

Financial Resources Mobilization Performance of Rural Local Government: Case Study of Three Union Parishad in Bangladesh

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Abstract

Union Parishads (councils) being the century old rural local government in Bangladesh are yet to fulfill the expectations of rural citizen which is mainly due to own resources constraints including miserable local resources mobilization. This paper focuses on Union Parishads recent revenue trend and performance from five years secondary data (2003-2007) and primary data collected from Parishad representatives, local people, government officials and national experts. Finding of the study shows that despite revenue potentials, weak revenue administration, inadequate adjustments and assignments of local revenue sources including lack of union functionaries training become impediments on local revenue enhancement. Other finding of the study suggests that in the absence of valuation based tax assessment system, households housing pattern and literacy rate can be significant determinants in ascertaining annual average holding tax revenue while per capita household holding tax, remittances, agricultural land ownership, households having electricity connections can be used as significant variables to determine the taxpayers ability to pay holding tax.

Keywords: Basic Block Grant, Financial resources mobilization, Rural local government, Union Parishad

1. Introduction

Traditional thinking has been changed with the realization that national development is also a local responsibility and for overall progression, genuine partnership is essential between central and local government. Therefore, to serve both national and local interest, rural local government financing need to examine with own local taxation or raising other forms of local revenue, grant from central government, local borrowings or assistance from foreign sources. Recent trend shows that policy makers and donors are emphasizing on rural local governments fiscal capacity from local economic and rural development front to integrate development programmes through citizen participation, incorporate gender issue and disadvantaged groups in policy decisions, aid in poverty reduction, environmental initiatives at the local level, encourage local governments autonomy and innovation in addressing local needs. Fiscal capacity of rural local governments is related to fiscal decentralization that commands a prudent mechanism in mobilizing local financial resources.

It is contended that fiscal decentralization is the most critical part of decentralization which has raised challenges as an important theme of governance in developing countries (Crook and Manor, 1998; Devas, 1997; Fukasaku and deMello, 1999; Manor, 1998; Shah, 1998; World Bank, 1999). Contemporary study shows that fiscal decentralization has induced fiscal responsibility and financial resource mobilization (Bird and Vaillancourt, 2006; Loughlin et al., 2006). But the evaluation report of OECD (2004) showed that the local government revenue sources as the share of total local government funding is declining in most of the developing countries. The reasons of such decline are: *firstly*, not proper addressing of legal, fiscal and institutional frameworks and the local government incentive system; *secondly*, disincentives of central transfer system in improving revenue mobilization (DANIDA, 2000); *thirdly*, weak incentives to collect taxes (NEDA, 1999); *fourthly*, unfavorable local government tax assignments leading to unpopular tasks that are difficult to collect; *fifthly*, inefficiency in assessment, rating and weak enforcement in revenue collection; and *finally*, tax evasion tendency of most of the wealthiest part of the population and lack of sanctions and oversight in tax administrations (USAID, 1998). All these obstacles emphasize on fiscal decentralization and has turned to the question of how and what specific revenue sources might be most feasible.

The feasibility of own revenue generation at the rural local government level depends on local fiscal efforts and fiscal and non-fiscal supports of the national government. According to Iben Nathan (in Blair, ed., 1989, p.50), "local resources mobilization is the efforts of local administration to raise finances from a locality in order to fund activities within that area". The size and freedom of the local government are considered crucial aspects that determine the structures and generation of revenue and adequacy of local finance. In theory, it is contended that a sizeable local government in terms of human settlements and productive land area have better prospects of more revenue generation (Hye, 1985, p.180). But rural local government revenue generation in developing countries is always a great challenge and the mechanisms by which local financial resources can be mobilized have raised some pertinent issues, like revenue raising ability, effects on economic efficiency, equity implications and administrative feasibility (Bahl, 1984).

Fiscal decentralization in South Asian countries have been initiated but the existing pattern of rural local governments self financing is not impressive. Bangladesh is not an exception. Rural local governments in Bangladesh are devolved with some revenue power and functions but practically they cannot exercise their mandated responsibilities due to shortages of funds and institutional capacities. Besides insufficient central allocation, institutional weaknesses are also continuing for the lack of effective mechanism to coordinate and integrate the role and functions of rural local governments' functionaries, sectoral agencies, NGOs, cooperatives as well as private sectors (Aminuzzaman, 2004; Haque, 2002). Understanding the realities, recent concentration of Bangladesh government on poverty reduction strategy has integrated local governments' role to instil rural development, combating rural poverty and attainment of Millennium Development Goals. In this respect, the relatively small scale Union Parishad (UP), the lowest tier rural local government, closest to the rural people, has offered realistic possibilities to play the vital role. Therefore, the objective of the study is to examine the trend and performance of UPs own financial resources mobilization.

2. Study context, Problem and Significance

Bangladesh government has recognized UP as a primary economic and administrative unit of rural local government and has undertaken initiatives to streamline the local revenue administration and resources mobilization. Ministry of Local Government, Rural Development and Co-operatives (LGRD) in 2003 has issued a guideline known as 'Strategy for Union Parishad Tax Assessment and Collection', 'Model Tax Schedule' and a 'Performance Based Special Grant' system for UPs. During 2000-2005, government has piloted Sirajgonj District Local Government Development Project (SLGDP) to support local development initiatives in an effective, sustainable and participatory manner. Learning from SLGDP, government has launched Local Governance Support Project (LGSP) which is (2006 to 2011) the biggest project (US\$ 218.12m), supported by GOB, World Bank, Swiss Development Cooperation, UNCDF, UNDP with European Commission and DANIDA. In addition, from 1997 to 2009 spending of development partners and donors for UPs strengthening is US \$147.468 million, and approved support onward 2010 is US \$ 448.82 million. (Note 1)

In 2004 government has introduced discretionary Basic Block Grants (BBG) for UPs on flat rate basis and is confined to small infrastructure investment and maintenance in the core local public goods sectors (roads, education, sanitation, water and the like). Besides BBG, Annual Development program (ADP) allocations are also being provided to UPs. ADP allocations are distributed through Upazila Development Coordination Committee (UDCC) which is consisted of Upazila chairman and UPs chairmen of that Upazila. Apportionment of ADP block grant is 90% for general and 10% for operational performance. General grant allocation is based on population 50%, land area 30% and backwardness 20% (GOB, 2006).

On local revenue mobilization, two studies were conducted for all rural local governments in Bangladesh. The first study was of Syracuse University (1984) suggested for redesign of the government revenue structure and to provide incentives in mobilizing local resources (Schroder, 1984). The second study of Like Minded Group (1988) revealed that local resources is but a fraction of the potentials and no institutional framework exists for dealing with maximum revenue raising (Blair, 1989). Since there has not any other empirical study after these two and since there have been changes in the local initiatives and central government grants mechanism this study is appeared appropriate in the current context.

However, flawed resources mobilisation in rural local governments has been a matter of continuing debate for last three decades in Bangladesh like many other developing countries. The debate basically centres on making sound fiscal health of local governments to serve citizen and aid in local development. Recently, donors and central government's supports have brought about some positive changes in UPs fiscal role, but much success yet to be achieved. The on going dismal revenue performance of UPs is due to central government's inapt political choice, commitment and policy as well as UPs weak revenue efforts and strategies which is identified as main research problem and focused in this study. UP being a democratic institution, is also missing the opportunity of democratic local governance which is due to heavy handed control and dominance of district and Upazila administration, especially local resources sharing and allocation choices. It is contended that flawed fiscal devolution, with a wide variety of central checks and controls, has serious discouraging effect in exploiting potential revenue from local sources (Bird, 1990). For UPs, it is not untrue, where they have limited own sources, little revenue raising authority, and almost no influence on how the central government allocate local resources in their areas (ADB, ADBI & UNCDF, 2004). Hence, the significance of the problem lies in the inadequate understanding of the fiscal structure, devolution system, feasibility frontiers of revenue sources and allowing local governments' choices in fiscal domain, and how all these together concurrently can be addressed, both in the national and at the local level.

Thus, the present study hypothesized that limited financial resources mobilization of UPs is caused not only by the fiscal structure and devolution system but also the disparities of fiscal capacities and revenue efforts of UPs. However, this study has both national and local relevance with regard to tap the untapped revenue, capitalization from local revenue potentials and lessening the central government's burden in local finance.

3. Evolution and structure of Union Parishad

At present, there are Three rural local government tiers in Bangladesh, known as Zila Parishad (ZP) at district level, Upazila Parishad (UZP) at sub-district level and UP at the union of villages level. The field level administrative structure is comprised of six division, 64 districts and 483 Upazila. The total number of UP is 4498 with an average population of 27,000 in each UP and average land area of 30 sq. km. (UNDP, 2002). The structure, functions and finance of rural local government institutions have undergone many changes from the ancient period to British colonial period and Pakistan regime to the present day.

During the British rule (1765-1947), Bengal Local Self-Government Act, 1885 laid the formal legal foundation of Union for a group of villages (Shafi, 2001, p.3). Union Councils were provided both revenue and development functions as the lowest tier rural local government (Rahman and Khan, 1997, p.8) under 'Basic Democracy Order' system of the then ruler of Pakistan (1959-1970). Immediately after Independence in 1971, system of basic democracy was abolished and in the article 9, 59 and 60 of Bangladesh constitution articulated about the local government formation, functions and revenue powers where union council remain the lowest tier rural local government. Local government Ordinance, 1976 and later on Local government (Union Parishad) Ordinance, 1983 (amended up to 1997) and recent UP act, 2009 have provided UP with powers to levy, tax and fees including women representation at UP. Each UP is now comprised with nine wards, one chairman, and nine members from nine wards including three elected women members representing for each three wards. UP secretary is the only official staff of UP and chairman is the chief executive. Each UP has 13 different standing committees to perform its 38 different types of functions in which special participations are allowed from different occupational groups like, freedom fighters, cooperatives society, disadvantaged group, landless, destitute women, farmers, fishermen or weavers etc, as non-voting representatives.

UP remain chronically resource poor and their reliance on central grants is still about 57% (GOB, 2007). Central government has declared policy to enhance local government expenditure but it is still below 3% of GDP while in the national level, the share of tax and non-tax revenue in the GDP has increased from 7.1% in 1990-91 to 11.2% in 2007-08 (GOB, 2009). The current share of local government and rural development in the total national public expenditure is only 7.2% (GOB, 2008). On the other hand, being a century old democratic body, UP is yet to be a decentralised rural local government while this institution is provided with mandatory and

discretionary functions including own revenue raising powers. Despite its long history, frequent changes in the composition of this elected body and its use for political mobilization have also prevented it from pursuing long term development efforts in the rural area, even in the era of national democratic governance system during last two decades, central-local relations remain weak in many fronts including local resources mobilization efforts.

4. Study area and Methodology

Based on the record of ministry of LGRD, three UPs are purposively selected from three different regions, districts and Upazila of the country. An average annual revenue performance criterion is used to classify three UP cases, based on their five years (2002/03-2006/07) actual revenue collection which is also compared with other UPs published data of the country. The categorization of UPs are: High Revenue Performing (HRP) (More than Tk.1000 000), Moderate Revenue Performing (MRP) (not less than Tk.500 000) and Low Revenue Performing (LRP) UPs (low Tk.250 000 to nearly Tk 500 000). (Note 2) This broad categorization is made to show comparison on UPs own fiscal capacity and revenue efforts including similarities and dissimilarities on their revenue performances. Since all UPs are assigned with similar functional and revenue raising authority, the categorization is considered rational for case study purpose and from specific and broader policy perspectives (Patton, 1990; Yin, 1989; Miles and Huberman, 1984). This study is based on field works (2007/08) and case study approach is used to provide analysis and findings in a comparative perspective and then to generalize findings based on commonalities. Since Bangladesh government has embarked on new measures for local resources mobilization onward 2003, the study is concentrated investigation on five years (2002/03-2006/07).

Three study areas have focused on three major regions except southern coastal area of the country. Sampled UP cases also focus on variations in socio-economic activities, remoteness, demographic settings and recent revenue performance of each UP. Other selection criteria includes good documentation of revenue records, human settlements, natural disaster, NGO's activities, distance from town or district and Upazila headquarters, and existing resources base with potentials of local resources generation. It is however, believed that only with a few exception, there is no great variation in the socio-cultural, economic and geographical settings of the rural areas of Bangladesh including government policy toward UPs. Exceptions are context specific, such as UPs in coastal areas, where variations either in terms of vulnerability owing to frequent natural calamity or harsh climatic conditions or a few remote UPs that are far removed from the nearest rural town or urban centre. These variations might have some impact on local revenue mobilization. Among three cases, SLGDP assisted program was carried (2002-2005) in MRP UP for capacity building and awareness creation on own resources mobilisation, while in HRP and LRP UP, there were no such projects being carried though LGSP have been implementing in all UPs from 2006. However, the sampled UP cases are, more or less, said to be a representative character of other UPs. Selection procedures, profile and key statistics of three UP cases is shown in Table 1.

To collect data, researchers interacted with district and Upazila officials, UP members as well as with purposive sampling of local citizenry of various strata. During study networks have developed with key informants through a constant process of iterative interviewing and cross checking to build an understanding of the dynamics and problematics of local resources mobilization. The reconnaissance survey, observation, questionnaire survey, interview and focus group discussions (FGD) including written information where it required, are used in data collection and triangulation and cross checking of data. Primary data collected from 227 respondents comprising four categories. First category, UP functionaries (18.5% of total respondents), consisting 21.4% female and 78.6% male, were key informants and checklist interview, questionnaire survey and FGD are used to collect data from them. Second category, local people (61.7% of total respondents), comprised of taxpayers Households (21.4%), Businessmen (21.4%), Local leaders/elites (21.4%), NGO workers (14.3%) and representatives of Marginal groups (21.4%) and for them FGD and structured questionnaire survey are applied. Third category consist of relevant Upazila, District and Ministry officials (18.1% of total respondents) and fourth category is national experts (2% of total respondents) For third and second categories structured interview is conducted to obtain their opinions on current practices and policy issues.

Secondary data obtained from UP budget, tax assessment and collection registers and additional data were obtained from Upazila, District and local government Ministry. Study also reviews available literature, published report and relevant regulation/policy documents. Quantitative data on local revenue efforts, trend and performance are explained through illustrative tables and descriptive statistics which also included coefficient of variation to examine the fluctuation of annual average revenue of sources, for each UP and for all three UPs, in a comparative perspective. Pearson's correlation coefficient is applied to examine the relationships between UPs own revenue assessment, collection and development expenditure. Qualitative data in the form of opinions and multiple responses are used to complement the quantitative analysis. To find alternate way out, in the absence of use of specific valuation method for holding tax assessment and collection, two multiple regression model is

used, the first set of regression model is to explain the relationships between average annual holding tax as dependent variable and households housing pattern and literacy rate as independent variables, in the second set of regression, taxpayers ability to pay is used as dependent variable while per capita household holding tax, remittances, households occupational status, and enjoyment of utility services, like electricity connection, water and sanitation facilities are considered independent variables, especially for rural context.

5. UPs tax revenue structure

Fiscal structure for each UP is provided with authority to assess and collect only on the following six bases as per guideline and rate stipulated in the Model Tax Schedule, 2003 that set under the Local Government (Union Parishad) ordinance 1983 which is recently replaced by Local Government (Union Parishad) Act, 2009:

- Tax on the annual value of homestead (land and building) not exceeding 7% except land and building owned by religious institutions those are run not for commercial purpose. Agricultural lands are excluded from such tax.
- Tax on institution run as a profit making body in the form of company, farm, bank (except registered cooperative) and other professions, trades and callings within UP jurisdiction. The tax will be imposed in term of absolute amount that are ranges from low Tk. 15 to maximum Tk. 300 under four categories like, contractors or their agents, private training or educational institutions including coaching centers, private nursing home, and the rests profession, trade and callings are in the fourth category which include about 93 different types of trades and callings.
- Tax on cinemas, dramatic and theatrical shows will be 10% of the collected entry fees subject to the UPs discretion in exempting such shows arranged for educational or charitable purposes.
- Fees for licences and permits granted by the Parishad on non-motorized vehicles, normal carrier boat and mechanized boat.
- Tax on fair, agricultural and industrial exhibitions arranged on commercial motive within UP jurisdiction, will be 10% of the collected entry fees.
- Tax on signboard within UP jurisdiction will be imposed on board fixed on private place Tk. 5 and on UP owned land or building Tk. 6 per square feet.
- Marriage registration fees (this source is included in the UP Act, 2009).

6. Discussion and findings

6.1 Holding tax assessment and collection performance

UP use the holding tax concept instead of property tax on homestead. Holding tax is defined as ‘the annual tax based on the rental value on immovable property (Land and Building) which also include union and chawkidary (village police) rate and lump them together is Holding Tax’. Agricultural land is excluded from this base. Section 65–70 and Section 108 of the Local Government (Union Parishad) Act, 2009 is the legal basis of UPs tax authority. By dint of law, ministry of LGRD in 2003 also issued a guideline known as ‘Strategy for Union Parishad Tax Assessment and Collection for UPs. Union Council (Taxation) rules, 1960 is still the basic guideline for assessment and collection of holding tax. UP functionaries are authorized sufficient power and responsibilities in this rule that can be utilized for strengthening local resources mobilization. According to the guideline of ministry, property tax on homestead is to be calculated based on the annual rental value of the house (including the land on which the house is sited) and the tax rate shall not exceed 7%, subject to maximum limit of Taka 500, for any one house except commercial premises. Both residential and commercial homestead can be assessed under same guideline and criteria for five years. UP functionaries can collect tax directly and at the same time they can appoint temporary commission based tax collectors.

6.1.1 Holding tax assessment

It is found that the assessment procedures and strategies that set out in the guideline have raised debate among local people who raised two main issues in FGD, which are: Firstly, strategy paper contains deduction provision for the interest expenses where land and house is subject to a loan or mortgage in determining the assessment which is likely to benefit the better off who are more likely than the poor to use loan finance for their house. Secondly, there is a one-fourth deduction of rental value allowed for owner occupiers, on the grounds that they are not earning income from the house which has created an inequity between types of tenure, and will benefit owner-occupiers. It is also observed and understood from FGD that the rental or value based property taxation is possible only in those UPs who have major sources of resources from industrial and commercial establishments and UP having peri-urban character, while in other cases based on availability of required information, the

capital value of the house can be estimated by using standardized construction costs converted to rental value and adding the ground rent for the land. But UP functionaries in remote rural areas are still think that it would be more convenient to make assessment based on ability to pay.

Despite these limitations, in practice, it is found that none of the three UPs have been using any complete particular value based assessment. In HRP UP, it is observed that existing guideline is partly used, but there is also pressure from taxpayers to make some adjustments with taxpayers which is due to complicity of the assessment method as explained by UP secretary. On the other hand, MRP and LRP UP members said that they are facing difficulties in using central guideline because the guideline is common for all types of UP which is more relevant with urban or peri-urban than remote rural areas where no rental value is defined or never been estimated except in the case of business premises. Other common problems raised in FGD are: UP has no authority and fund to appoint professional assessor; no formal training on assessment; lack of previous correct assessment rolls and thus lack of data; incompatible guideline for assessing rural house and land on rental or construction cost basis; longer-term tradition of taxpayers noncompliance with no legal effects on them; and lack of approving authority's guidance and supervision. It is noticed that assessment made arbitrarily, mainly based on ability to pay (even sometime willingness to pay) of HH and the rate ranges from 3% to maximum 7% though lower rate is not specified in the guideline.

Assessment disparities showed in three UPs have significant differences in terms of total and per capita HH. The coefficient of variation related to assessment of per capita HH holding tax in LRP and MRP is higher than HRP UP. It can also be found that maximum assessment per capita HH of MRP is 5 and 11 times lower than HRP and LRP UP respectively, and when compare with minimum assessment, HRP UP is 10 and 2.8 times higher than MRP and LRP UP respectively (see Table 2). These disparities have implications on assessment policy and strategy, like local household pattern (residential and non-residential), progressive or regressive taxation, ability to pay and also coverage of maximum HH with minimum rate in all three UPs.

The assessment status and calculation revealed that annual real growth of per capita HH assessment in LRP (247.6%) and MRP (38.8%) is higher than HRP UP (12.2%), which indicates that annual untapped revenue is higher in HRP (Tk.987 000) in compare to MRP (Tk.34 000) and LRP UP ((Tk.23 000). In particular, for HRP and MRP UP, tax efforts have addressed year to year assessment but there are fluctuations in the increasing trend. If a cross comparison among UPs are done it can be seen that assessment of HRP UP is 5.6 times higher than MRP and LRP UP including higher rate of collection (6.9 and 10.8 times of MRP and LRP UP respectively). This disparity of assessment is influenced by the socio-economic profile of UPs. It is found that HRP UP is a sub-urban area, high density, mostly non-agriculture based economy, near to town area, have many small industries and not vulnerable to frequent natural disaster. On the other hand, MRP and LRP UPs are vulnerable to natural disaster like, flood and riverbank erosion, local earthen road are affected by harsh climatic condition (flooding) though the socio-economic profile of LRP UP has revealed that this UP is better in terms of non-economic activities, better internal communication system and higher density in compare to MRP UP and LRP UP can be converted to MRP UP, if central-local concerted efforts are given for this. The property related tax of HRP UP is higher than other two UPs, which might have much more higher if we compare it on per capita HH basis. In MRP and LRP UP, the effective existing assessment rate is very low and as is the collection.

UP functionaries and local people in FGD opined that the current assessment is low in compare to the potentials. They identified some causes for low assessment those are being verified through questionnaire survey and from survey multiple response show (see Table 3) that in all three UP cases main causes are lack of sincerity of UP representatives (56.6% cases) followed by assessment not done by professional assessor (56% cases) and UP has no accountability for low assessment (55.5% cases). But when individual UP case is concerned it is found that there are some variations which shows that in HRP UP, representatives do not like to antagonize rich people due to sociopolitical reasons (62.3% cases) followed by assessment not done by professional assessor (57.4% cases), not use of particular valuation method (57.4%) and lack of UP members' sincerity (57.4% cases). In MRP UP main cause is identified as UP has no accountability for low assessment (65.6% cases) followed by assessment not done by professional assessor (57.4% cases), lack of sincerity of UP representatives (54.1% cases) and so on. In LRP UP main causes are identified as no proper use of particular valuation method (66.7% cases), lack of UP members' sincerity (58.3% cases), and assessment not done by professional assessor (53.3% cases) and so on. (Note 3)

It is observed that in MRP and LRP UP, a cruder system being used as criteria for assessing like, number of rooms, size of rooms, house construction materials, provision of tube well and toilet. The resulting assessment is also modified by assumptions about the occupiers' ability to pay. In general, 'ability to pay' concept of assessment is desirable to majority of rural households. Majority representatives of MRP (71.4%) and LRP UP

(50.0%) support 'households ability to pay' method but in case of HRP UP majority representatives (64.3%) support rental value method. On the other hand, when all UPs are concerned majority of UP representatives (45.2%) are also provide their opinion in favor of ability to pay method which they described as lump sum to be fixed taking into consideration of homestead area, house pattern, occupational status, agricultural land holding and enjoyment of public or private utility facilities like tube well, toilet, electricity connections etc. They argued that rental or capital value based assessment is complicated which are not easily understandable to all classes of rural people rather ability to pay system is more transparent to taxpayer since local people know each other. National experts opined that assessment by UP representatives under present rental value based guideline is not a practical solution and even if the assessment is perfect, the UP would encounter another problem, the fixing of an appropriate rate of assessment. International experience shows that property tax in most of the countries are based on rental value based where as, in some cases, market value is considered and in some cases mixed method is still used (Nickson et al., 2008). In a study of Martinez-Vazquez and Rider (2008) also shows that out of 59 developing countries nine countries are not following any particular valuation method.

About assessment policy, Hoffman and Gibson (2005) observed that tax rates set at the local level can increase local accountability which indeed leads to better local services. In MRP UP, it is found that UP members prepared ward basis tax assessment rolls. But in the case of HRP and LRP, it is found that assessments is initially made by UP secretary and then UP members on ward basis verify and submit it to the Parishad for finalization. In some cases tax collectors are also asked to involve in assessment. UP functionaries opined that due to economic change, assessment should be for three instead of present five years and there should be minimum tax which can be fixed at Tk 75 for each HH. Regarding fixation of base and rate there is mixed views among UPs. Majority (78.6%) representatives of HRP UP and MRP UP opined that bases should be fixed by central and rates by UP where LRP UP is indifferent on this point. On the other hand, fixation of bases and rates by UP has got less support from all UPs (45.2%).

During study, UP representatives opined on five options for assessment procedures that shows differences of opinion between and among UPs. As per first option is concerned, majority members of MRP (85.7%) and LRP UP (92.9%) shows negative views while majority members of HRP UP (57.1%) opined in favor of contractual appointment of an external professional assessor on the seasonal basis. Second option related to appointment of a permanent assessor, for which majority of three UP members (83.3%) opined negative views on the ground that UP has no legal authority to appoint a permanent assessor and also shortage of fund to pay permanent assessor. Regarding option three of taking assistance from Upazila staff for assessment is also has got negative views (91%) in the case of all UPs. UP members said that Upazila staffs are controlled by their line department and in some cases it is difficult to get this service without any honoraria or travel expenses to the staff who will work for UP. Majority members of MRP UP (57%) supports that they themselves can do the assessment with their argument that they know each household and their ability to pay including motivate tax payers. About option five, majority members of LRP UP (64%) support that UP tax collectors and members can jointly make assessment with a view to make an environment that taxpayers, collectors and UP members have reached in an agreed amount to be assessed that will be easy to collect.

National experts have opined that if UP members involve directly with the assessment, then there will be question of same authority being involved in assessment and disposal of objection. On the other hand, if UP members and tax collectors jointly work there will be chances of political favor or negotiation and corruption due to same person's involvement both assessment and collection. National expert and government officials also added that if relevant information of households are computerized and the seasonal assessors are trained to make assessment under administrative control of UP and supervised by an officer of Upazila, then the accuracy of the assessment can be achieved to a greater extent and at the same time the administrative cost for assessment will be less than a permanent assessor.

6.1.2 Holding tax collection performance

Despite lack of UPs autonomy, it is found that the positive role played by UP can trigger the collection of holding tax until the full utilization and increase of rate of the source while at a certain point, tax will remain same due to fixed nature of real property and have little chance to generate cash, especially in rural areas. It is found that average annual growth of revenue collection of MRP UP (85%) is higher than HRP (16%) and LRP UP (56%) (see Table 4). The higher collection of MRP UP is due to their innovative strategies like, motivation of taxpayers through demonstration of a project implemented from tax payers money, encourage local people to express their voice in open UP budget discussion, UP members efforts in preparing ward basis assessment roll, allowed more tax rebate to regular tax payers who pay in time, not providing any certificate to tax defaulters and disclosures of some major defaulters' list in public at the initial stage of their tax efforts program. This study

reveals that in the case of LRP UP, own initiative of UP chairman has compelled UP members and secretary to increase the assessment and collection without adopting any new measures. The chairman of LRP UP mentioned that the taxes paid by the people now are not so high while their ability to pay taxes at a higher rate than the current is quite obvious as per as the socio-economic context of the UP. On the other hand, it is observed that all residential households of HRP UP are not under holding tax coverage though tax are assessed and collected from all industrial and commercial establishments. This reflects that accurate tax assessment and arrears are yet to display in HRP UP.

In addition to UP representatives' role, recent introduction of discretionary and operational performance grants and rewarding UPs chairmen for local revenue performance has brought about positive changes in UPs tax assessment and collection onward 2003-04 in compare to previous year (see Table 5). UP members also provided commitment to taxpayers to increase local development project implementation from LGSP assisted program, if they can upgrade their own revenue status. It is found that in HRP and MRP UP, tax efforts have addressed year to year assessment but there are fluctuations in the increasing trend with an overall collection efficiency of 106% and 85 % respectively. For LRP UP, collection has increased year to year but in terms of percentage, it is fluctuating with an exception in 2005-06 that shows a highest collection effort (86%). Functionaries of LRP UP noted that due to occurrence of flood in 2003 and 2006 affected taxpayers were exempted from tax and due to that tax collection has reduced than the normal years. It is found that HRP, MRP of and LRP UP able to capture holding tax collection only about 46% 70% and 50% respectively, in comparison to their existing potentials. (Note 4)

To make an evaluation on UPs holding tax collection performance, the determinants of current average annual actual holding tax collection is taken to look into the future prospects and sustainability of the system of ability to pay based assessment and collection. In fact, in most of the developing countries, especially in rural areas, holding tax is levied on accrued property and economic conditions of the households, not on the basis of realized income from the property they belong, and people know that they pay lump sum, which suggest the possibility of a break between the amount of tax liability and the ability to pay (Bahl and Wallace 2008, pp. 8-9). It is found that in all three UP cases, ability to pay method is widely used based on relevant factors which are identified during field works. Martinez-Vazquez and Rider (2008) contended that countries where there is not a tradition of raising revenue at the local level from own sources, assigning revenues from the property tax to the local level while simultaneously giving them power to set rates within a range (with a minimum rate greater than zero) may lead to greater local tax effort. FGD with local people and key informants interview helped in identifying eight explanatory variables. Explanatory variables show that there are diversities among the size of population and households, revenue generation ability, household with electricity connection, housing pattern and households' occupational status (see Table 6). For example, the literacy rate shows variations of 20% and variation of this important variable indicates the variation in fiscal performance. Literacy rate is likely to be associated with stronger economic development and therefore revenue mobilization. The disparities in literacy rates are also a reflection of expenditure need. Similarly the other variables are also showing larger variations which in fact shows the relative variations in determining the size and collection of holding tax from each category of UP and it has definite impact on local resources mobilization and as well as expenditure need.

However, two regression sets is run from eight variables and for each regression set, 27 wards of three UP cases are considered as observations. Since UPs existing policy of tax assessment, collection, development plan and resources allocation are done on ward basis, the selection of 27wards (49 villages) as observations is considered justified for regression.

The first set of regression (see Table 7) seeks to explain the determinants of average amount of annual holding tax revenue which reveals that households house pattern and literacy rate are two significant determinants. The adjusted R^2 indicates that this regression can accounts for 77% of all the variance in holding tax revenue size and collection for each ward of three UPs. This regression also tells us that the changes in the rural housing pattern and literacy rate have better possibility of increase generation of holding tax revenue of UPs (Hosn and Hammoud, 2009). The next set of regression (see Table 8) presents estimation results for a posited relationship between households' ability to pay and other explanatory variables. From this regression, per capita household minimum holding tax, households having agricultural land ownerships and electricity connection are significant determinants with 62% variance in ability to pay while the significant relationship between ability to pay and remittances nevertheless holds negative which might be due to influence of other "need" variables, such as 'debt burden' or 'earning limit', which is not entered in explanatory variables for data collection limitation. Debt burden and limited income may affect households' ability to pay if there are no substantial earnings are being geared up. In general rural unskilled labour in most of the cases has to mortgage their belongings or need to go

for distress borrowings in paying charges to get an overseas employment. (Note 5) In general, flow of internal remittances in rural area is also high in addition to the flow of foreign remittance. Deshingkar (2006) mentioned that migrants in Dhaka city send up to 60% of their income to relatives those are living in rural areas which have significant implications for agricultural production.

6.2 Business licence and Non-motorized vehicle fees collection performance

It is observed that businesses are taxed using flat rate fees irrespective of nature of businesses. UPs are not allowed to collect sales tax, VAT, or other types of business tariff. Most of the UP has no updated data for imposing fees on shops and enterprises and the rate where applied found within the range of Taka 100 to 200 which do not match the government prescribed Model Tax Schedule, 2003. In HRP around 50% and in LRP UP around 20% commercial enterprises were not within tax coverage where as in MRP UP, negligible fees were collected. In general, UP functionaries pointed out that there is no legal provision in getting prior clearance from UP before starting any business enterprise within UP jurisdiction which have tax non-compliance effect in administering the source. UP has very weak administrative authority in imposing penalty or apply legal course on business enterprises who has no licence or who are default in renewing existing licence. National expert opined that the Model Tax Schedule, 2003 is to be revised to reflect differences in the scale of commercial and industrial activity, rather than just the type of activity, and to incorporate a more progressive tax structure. Descriptive statistics analysis from UPs data shows that there is a considerable variation in annual growth in each UP and among UPs as well. Standard deviation of MRP UP (91.047) is higher than LRP (61.908), and LRP is higher than HRP UP (14.506) which indicates horizontal imbalance and fluctuation of revenue contribution of this source. The non-motorized vehicle fees in MRP UP is zero due to not collecting any fees while UP officials explained that the vehicle under this category is very few. Only in the HRP UP, this source still has potentials but in LRP and MRP UP there is no potential exist as per information being obtained through FGD and from UPs registers.

6.3 Users fees and charges collection performance

It is found that the viable source of fees and charges for UPs in most of the UPs are trivial and not cost effective. There are some fees though mentioned in the act, to be collected by UPs as their own revenues, but UPs have never utilized those sources, like fee on cinema, dramatic and theatrical shows, fees on fair, agricultural and industrial exhibitions arranged on commercial motive and fees on signboard. No cinema hall is found and signboard tax is never been collected in any one of the UPs. They also added that these are source on which UP has no administrative authority and there is no legal provisions in compelling organizers of fairs, dramas etc., and signboard owners to get prior permission from UPs. UP functionaries also said that there are new areas like fees on mobile tower, special cattle market during Eid festival, toll on heavy vehicle etc., can be utilize through legal support for UPs revenue sources.

6.4 Miscellaneous fees, charges estimation and collection Performance

It is found that MRP UPs has small amounts of revenue for rent on their properties, such as community halls, fees on nationality certificates but these amounts are not showing in the budget. In HRP UP, there are receipts from village court fees and fines, but these are trivial. It is found that over 2002/03 to 2006/07, UPs earnings from minor revenue sources are nearly absent. MRP UP has generated some income from investment. On the other hand LRP UP is earning revenue from slaughter house where as this sources are not used in MRP and HRP UP. Some sources are not equally utilized by each UP whereas some are not feasible in all UPs. UP functionaries said that the tradition of non-collection and in some cases these are not feasible sources that can be utilized right way. The tradition of non-collection influences local resources mobilization at UP level. Moreover, the government does not emphasize the collection from defined sources by penalizing UPs if there are poor collections.

6.5 Shared revenue from local sources

UPs are entitled to receive share of revenue from some local sources which are subject to the control of rates, bases and administration by central government though these are completely derived from UPs jurisdiction. UPs are allowed only the specified percentage as UPs own revenue. Upazila administrative official also noted that there is no legal restriction for UPs to inquire about the total revenues being derived from these sources. National expert opined that defining these revenue as own source is somewhat misleading while UP has no local democratic governance on them. National experts and UP functionaries also contended that these are sources can be adjusted without regulatory reforms or political pain. National expert added that a national policy framework would be required in such case where fiscal capacity of UP needed to be matched with clearly defined

expenditure responsibilities. Revenue adjustment possibilities, impact including implication of the local shared revenue sources are discussed in the following paragraphs.

6.5.1 Share from land registration fees

Land registration fee is an important revenue source of UPs and in the absence of alternative tax bases at the local level, this source is likely to remain of major importance in future. This revenue is controlled by the Ministry of Law while study has revealed that the administration of these sources is the main constraint. Upzila Nirbahi officer (UNO)—head of Upazila administration, can only know UPs share from the statement sent by Upazila sub registrar (collecting officer). It is found that UP officials have made little attempt to know whether they are receiving their correct share of the tax revenues. Rather, they simply know the amount of share being received and do not know how much remain outside their control. The account of this source is maintained and administered by the UNO who has to pay salaries of village police working under UP, and after this payment and administrative cost of maintaining record related to this, if there is any surplus, is used for matching fund for UP development projects which in fact not transparent to local people or elected representatives. During FGD, both UP functionaries and local people opined that the fund should be increased and directly credited to UP account to pay village police including exercise their own discretion to spend for UPs development programs.

Descriptive statistics analysis from UPs data shows that coefficient of variation of HRP (203.5%) and LRP UP (101.9%) are less impressive than MRP UP (204.0%), which might be caused by under reported sale value of property. The general trends of this source in three UPs are showing impressive average annual growth over the five years which are 47.7%, 41.1% and 25.0% for HRP, MRP and LRP UP respectively. Majority UP functionaries' as well local people opined in increasing UPs share from 1% to the break of 10 to 15%. If it is considered the existing 1% share to be increased to 5%, the contribution of this source in UPs total revenue will be 55%, 73% and 84% for HRP, MRP and LRP UP respectively and for all three UPs it will be average 70% (Note 6). Local people argued that UP should receive an appropriate share, since the land is located in their jurisdictions, and the activities of them have an effect on the value of property while UPs are currently provided with only 1% (i.e. 0.025% of the sale value) of collected revenue.

6.5.2 Share from Market and Water body auction fees

The operation of markets (daily and periodic) within UP area is contracted out on annual lease basis, as is the use of water bodies for fishing. The income is distributed 5% to the Ministry of Land, 20% for the salary of the UP staff, 15% for the maintenance and development of market, 10% for the Upazila development fund, 5% to the UP where the market is located and the rest 45% to be deposited in the Upazila development fund for distribution among UPs in the Upazila. Descriptive statistics analysis from UPs data shows that year to year growth from this source is highly fluctuating in all three UPs. HRP and LRP UP are higher than MRP UP and average growth in HRP UP is much higher than MRP and LRP UP. On the other hand, the coefficient of variation shows that the variation in LRP UP (1396.3%) is much higher than HRP (182.4%) and MRP UP (138.8%). However, the average increasing growth trend of this source is an indication of revenue potential.

Due to lopsided vertical allocation, the contribution of this source to UPs total own revenue is not impressive which ought to be more as opined by the UP functionaries and local people. Their responses from a questionnaire survey shows that majority respondents (86.3%) is in favor of increasing existing 5% share to the break of 11 to 20%. UP functionaries of HRP, MRP and LRP UP expressed (100%) their demand to increase the share to the break of 21% to maximum 60%. (Note 7) If it is considered that existing 5% share to be increased to 20%, UPs current average annual revenue of this source will increase by four times and contribution of this source in UPs total revenue will be 42.0%, 63.8% and 34.4% for HRP, MRP and LRP UP respectively.

6.5.3 Share from land development tax

In the Local Government (Union Parishad) Act, 2009 includes provision for UPs share which is yet to be decided by the central authority. It is observed that UP land office is responsible for collection of and development Tax (LDT) which is administered and controlled by the Ministry of Land. Any holding having total agricultural land of 3.34 hectares (8.25 acres) are exempted from this tax. Union land office informed that at present there is no rationale to allow tax exemption on any holding whatever the size is. Land price all over the country have been showing increasing trend for the last decade and people want to pay, even their land is eroded by the river, because land owner perceived that the tax payment receipt serve as an ancillary evidence of ownership. Local people also added that the UPs share from this source will have positive impact on tax assessment and collection. Five year tax collection data analysis shows that percentage share if provided to UP, based on annual average LDT collection, will have differential revenue impact. Calculation shows that the option of providing 2% share will increase total income by 2.9% for all three UPs, while for HRP, MRP and LRP UP it will be 3.7%, 1.9%

and 1.7% respectively and similar differential impact is also evident from the option of providing 10% share which shows that total income will be increase by 18.3%, 6.2% and 5.8% for HRP, MRP and LRP UP respectively. Since annual average LDT in HRP UP is higher the total amount is also around three times higher than that of MRP and LRP UP. (Note 8) In such case fixed 'total amount plus percentage' criteria will minimize the horizontal imbalance of the source.

6.5.4 Share from sand and stone granary/estate auction

Natural resources like forest resources, natural gas, coal, open fisheries are not allowed to any UP due difficulty in delimitation and administration. Though there is provision for providing share to UP, in reality national interest and inter-jurisdictional position also restrict UP in benefiting from these sources. UP functionaries and local people opined that revenue of from such resources can be raised by Upazila and Zila parishad which afterward can be distributed to UPs.

6.6 Overall own revenue performance of UPs

It is found that viable revenue sources available to UPs are quite limited and low yielding (see Table 9). Proportion of tax and non-tax revenue is 59: 41, 25:75, and 33:67 for HRP, MRP, and LRP UP respectively. The non-tax revenue share from market auction (only 5%) and land registration fees (only 1%) are lopsided vertical allocation between central government and UPs. (Note 9) To examine the overall revenue mobilisation performance, tax effort index is important which is calculated from actual level of taxes divided by the estimated level. Over the five years, with similar revenue structure, average tax effort index of HRP UP shows 21% above average while for MRP and LRP UP, it is 8 % and 43% below the expectation respectively, though there is an increasing revenue trend onward 2004-05 (see Table 10).

It is observed that discretionary grant and performance grant, have created a competitive environment in enhancing tax revenue collection which shows that despite fluctuation of conditional grants, discretionary grants have stimulation effect on UPs revenue augmentation onward 2003-04 (see Table 11). For HRP UP, tax revenue generation in 2001-02 and 2002-03 is 5.2% and 66.4% whereas in 2004-05, 05-06 and 06-07 tax revenue generations increased to 157%, 166% and 188% respectively. For MRP UP, the effect of discretionary grant is higher than HRP UP which shows that in 2004-05 to 06-07 the tax revenue generations have increased to 372, 475 and 730 % respectively as compared to 2000-01. Similar effect also evident in the case of LRP UP, which shows that in 2004-07 tax revenue collection have increased to 277%, 645% and 534% respectively as compared to 2000-01. (Note 10)

It is found that MRP UP have had innovative efforts like, employed young new tax collectors, prepared house to house assessment rolls, motivated tax payers to attend UPs open budget discussion, discouraged tax defaulters in providing any certificate (like, nationality, death, birth or inheritance etc) from UP, encourage tax payers with tax rebate as incentive and made local publicity including demonstration of development projects implemented from UPs own fund. On the other hand, in HRP and LRP UP tax collectors have been working for about 10 to 25 years whose average age is more than 60 years and weak effort being provided to motivate local people in participating UPs open budget discussion until government has imposed condition under BBG allocation system. HRP and LRP UP functionaries mentioned that the collection of local tax and fees traditionally has got little importance by the previous office bearers and owing to longer term non-compliance habits become obstacle in enhancing collection within any particular regime. It is also found that there are strong positive relationship between discretionary grant and UPs tax revenue generation for MRP UP (0.993) with significant at 0.01, for HRP and LRP UP this relationship is also showing positive with significant at 0.05 but the relationship between discretionary grants and conditional block grant for HRP is negative and for MRP and LRP UP, it shows positive weak relationship with no significance level (see Table 12).

Despite some recent progress in revenue collection, it is however, collection of holding tax is poor in size, in compare to potentials and assessment coverage. When interviewed local people, the multiple responses show that main reasons behind poor collection is lack of taxpayers trust on UP functionaries (70% cases) which is followed by other reasons like, long tradition of tax non-compliance (68% cases) that leads to tax avoidance tendency among local people; in-built weakness of UPs tax administration system (66% cases) which also refers to the UPs inherent status of local revenue administration; lack of transparency in tax assessment and collection (66% cases) for individual case that shows UPs political motive in escaping party line political workers from proper tax charges; and finally, wealthiest people are major tax defaulters (62% cases) that indicates UPs inability or fear that might arise out of losing support in the next election. Local people also opined on reasons behind tax non-compliance. They mentioned that major reason of tax non-compliance is related to perceived corruption of UP functionaries (83% cases) followed by other reasons related to the perception of local people

that hold the views that local development is the responsibility of the central authority (81% cases), absence of punitive measures against the tax defaulters (78% cases), inequality in assessment system (72% cases) and absence of visible benefit of tax (67% cases). (Note 11)

Overall, it is found that in all three UP cases revenue assessment, collection and development expenditure have increasing trend and this trend is reinforced by the introduction of discretionary and performance grants but the sustainability of this trend depends on both central financial and non-financial support including local efforts with the exploitation of additional and new sources of resources. The increasing trend of UPs revenue assessment and collection has impact on UPs development expenditure. From Table 13, it is found that in HRP UP, the higher per capita assessment of revenue has strong positive linear association with per capita revenue collection with significance at 0.05. Similarly strong positive associations are also being evident in the case of MRP and LRP UP with significance at 0.01. On the other hand, the linear association between per capita revenue collection and per capita development expenditure show positive relationship in the case of HRP and LRP UP while it is negative in the case of MRP UP with no significance level. The negative relationship of MRP UP is due to its higher non-development expenditure in comparison to other two UPs.

7. Conclusion and Observations

UPs being a democratically elected body, working closest to the rural people, have little achievements in relation to serve rural people to whom they are responsible by the statute. Recently donors, international agencies, central government and higher tiers rural local governments including UPs representatives have shown their serious concerns over how this body can operate, and to what extent UP can fulfill expectations of local constituents. This study reveals that much achievement yet to attain through mobilization of local resources to make UP a viable and financially sound body. In summary, it is evident from findings that the local resources mobilization performance of UPs do not lie in lack of commitment, but rather a pragmatic fiscal devolution policy of central authority to induce UP in strengthening revenue efforts which is confirmed by the stated hypothesis. Fiscal devolution policy adopted by the government is still, in its infant that requires continuous central commitment as well as local efforts and strategies.

This study has revealed that UPs major sources of own revenue is holding tax which is not assessed or collected based on particular valuation method rather ability to pay method is informally used on feasibility frontier of the rural context (World Bank, 2004, p.10). In this case, the regression result suggests that households housing pattern and literacy rate can be used as major determinants of annual average holding tax revenue and for this accomplishment, the regression result also suggests that household ability to pay can be based on last years actual per capita households holding tax, foreign and domestic remittances, agricultural land ownership and household having electricity connection. Since complicated taxation system is not understood by the rural commoners, link of visible benefit of tax is weak and non-compliance become a hurdle in harnessing property and community tax, easy and transparent method will help in increasing tax revenue collection. Compliance habit and culture including local economic development over the course will entail the use of a formal value based taxation system. But there are still arguments that some conditions need to be fulfilled for ability to pay based criteria, such as accurate households statistics, a clear commitment of local representatives, transparency and ability to mobilize local resources by addressing all constraining factors that may derived from existing social, economic, political and administrative and legal factors. In this connection, the training efforts must be undertaken for UP functionaries which should include both technical aspect of tax assessment and administration as well as more purely consciousness-raising efforts. (Note 12)

It is also found that there are still existence of untapped revenue that can be exploited with extended efforts and incentive mechanism. There should be greater efforts both from central and local government in prioritizing internal resource mobilization by identifying local potential sources, motivating local people and creating a stake of local ownership on development projects including administrative and regulatory supports. Central and local government, is therefore, need to formulate policy and strategies based on the realities and consequences likely to be occurred in the devolution system. Study also revealed that conditional grants in various forms have shown negative relationship in the case of high revenue generating UP and very weak positive relationship in the case of moderate and low performing UP which suggests that strategy is required to increase discretionary block grants to encourage UPs and on the other hand, strategy is required to provide incentive based conditional grants or substitute part of conditional grants by discretionary grants keeping an eye on UPs own revenue efforts and revenue administration.

As per as local resources potentials are concerned, it is observed that there are many avenues still available for additional revenue sources for UPs including increase of UPs share from land registration fees, 1% to 5% or

more, which is considered as easy to do and have a big impact on the UPs own financial resources availability with only a marginal effect on national budgetary resources. Share of land development tax and marriage registration fees including enhancement of share of market/water body/sand extraction etc. auction fees from 5% to 20% can be other extended area of UPs local resources. In addition, UP functionaries should strive towards improving internally generated revenue from existing sources and sought for new sources for capitalization and instill transparency and accountability in their management structure. This can be effectively carried out through community participation in their various activities. They also need to carry people along in the execution of the projects which will encourage administrative openness and accountability including taxpayers' compliance and sacrifice.

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Notes

Note 1. GOB (2008) & Available: www.lcgbangladesh.org/inventory/13_pdf (January 5, 2010).

Note 2. Fox and Menon (2008) and GOB (2007) in their study on 30 and 10 UPs respectively, showed that average annual own revenue of each UP is Tk 470 000–540 000 with minimum Tk 145 000 and Maximum Tk. 1719 000. Similar flow of UP revenue during 2003-07 was found in the study report of Rupantor (2008), a NGO working with a project known as ‘Improving Local Level Governance by Strengthening UP and Creating Citizen’s Awareness Including SIDR Reconstruction Activities’ under USAID finance, covering 50 Union Parishad in southern coastal part of Bangladesh.

Note 3. Bahl and Martineez-Vazquez (2008) contended that confidence in the property tax as the main source of own local government revenue may be misplaced in many developing countries and local governments have not been able to realize the potential of this tax as a source of local revenue.

Note 4. Since ability to pay method is used by UPs instead of any particular valuation method, Holding tax revenue potential is calculated from UPs assessment rolls where eligible HHs are multiplied by the minimum average holding tax rate that based on per capita HH which is applied to each eligible HH and this minimum average rate is estimated (Tk.75.00) and agreed by UP functionaries and local people during FGD.

Note 5. Rashed Al Hasan (2006), showed that general utilisation pattern of remittances in Bangladesh is 20.5% for food and cloth, 11.2% for agricultural land purchase, 15.1% for home construction/repair, 10.6% for repayment of loan (for migration), 9.1% of social ceremonies, 7.2% for sending family members abroad, and only 4.8% are used in business and 3.1% for savings.

Note 6. Report (April 1998) of the ‘Local government institution strengthening committee’, formed by the government of Bangladesh, recommended that UP should receive the share of land registration fees @10% and later on another report (November 2007) of ‘Local Government strengthening committee’ recommended that land registration fees @2% can be provided to UP. But none of these recommendations were executed by the central government.

Note 7. Report (April 1998) of the ‘Local government institution strengthening committee’, government of Bangladesh, recommended that UP should receive the share of lease money from market, water bodies, ferry Ghat and sand extraction @50%, and later on another report (November 2007) of ‘Local Government strengthening committee’ recommended that lease money from stone or sand extraction @3%, can be provided to UP. But none of these recommendations were executed by the government.

Note 8. Report of the ‘Local government institution strengthening committee’, of the government of Bangladesh in April 1998, had recommended to provide UP a share of land development tax @10%, and later on another report of ‘Local Government strengthening committee’ in November 2007 recommended to provide a share of land development tax @3%, to UP. Government as per UP act, 2009 is yet to decide on it.

Note 9. Report (April 1998) of the ‘Local government institutions strengthening committee’, government of Bangladesh, recommended that UP should receive lease money from market @50%, land registration fees @10%, share of land development tax @10% and accordingly report of ‘Local Government strengthening committee’ in November 2007 again recommended that land registration fees @2%, lease money from stone or sand extraction @3% and share of land development tax @3% can be provided to UP. But none of these recommendations were implemented by central government.

Note 10. Approximately similar trend of UP tax revenue increase (2003-04 to 2006-07) was found by Rupantor (2008) in 50 Union Parishad in southern coastal part of Bangladesh.

Note 11. Elster (1989) and Naylor (1989) found that tax compliance with rules is affected by social norms while study of Cummings et.al. (2001) contended that there is evidence that these norms are influenced by the tax regime and by the responsiveness or behaviour of the government to the wishes of the citizen.

Note 12. Study of Aminuzzaman (2008), showed that significant portion (85%) of UP functionaries have not received any training.

Table 1. Selected UPs profile

Description	Fatullah (HRP UP)	Garadah (MRP UP)	Barellah (LRP UP)
Geographic Information			
UPs location in the region	Central	North-West	South-East
Location in Division	Dhaka	Rajshahi	Chittagong
Location in District	Dhaka	Sirajgonj	Comilla
Location in Upazila (Sub-district)	Narayangonj	Shajadpur	Burichong
Distance from district head quarter (Kilometre)	2	20	35
Distance from Upazila head quarter (Kilometre)	5	7	18
Land area (sq. km)	5.096	14.10	19.53
Total land (hector)	725.46	371	1904
Demographic Information			
Population	117 833	31 113	43 223
Density (per sq. km)	23 104	2206	2213
Villages	11	20	18
Households	26 558	8890	6882
Literacy rate (%)	49	70	45
Basic Socio-Economic Information			
Small industries	170	4	4
Commercial shops/enterprises	1473	250	490
Rice mills	-	-	25
Open and permanent markets	7	4	4
Non-motorised vehicles	2961	132	396
Bank and Insurance company	6	2	3
NGOs	5	9	5
Infrastructure and physical facilities^a			
UP owned earthen road	5 km	30km	24 km
UP owned HBB road	8 km	1 km	1.5 km
Bridge and culvert	4	7	80
Agricultural irrigation scheme	2	20	30
Tube well for drinking water supply	3000	4400	3700
Natural disaster Information			
Major natural disaster occurred every year	Water logging and temporary flooding	River bank erosion and flood	Flood and water logging

Source: UP and Upazila Statistics Office, 2008

^aSpecifically UP has no ownership on any road, only for functional purpose roads connected to village to village or within villages are classified as UPs own roads while rests are belong to Upazial road, zila parishad road and Roads and Highway (R&H) department roads.

Table 2. Descriptive statistics of holding tax assessment disparity based on per capita HH^a

	HRP UP		MRP UP		LRP UP	
	Total	Per Capita HH	Total	Per Capita HH	Total	Per Capita HH
Average	822	91.59	147	17.82	144	118.96
Std. Dev	186.20	20.72	91.32	9.17	61.27	98.36
Coeff. of Var.	22.65	22.63	62.12	51.44	42.55	82.67
Maximum	1100	122.53	214	24.59	172	273.00
Minimum	610	68.00	36	6.80	35	24.32

Source: Authors calculation from UP office data, 2008

^aTotal (in 1000) and per capita in Tk (2002/03-2006/07)

Table 3. UP representatives and local peoples' responses on causes of lower assessment of holding tax^a

Multiple Responses	HRP UP		MRP UP		LRP UP		All 3 UP	
	f	% of cases	f	% of cases	f	% of cases	f	%
Lack of sincerity of UP representatives	35	57.4	33	54.1	35	58.3	103	56.6
Assessment not done by professional assessor	35	57.4	35	57.4	32	53.3	102	56.0
UP has no accountability for low assessment	31	50.8	40	65.6	30	50.0	101	55.5
No proper use of particular valuation method	35	57.4	25	41.0	40	66.7	100	54.9
Rich HHs are not properly assessed on socio-political reasons	38	62.3	30	49.2	32	53.3	100	54.9
'No minimum tax limit' is being used by UP as an excuse	28	45.9	26	42.6	26	43.3	80	44.0
Low assessment is to show better collection performance	25	41.0	26	42.6	26	43.3	77	42.3
Tradition of use low tax rate with nominal yearly adjustments	25	41.0	26	42.6	24	40.0	75	41.2
Total	252	413.1	241	395.1	245	408.3	738	405.5

Source: Field survey, 2008

^aN = 182 (each UP 61, and for all three 182 valid cases, no missing cases).

Table 4. Average assessment, collection and arrears of holding tax (2002/03 to 2006/07)

UP	Annual assessment (In 1000)	Annual assessment growth (%)	Annual collection (In 1000)	Annual collection growth (%)	Annual arrears (In 1000)	Annual arrear growth (%)
HRP UP	822	46	872	16	-	-
MRP UP	147	24	126	85	22	15
LRP UP	144	38	81	56	64	41

Source: Authors calculation from UP office data, 2008

Table 5. Assessment and collection efficiency of holding tax^a

Financial Year (FY)	HRP UP			MRP UP			LRP UP		
	Assessment	Collection	Collection efficiency (%)	Assessment	Collection	Collection efficiency (%)	Assessment	Collection	Collection efficiency (%)
2002-03	610	562	92	36	2	6	35	30	86
2003-04	700	737	105	60	52	87	172	51	30
2004-05	850	1054	124	214	186	87	172	67	39
2005-06	850	985	116	214	193	90	172	148	86
2006-07	1100	1024	93	214	196	92	172	108	63
Total	4110	4362	106	738	629	85	723	404	56
Average	822	872	106	147	126	85	144	81	56
Per capita ^c	30.95	32.83	-	16.65	14.17	-	21.07	11.77	-

Source: Authors calculation from UP office data, 2008

^aAmount in 1000 Tk., average taxpayers HH are 13293, 7662 and 1290 as against total 26558, 8890 and 6882 for HRP, MRP & LRP UP respectively and per capita is calculated based on total HH.

Table 6. Descriptive statistics of response and explanatory variables

Variables ^a	Minimum	Maximum	Average	Std. Deviation	CV (%)
Average annual holding tax revenue	23000 (6.1)	520830 (100.9)	10400 (24.5)	109731 (19.3)	1055.1 (78.8)
Active population (age 10 to 59 years)	593	24833	5007.9	5217.5	104.2
Households with domestic and foreign remittance income sources	5	2427	322.2	551.0	171.0
Households with non-agriculture income source	115	4618	946.8	981.9	103.7
Literacy rate	30.86	66.69	48.2	9.9	20.5
Household with agricultural land ownership	76	2941	652.6	575.4	88.2
Household having Electricity connection	0	6390	1045.1	1467.4	140.4
Households with Pattern of house (Pucka, semi-pucka and Kutch minus Jupri House) ^b	280	7100	1312.4	1479.2	112.7
Household ability to pay holding tax.	70.00	5250.00	521.7	1018.5	195.2

Source: UP office, 2008 & BBS, 2001.

^aAverage annual holding tax and ability to pay tax (in Tk.) are from UPs records and other variables are from population census, 2001 (District series), figure in parentheses are per capita HH's current tax revenue collection (in Tk.).

^bPucka means building, semi-pucka is brick wall with tin roof, Katcha is wooden fence with tin roof and Jupri means house which is made of very cheap construction materials like straw, bamboo, grass etc.

Table 7. Determinants of average annual holding tax revenue size^a

	Constant	Households with pattern of houses (Pucka, Semi-pucka, Katcha minus Jupri)	Literacy rate	Adjusted R ²	F-value	df
Beta	-	0.799(3.369)	0.203(503.58)	0.77	44.261***	26
t-statistics	-1.884*	7.985***	2.026**			

Source: Authors calculation from population census data, 2001 and UP office record.

*Significant at 0.10. **Significant at 0.05. ***Significant at 0.001.

^aRegression result is from 7th iteration under backward method, figure in parentheses are Std. Error.

Table 8. Determinants of households ability to pay tax^a

	Constant	Per Capita household holding tax revenue	Households with domestic and foreign remittance income sources	Households having agricultural land ownerships	Households having electricity connection	Adj. R ²	F-value	df
Beta	-	0.858(7.156)	-2.028(1.124)	0.713(0.643)	1.407(0.424)	0.62	11.501***	26
t-statistics	-3.553**	6.312***	-3.334**	1.963**	2.301*			

Source: Authors calculation from population census data, 2001 and UP office record.

*Significant at 0.05. **Significant at 0.01. ***Significant at 0.001.

^aRegression result is from 5th iteration under backward method, figure in parentheses are Std. Error.

Table 9. Composition and contribution of own revenue sources^a

Revenue Sources	HRP UP	MRP UP	LRP UP
Holding Tax	4362 (45)	629 (24)	404 (21)
Business licence Fees	1371 (14)	34 (1)	187 (12)
Non-Motorized Vehicle fees	506 (5)	Nil	23 (1)
Market Auction fees	1469 (15)	828 (31)	192 (12)
Land registration fees	1938 (20)	948 (35)	850 (54)
Income from Investment	Nil	110 (4)	Nil
Others	1 (1)	163 (6)	Nil
Total	9647 (100)	2712 (100)	1656 (100)
Average annual own revenue	1929	542	331
Average annual per capita total own revenue	16.37	17.42	7.66

Source: Authors calculation from UP office data, 2008

^aAmount in 1000 Tk. and figure in parentheses are percentages (2002/03-2006/07)

Table 10. Tax effort index

Financial year	HRP UP			MRP UP			LRP UP		
	Estimated per capita own sources revenue ^a	per capita own sources revenue collection	Tax effort index	Estimated per capita own sources revenue	per capita own sources revenue collection	Tax effort index	Estimated per capita own sources revenue	per capita own sources revenue collection	Tax effort index
2002-03	9.05	9.69	1.07	7.55	6.23	0.83	4.63	4.49	0.97
2003-04	10.17	12.54	1.23	13.56	13.27	0.98	8.31	5.74	0.69
2004-05	11.59	16.5	1.42	18.03	16.62	0.92	9.02	6.66	0.74
2005-06	16.61	20.26	1.22	17.48	15.43	0.88	11.43	10.00	0.87
2006-07	17.1	19.41	1.14	23.46	21.79	0.93	13.84	11.73	0.85
Average	13	15.67	1.21	16.02	14.67	0.92	13.61	7.72	0.57

Source: Authors calculation form UP office data, 2008

^aPer Capita calculation is based on average population.

Table 11. Effect of discretionary and performance grants on UP's tax revenue^a

FY	HRP UP			MRP UP			LRP UP		
	Per capita conditional grant	Per capita BBG and PG	Per capita Tax revenue collection	Per capita conditional grant	Per capita BBG and PG	Per capita Tax revenue collection	Per capita conditional grant	Per capita BBG and PG	Per capita Tax revenue collection
2000-01	3.90	n/a	4.23	8.03	n/a	1.47	8.17	n/a	0.62
2001-02	4.30(10.3)	n/a	4.45(5.2)	9.64(20.0)	n/a	1.47(0.0)	7.05(-13.7)	n/a	0.62(0.0)
2002-03	6.54(67.7)	n/a	7.04(66.4)	10.25(27.6)	n/a	1.41(-4.1)	8.10(-0.9)	n/a	1.30(109.7)
2003-04	4.81(23.3)	n/a	9.26(118.9)	10.61(32.1)	n/a	2.35(59.8)	9.16(12.1)	n/a	2.46(296.8)
2004-05	3.37-13.6)	2.97	10.89(157.4)	12.41(54.5)	14.31	6.94(372.1)	5.11(-37.4)	8.41	2.34(277.4)
2005-06	4.10(5.1)	3.15	11.28(166.7)	6.75(-15.9)	15.20	8.45(474.8)	8.65(5.9)	8.94	4.62(645.2)
2006-07	4.31(10.5)	3.82	12.19(188.2)	18.51(130.5)	23.58	12.21(730.6)	13.23(62.0)	8.65	3.93(534.0)

Source: Computed by Author from UP office data, 2008

^aBBG is Basic block grant and PG is performance grant and both are discretionary grants, figure in Parentheses are revenue collection growth in percentages in compare to 2000-01.

Table 12. Correlation coefficient matrix based on per capita revenue

	Tax Revenue generation		
	HRP UP	MRP UP	LRP UP
Conditional central grants	-0.196	0.616	0.492
Unconditional central grants	0.858*	0.993**	0.826*

Source: Computed by Author from UP office data, 2008

* Correlation is significant at the 0.05. ** Correlation is significant at the 0.01.

Table 13. Correlation matrix of revenue assessment, collection and development expenditure^a

Variables	HRP UP		MRP UP		LRP UP	
	RA	RC	RA	RC	RA	RC
Revenue Assessment (RA)	1.000	--	1000	--	1000	--
Revenue Collection (RC)	0.942*	1000	0.994**	1000	963**	1000
Development Expenditure (DE)	--	0.808	--	-0.287	--	0.151

Source: Computed by author from UP office Data, 2008

^aNumber of observation is 5 (2002/03 to 2006/07)

*Correlation is significant at the 0.05. **Correlation is significant at the 0.01.