreading approach might be reconsidered. By using larger grants distributed on the basis of development potential, many local governments could still be covered, but they would tend to be those with the best possibilities for constructing and maintaining a viable development project. This approach would maximize the return which could be earned from each taka of central government grant and it would allow local governments to make maximum use of the limited funds available for materials, equipment, and specialized technical assistance. Such a strategy would also allow the limited number of qualified engineers to play a much greater role in project selection, design, and implementation. The major route to shifting the focus of the grant system toward development is to develop good indicators of project performance and to use these indicators in the grant distribution process.

If the Bangladesh grant system is to promote decentralization, then it must be redesigned to encourage local governments to take more fiscal initiative. What is needed is an incentive to promote the mobilization of local revenues. Such incentives can be built into the grant system and are done so in many countries. Specifically, local governments should be encouraged to think of grants as having a "price," or a matching requirement.

Presently, there are no matching requirements built into the Bangladesh grant system. A revenue effort measure could be included in the Development Fund grant allocation formula. For example, 20 percent of the Fund might be allocated according to per capita revenues raised in the preceding year, and the percent increase over the penultimate year. In other words, if local governments in an upazila raised more relative to those in other upazilas, and/or increased their rate of revenue mobilization at a relatively faster pace, they would be rewarded with an increased grant amount. For purposes of measuring "effort," all revenues raised at the union and upazila levels should be included.

Where will these local matching funds come from? The answer is that the matching contribution may be raised from local taxation, contributions, or user charges. This need, in turn requires that local governments be given increased local taxing powers.

These incentives can be further strengthened through the intra-upazila distribution of Development Fund grants to the union parishads. A portion of the upazila grant is allocated to the constituent unions lying within the upazila. If this sharing, too, is based upon union revenue collection performance within these union parishads, another stimulus to local government resource mobilization would be inserted into the system.

While centrally-mandated voluntary labor contributions are not appropriate local resource mobilization techniques, the intra-upazila allocation of the Development Fund grant to union parishads does provide an opportunity to encourage local voluntarism. That is, contributions to finance new local schemes or to maintain existing facilities can be included in the determination of total local resources mobilized within a union and be used to allocate the Development Fund grant among the unions in an upazila. One difficulty associated with nationwide programs requiring voluntary contributions is monitoring the activities. Localities have incentives to misuse funds by inflating project costs or by failing to follow through on the project. By basing this year's allocation on the amounts actually raised in the past year and by keeping the monitoring activity at the local (upazila) level, these problems should be reduced.

Regardless of whether the Bangladesh grant system is refocused on development, there is a need to track its performance and to increase the

likelihood that those local development activities that do occur are maintained. The Government has implemented some monitoring of how local governments are using their grant funds. Such monitoring will take on even more importance if "performance" indicators including the use of a revenue effort factor is used in distributing Development Fund assistance.

A major problem with the present grant system—to the extent it is meant to promote public works—is a lack of provision for maintenance. The RWP required a contribution of 25 percent of the normal budget for maintenance, but it is not clear that this regulation was effective: there was uncertainty among local governments as to the exact meaning of the 25 percent requirement; there was confusion as to what constitutes maintenance activity; and, the 25 percent requirement was not effectively monitored. The Food For Work Program makes no provision for maintenance, and many FFWP projects involve major reconstruction of previously-built schemes that have fallen into disrepair due to a lack of routine maintenance.

The maintenance problem is an obstacle to an effective rural infrastructure in Bangladesh. Before construction activities go further, the government needs to establish a firm policy about adequate maintenance of existing facilities. Rather than require a certain percentage of the normal budget to be spent for maintenance, a better approach would be to require that the facilities constructed be maintained at "acceptable" standards. The central government would lay down those standards and would require that they be met as a condition to receiving grant monies for other works projects. This could become a part of the performance conditions of receiving a full grant share. In fact, the new *Guidelines* call for a maintenance plan as a precondition to taking union parishad any project.

High level decision-making is called for to work out the details necessary for ensuring that intergovernmental grants in Bangladesh are allocated and spent in a coordinated fashion while providing incentives to local governments to mobilize their own resources to supplement the grant monies. This incentive can be provided in part through the inclusion of revenue effort measures in the grants allocation formulae as well as by monitoring the performance of local governments in using grant funds. Coordination can be simplified by phasing out the current normal grants while fiscal planning would be aided by tying total grant allocations to some percentage of national revenues.

Property-Based Taxes

The use of land-based levies for local resource mobilization should be an effective strategy in Bangladesh. Most development projects are site-specific, e.g., a roadway, embankment or canal, and in turn some portion of the project benefits are also derived at that site. While user charges represent the most direct method for imposition of benefit levies, in Bangladesh there is currently little attempt to impose such charges and fees. For example, no charges are currently levied on users of irrigation water taken from public canals.

In the absence of widespread employment of user charges, land-based levies represent a reasonable alternative. Given a functioning land market, benefits of site-specific projects will be capitalized in land value. Capturing some share of these land value increments is one important route to increased revenue mobilization and is in keeping with the benefit charge theme followed here.

There is much to recommend this approach. First, because those to be taxed—landowners—can see direct benefits from the locally-financed projects, they may be more willing to pay the charge than they would be to pay a more general levy. A second advantage of land-based taxes for local governments is the immobility of the tax base. Since legal tax avoidance through mobility is impossible, revenues are more stable. A third advantage is that land ownership tends to be positively related to income and wealth. Therefore, to the extent that a land-based levy is borne by landowners, the tax conforms to the ability-to-pay principle of taxation. Fourth is the fact that land-based levies already exist in Bangladesh. Thus, administrative changes need to be less radical than if new levies were to be imposed.

Three land-based taxes have been analyzed in this volume—the immovable property transfer tax, the land development tax and the holdings tax. Only the last is now a purely local levy in Bangladesh. The immovable property transfer tax is administered by the central government although the revenues are earmarked for the zilla parishad or paurashava in which the transferred property lies. The land development tax is administered by and yields revenues exclusively for the central government. Altering these assignments and the administration of these levies could go far to strengthen local institutions.

The immovable property transfer tax (IPTT) is based on the value of the land and buildings bought and sold within a district or paurashava. The levy has generated relatively large revenues for zilla parishads and, to a lesser extent, for paurashavas. At the same time, the amounts of revenues generated remain low and growth in revenues has not kept pace, on average,

with increases in district GDP nor with district value added in agriculture. It is, therefore, desirable that the elasticity of this revenue source be increased and that the overall yield be raised.

Since the current IPTT rate of one percent is low—both in the absolute and relative to the total tax rate on property transfers—an increase is likely to generate tax revenues with little adverse effect on the exchange of property. The IPTT could also be used to strengthen the fiscal autonomy of local governments. If a new minimum rate of two percent is imposed, local governments could be given an option to add to the rate union parishad to a specified ceiling rate, e.g., an additional 1 or 2 percent. Such authority would be a very important step towards decentralization.

Taxes on the transfer of property in developing countries have received much criticism by students of land taxation because of their adverse effects on the rate at which property is exchanged. Nevertheless, given the revenue needs, the scarcity of taxable economic activity in the rural areas of Bangladesh and the relatively low rates imposed, the current tax constitutes a reasonable basis for taxation. Furthermore, the tax falls more heavily on higher income landowners.

While a rate increase would produce additional revenues from the IPTT, another desirable and productive area of reform concerns tax administration. The single factor most responsible for restraining the yield of the current IPTT is the understating of transfer values. Under current procedures, neither district registrars nor sub-registrars have been instructed to detect and correct undervaluation; instead, officials have been instructed to accept the stated value. The manual of instructions for collection officials should be amended. Officials should be directed to attempt to determine the correct value of the recorded transfer. Evaluation of the job performance of collection officials should include their effectiveness at detecting undervaluation of property.

Property values differ greatly throughout the country. Still, similarly situated properties within a paurashava or upazila are likely to have similar prices with factors such as nearness to roads, access to water and irrigation facilities, and types of structures playing dominant roles in price differentials. It should be possible to construct a relatively simple table of average property values per decimal for each upazila. The table could then be used as a check on stated values at the time of transfer. The task of constructing such a table could be assigned to the upazila statistical officer who would prepare it after consultation with other upazila officers, members and chairmen of the UZP, as well as individuals knowledgeable about the local real estate market.

While detection is necessary to eliminate undervaluation, it is also important that the individuals participating in such illegal activity be punished. At present there are no penalties on undervaluation. Penalties for undervaluation should be imposed and publicized. These penalties, possibly equal to twice the evaded tax plus interest, would have to be paid in addition to the tax due prior to subsequent transfer of the property.

The land development tax (LDT) has, since its inception in 1976, been exclusively a central government revenue. With the push to decentralize and the formation of upazilas, the time is right to allow local bodies, specifically the upazilas, to share in the receipts from this tax. The four arguments for local land-based taxes presented above hold for the land development tax. The LDT provides an effective way to tax recipients of benefits of locally-financed projects, cannot be legally avoided by moving, generally conforms to ability-to-pay, and is already levied throughout the country. With additional administrative and structural changes it could provide an excellent opportunity to tap the most abundant taxable resource available at the upazila level, land, in a manner such that those who benefit from a public investment (such as, upgrading a road to an all-weather surface) bear a portion of the costs. Furthermore, the link between taxes paid and benefits received should be much more visible when revenues are retained locally.

Because of these incentive effects and the need for a productive local revenue source at the upazila level, the 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, at least in the short term. Over the longer run greater responsibility could be undertaken by the local government in administering the levy. Even in the short run, however, change could be made to the tax to improve its efficiency and equity implications while improving its yield.

The statutory base of the LDT on agricultural land is the total holdings of a household.¹ In theory, each individual's holdings are summed, the individual's holdings are aggregated by family, and the LDT is based on the family's total acreage. If this procedure were actually practiced and the current progressive rates applied, then the LDT would be redistributive in

1. We ignore here any discussion of the non-agricultural LDT under the assumption that the rural upazilas—the local bodies of primary interest here—would be principally affected by LDT policies regarding agricultural land.

nature, and the tax could even be used as an instrument to promote land reform. But because of the administrative difficulties of aggregation and the inequities which partial aggregation produces, it is more reasonable to base the LDT on a family's holdings within a single *khatian*.

The LDT is an area-based tax. It has long been recognized that a tax based on value is better able to promote an efficient use of resources, a more equitable distribution of the tax burden, and greater automatic growth in tax revenues. The development of a value-based LDT will be no easy task in Bangladesh in that a schedule of land values will have to be constructed. The necessary valuation need not be based on a sophisticated approach, at least at the outset. While not as accurate as a survey of each plot, reasonable approximations can be made of average land values per decimal in an upazila using these characteristics as the primary determinants of land prices. The values would be based on a survey of transaction prices of land together with information collected from those knowledgeable of local land prices. As noted above, such a table of land values could also be used in conjunction with the IPTT. Having the upazila statistical officer construct such tables would also split the tax assessment-tax collection processes. This is an advantage in that it separates the political issue of rate-setting from the technical issue of land valuation. The result is to increase overall property tax performance.

The upazila land value information can then be used to determine a taxpayer's LDT liability as the product of the acres of land owned in a *khatian*, the average value per acre for that land type, and the tax rate. Ideally, land values would be updated annually so as to tie tax liabilities more closely to the value-enhancing effects of public sector investments. Since altering tax assessments can involve considerable administrative costs, reestimating values every three to five years might be more feasible.

A simplification of the rate schedule would aid the collection process while keeping the LDT a reasonably equitable tax. For example, a proportional tax rate could easily be designed to generate revenues equal to those of the existing schedule. The main advantage of a proportional system is its simplicity. A proportional tax also gives no incentive for artificial, tax-induced break-up of parcels. Moreover, a proportional schedule in Bangladesh will be modestly redistributive given the extreme concentration of land ownership. The estimated distributional effects of a proportional rate system suggest that the per household and per capita potential tax liabilities are higher for small landowners than under the 1982 schedule while the liabilities of a large landowner under a proportional system are lower than before. Nevertheless, the liabilities still rise markedly with holdings size.

The level of LDT collections is very low, whether measured in per capita, per acre, or per land value terms. Our analysis indicates that the current rates are, on average, no greater than 0.1 percent of land value. The beneficial effects of land taxation depend on the existence of substantive, though not prohibitive, rates. With a Tk. 20 per acre proportional tax rate and an exemption level of 1/10 acre for agricultural land, the potential yield of the LDT would be about the same as under the 1982 rate schedule. If this rate were increased to Tk. 25 per acre and if collection efficiency remained constant, potential agricultural land tax revenues would increase by 25 percent.

The level of real LDT collections has fallen over time as prices have increased. In order to maintain or increase revenues, administrative adjustments in the tax base, tax rate, or collection efficiency are necessary. In the absence of a change to a value-based tax, the simplest of these adjustments is a rate change. Given a simplified tax rate structure, proportional increases in rates are easy to administer and avoid the problems such as those associated with the 1982 rate structure changes. Moreover, some regularity should be introduced into the rate changes in order to prevent declines in real LDT collections.

As is the case with the IPTT, administrative improvements are crucial to the development of an effective land tax system in Bangladesh. These administrative improvements involve both the determination of the tax base (even under the current area-based levy) and collection of the tax. One obvious requirement for good land tax administration is land-ownership records including land maps. While Bangladesh is more fortunate than many developing countries to have some tax maps, the *mouza* maps are outdated and, due to resource constraints, new surveys are being completed very slowly. At the same time, experience in other countries has shown that tax mapping can greatly improve the administration of property tax, leading to improved equity and collection efficiency. Some central government resources should be diverted to the land survey efforts. In addition, international donors interested in aiding decentralization should seriously consider utilizing grants or long-term loans to help support these mapping efforts. Not only would such efforts aid in LDT administration, but they could also be useful in economic planning.

The key to successful administration of any tax is in its collection. In the case of the LDT this means that the tahsildar must perform effectively. Some short course training should be implemented for tahsildars, especially those in that position prior to the institution of the LDT in 1976. These training sessions would focus on record-keeping procedures and would instruct tahsildars in any changes that had been made in the LDT.

The holdings tax is a property tax based on the value of buildings and the land on which they are situated. Revenues from these taxes might be seen as approximating a benefit-based levy since spatially-specific government activities are capitalized in the value of property. With the institution of the Local Government (Union Parishads) Ordinance, 1983, union parishads will be almost entirely dependent upon these levies since their list of permissible taxes, rates and fees has been shortened. If union parishads are to become fiscally sound, the holdings tax must carry the load.

Analysis of the statutes defining these taxes suggests that they are efficient and reasonably equitable. On the other hand, the analysis suggests that there is little correspondence between the statutory definition of the taxes and what actually occurs in the unions. This finding suggests that administration is the key to revenue yield improvements from this levy. Only after such improvements are begun would it be reasonable to give additional statutory autonomy to local bodies imposing these taxes.

Each of the three components of a successfully-administered property tax—assessment, record-keeping and collection—contribute to the weaknesses in the union parishad holdings tax. Assessment tends to be ad hoc; records are poorly kept; and collection is random, at best, and often politically motivated.

The ad hoc assessment "system" employed in union parishads leads to inequities sufficiently severe to call for a thorough overhaul of the process. Those carrying out tax assessments do not, for the most part, have any specialized training in valuation practices. Instead, local politicians annually determine total taxes in what appears to be an ad hoc or politically-motivated fashion. Good property tax administration is possible only if politics are removed from the valuation function; politics should play a role in ratemaking, not assessments or collections.

One method whereby local politics could be removed from the valuation process while increasing the likelihood that the assessor is trained in valuation techniques would be to station an assessor in each upazila. This valuation officer, working under the upazila finance officer, would be responsible for reassessing all properties in each union parishad every five years as directed in the statutes. Local politicians could then "blame" local assessments on this higher level of government thereby reducing some of the local political pressures against this tax.

It is also clear that there are considerable weaknesses in holdings tax records. Assessment rolls generally are not up-to-date, the records do not clearly indicate who has or has not paid their tax and procedures for altering records when property was bought and sold are not well-defined. Since reassessment of properties is unlikely to occupy the total time of the

valuation officer, he could also be assigned the task of working with the union parishad secretary to improve bookkeeping procedures so as to increase the accuracy of records on tax payment and nonpayment. Additional formal training programs provided directly to the secretaries should also be undertaken under the guidance of the Ministry of Local Government. Without such efforts, accurate assessments are unlikely to be transformed into more equitable and greater yields from the holdings tax.

Collection procedures are also inadequate. Most unions rely upon private collectors who are reimbursed some proportion (usually from 15-20 percent) of their collections. While this approach should contain a sufficient incentive to promote successful collection efficiency, it has largely failed to do so. Appointments of tax collectors are often politically motivated and those selected are often not committed to the task or are strongly influenced by political pressures such that relatives of the union parishad chairman or other powerful persons do not pay their taxes at all. The use of roving private collectors also presents greater opportunity for taxpayer-collector collusion and, unless policed very closely, for collector fraud through nonissuance of receipts. It may therefore be helpful to abandon this payment method in favor of personal appearances of taxpayers at the union parishad headquarters or at pre-announced sites on particular days throughout the union, e.g., on market days.

More important is the need for some direct incentive to be given to local taxpayers to comply with the legal tax liability. One such method that worked in the case study area in Sylhet district was to tie benefits from centrally-administered programs such as issuance of ration cards or permission to purchase subsidized rice to documented proof of payment of the holdings tax. This procedure can be extended to other services provided through the union parishad such as issuance of nationality, character, birth, or death certificates.

Education of politicians and taxpayers must go hand-in-hand with these structural changes designed to improve taxpayer compliance. No one likes to pay taxes, but it is less painful if there is a recognition that one derives some benefit from the taxes that are paid. Likewise, political decision makers must be aware of the importance of being willing to collect the taxes levied and to implement techniques for improving tax compliance. The latter is possible both through formal legal methods of collecting delinquent taxes—we found that when these methods are used, people do pay—and informal methods of encouraging compliance. Among the latter are campaigns which build upon a sense of community and the importance of everyone paying his share to support projects undertaken by the local

government. Again, the upazila property tax technician could aid in carrying these educational efforts.

Activity-Based Revenues

While real property constitutes the most obvious taxable resource for rural local governments in Bangladesh, both the statutes and actual practice indicate that other economic and noneconomic activities can also provide resources to these local bodies. Indeed, under the combination of the Local Government (Thana Parishad and Thana Administration Reorganization) Ordinance, 1982, and the Local Government (Union Parishads) Ordinance, 1983, upazila parishads must rely entirely upon such nonland based taxes, rates and fees.

Local governments in Bangladesh are permitted to levy a long list of taxes on activities and wealth other than land, e.g., on births, marriages and feasts. Due to their relatively narrow base and costs of administration, few of these levies can ever be expected to be productive revenue producers. Two exceptions to this are the tax on professions, trades and callings and the vehicle tax. Each might be viewed as a kind of benefit-based levy. To the extent that development initiatives undertaken by local governments improve the economic lot of local residents, economic activity will increase. In turn, local businesses and businessmen will benefit, at last indirectly, from a more vigorous local economy. Likewise, vehicles are a good taxation target since a substantial portion of local government resources are devoted to road maintenance. While some roads may have characteristics lending themselves to the imposition of tolls (discussed below), most do not. Vehicle taxes constitute one method whereby local governments can obtain revenues to support road maintenance.

As currently imposed, these tax levies have several weaknesses. The maximum allowable rates are low, flat rates. As such they are unlikely to generate significant revenues nor will they allow revenues to grow automatically in the face of inflationary pressures or expansions in business activity other than through the creation of new business outlets. While a longer term goal may be to develop a rate structure that bases business taxes on net or gross receipts, administering such rates in the environment of rural Bangladesh at present is probably infeasible. Ascertaining such information from large numbers of extremely small businesses, many of which do not maintain sufficient records, would likely be beyond the administrative capability of local governments. Instead, with additional

study of local business operations it would be feasible to design a rate structure that reflects differences in size and profitability of different business activities and which yields greater overall revenues.

The most productive forms of nontax revenues derived by local governments in Bangladesh are fees placed on markets and tolls on roads, bridges and ferries. Unlike some countries in which these types of activities are operated directly by the local government, the practice in Bangladesh has been to lease facilities to private enterprises. Probably the most important advantage of the leasing system is that it relieves the local government of the need to staff enterprise facilities on an on-going basis. If, as some argue, privately-held organizations are operated more efficiently than are publicly-run facilities, leasing can generate greater local revenues than would governmental operation.

Leasing is not without potential disadvantages. In order for the auction method to extract all but normal profits from operators, multiple, noncolluding bidders must participate. Further, to protect the health and safety of the general public, the local government still must insure that sanitary conditions are maintained in the markets and that ferries are kept in safe operating conditions. Local bodies may fail to carry out these inspections when the jurisdiction is not immediately responsible for the service. Another potential disadvantage of leasing arises when the service in question, such as, a ferry, is justified as a governmental service due to its redistributive or external benefits.² In such instances, facilities need not "make a profit" in order to be justified as a government activity. But if facilities are being leased and no profits can be earned, no bidders will be willing to operate the facility. In such an event, the jurisdiction must either subsidize the activity or close it down thereby foregoing any redistributive benefits.

If local government enterprises such as ferries or markets, either self-operated or leased, are to be managed efficiently in the long run, full costs of enterprise operation must be recognized. In the short run there may be little need to account for the fact that, while the market is operated, the facility is being "used up" as capital stock depreciates. But over a longer period the facility will have to be replaced, thus full market costs include replacement costs as well as current operating and maintenance costs. In the absence of separate fund accounting which provides for capital stock replacement, the facilities may fall into complete disrepair with no local

2. External benefits arise when society as a whole, or segments thereof, derive benefits over and above those enjoyed by the immediate user of the service.

resources available for reconstruction. While this outcome can arise under either leasing or self-operation, leasing can make it easier for the jurisdiction to ignore these longer term issues and view the annual revenues earned from the facility as fully available to the general fund.

With further study of the economics of these facilities, it should be possible to estimate replacement cost needs for public enterprise facilities such as ferry ghats and markets. Rules should be written regarding establishment of a "sinking fund" designed to be used to accumulate monies for subsequent use in replacing these facilities. Such self-financing would relieve the central government of demands to provide funds for the provision of these facilities while, simultaneously, encouraging maintenance of the infrastructure.

As currently formulated, local jurisdictions have considerable power over rate setting in public enterprises whether or not they are leased. Fees for upazila parishad markets are set locally while fees on zilla parishad ferries and roads must be approved at the divisional level. A nonstandard set of fees is most reasonable since it allows fees to reflect market conditions within the locality. Local government should recognize, however, that with no rate changes, revenues will grow only in response to changes in real incomes and population and will not respond automatically to increases in prices. As a result, revenues will be substantially eroded by inflation unless rates are changed periodically. With local autonomy in rate-setting the central government cannot prescribe a schedule which reflects inflation. The Local Government Division of the Ministry can, however, annually provide informational circulars indicating the degree to which major cost components of public enterprise operation have increased, e.g., fuel cost increases for ferry operators and labor costs for all enterprises.

As a potential local government resource, voluntary giving of money or labor is statutorily allowed at the union parishad level through the "community tax," levied on adult males and based partially on project-specific costs. In form, the community tax is thus a benefit-based levy. If effectively levied, the community tax could be as significant a source of union parishad finance as the holdings tax. But in the local governments we studied, there was little use of the community tax. There is, furthermore, significant overlap in the base of the community tax with the holdings tax and with other benefit charges that might be imposed. With improvements in the administration of the holdings tax, the community tax can be removed from the statutes with the holdings tax relied upon as the principal benefit-related levy within these jurisdictions. With improved record-keeping, a benefit surcharge attached to holdings tax liabilities would be simpler to administer than would a separate community tax.

Although voluntary labor is mobilized for public sector projects at the local government level in some countries, mandating its use or including it as a necessary local resource match as a part of grant programs does not appear to be justifiable in Bangladesh. Experience shows it does not work well there as a benefit-based form of finance. That is, persons who benefit most from public works projects do not participate by giving labor. On the other hand, spontaneous, locally-based schemes depending on voluntary cash donations for construction or maintenance should be encouraged. This encouragement is most feasible when incorporated into the grant distribution process.

Conclusions

This volume has reviewed the state of rural local government finance in Bangladesh and has indicated how changes might be undertaken so as to strengthen the ability of local governments to participate effectively in the decentralization process currently underway in the country. The analyses undertaken here represent the first wide-ranging investigation of the economic implications and revenue administration practices of local governments in this extremely poor nation. In great part, the lack of analysis stems from the fact that, until now, no systematic attempts have been made to collect data concerning the fiscal roles of local governments in the country.³ Only with such data can the sorts of analyses conducted here be successfully completed.

While the focus here has been on Bangladesh with the specific findings and possible policy changes applicable only to that country, more general lessons can be gleaned from the exercise. Local governments in much of the Third World face many of the same sorts of problems highlighted here. yet, if decision-making powers are to be decentralized, it is reasonable to anticipate that local governments may be called upon to play a more active role in local level decision-making. An important aspect of this shift in power is likely to be the expectation that localities also participate in the difficult task of mobilizing the resources necessary to insure that development takes place. Analyses, as conducted here, of the mobilization

3. The lack of systematic data on subnational governments in Bangladesh, as well as in many other Third World nations, is highlighted in the World Bank's 1988 *World Development Report*.

methods to be employed is a necessary first step in the policy reform process if the reforms are more likely to lead to overall improvements. Still, it should be recognized that in most countries, as in the case of Bangladesh, such policy reforms are likely to lead to both additional benefits as well as costs.

As envisioned here, the principal benefit of a revised system of local finance in Bangladesh would be to provide incentives to local governments to encourage them to mobilize resources at a higher level, with greater built-in growth potential, and with reasonable efficiency and equity effects. Such a system would go far in promoting successful decentralization of governmental decision-making within the country while improving local governments' ability to operate and maintain development projects. The reforms would also help move the government closer to the people and would increase the accountability of local government officials. With greater resources available, public works investments should be more productive, especially as they are better maintained.

These changes would not come without some costs. One set of costs of this reform package is a taka drain on the central treasury. Revenue would be lost to the national government if a portion of the land development tax were transferred to local governments. Investments would be needed for new centrally-financed programs designed to strengthen the administration of local governments including the support for training programs. These investments are not insignificant, but they can buy considerable improvement in local government finance in Bangladesh.

A more development-oriented program of fiscal decentralization would also entail some costs. By allocating grants more on the basis of development potential and the ability to match central taka, and less on a basis of need, some equalization of fiscal capacity would be sacrificed. There could be fewer centrally-financed projects to spread around under such a system, but they should be more productive investments. The projects would have more capital content and, with improved local resource mobilization, could be better maintained. But construction of such projects would generate fewer jobs than would pure earthworks activities. Local taxes and fees would go up, but would be levied primarily on politically more powerful landowners and merchants which would likely entail significant political costs. Greater local government autonomy would mean that the national government may give union parishad some flexibility in controlling the total amount of government spending in the country. All of these are real costs to both government and the people, but are necessary for fiscal decentralization and rural development.

A Note on Terms and Selective Glossary

Throughout this book we use many non-English terms and many terms that have come into English from other languages, particularly South Asian words such as zamindar, pukka and ghat. Concerning spelling, we use the unabridged version of the *Random House Dictionary of the English Language* (1973) as the authority. For underlining, we follow the rule that if the word appears in the *Random House Dictionary*, it is printed in normal typeface; words not appearing there are, with a few exceptions, printed in italics. The exceptions are the Bangladeshi terms—zilla, thana, upazila, paurashava and taka—which we use frequently and which if constantly italicized, would unnecessarily clutter the text.

For non-English terms not in the *Random House Dictionary*, we use the most common spellings found in the literature and avoid the use of diacritical marks. In only one case do we provide a transliteration presenting a long "a" in the word *haat*, by spelling it with a double vowel rather than a single so that the reader will know that the pronunciation differs from that of the English word, "hat." For the sake of simplicity long and short vowels are not distinguished in other words such as *modrassa*, *samaj*, or *sardar*.

Plurals to Bangladeshi terms are formed, as is the usual practice in English language social science literature, by adding an "s" to the end of the word such as *gushis* and *bighas*, although there are some exceptions in the case of such words as *taka* and *paisa* which are found variably with and without an ultimate "s."

Here we attempt to provide some general definitions of many of the Bangladeshi terms used in the text.

<i>Bari</i>	Cluster of neighboring houses
<i>Bigha</i>	A measure of land area; 1 bigha is about 1/3 acre
<i>Chanda (chada)</i>	Donation
<i>Decimal</i>	A measure of land area; 100 decimals is about 1 acre

Ghat	Passage or steps leading to a river; a river landing
Gonomilan	A self-help movement
Gusthi	Lineage based on descendance from a male ancestor
Haat	A local market
Harambee	Self-help movement in Kenya
Imam	Islamic religious leader
Khatian	An area of land used for administering land taxes
Kripon	Stingy; ungiuing
Kutchu	Temporary; unpaved; unfinished; rough
Lungi	Male clothing
Madrassa	Islamic school
Mauza	The original land revenue unit under the British zamindar system; consists of one or two villages
Minga	Peruvian term for voluntary labor
Mohalla	Neighborhood organized around a mosque
Mohot	Respected man of the village
Musti	Voluntary contributions made especially by Hindus to support religious events
Paisa	Currency valued at one hundredth of a taka
Para	Neighborhood grouping of several baris
Parishad	Council
Pukka	Permanent, paved, finished; smooth
Reyai	Local grouping comprising male-related kindred and associated followers
Sadaqah	Variant of zakat
Sadhu	Hindu holy man
Samaj	Cluster of Gusthis
Sardar	Local leaders
Sari	Female clothing
Shramdan	Term used for voluntary labor in Sri Lanka
Swarnivar	Self-reliant, used to refer to various self-help movements throughout South Asia
Taka	Basic unit of currency used in Bangladesh
Thana	Former local administrative unit; now upazila
Upazila	Rural local administrative unit; approximately 460 in Bangladesh
Zakat	Voluntary giving required as one pillar of Islam
Zamindar	Landlord
Zilla	Administrative unit; district

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