

Local Government Decentralization Efforts for Revenue/Resource Mobilization in Developing Countries: *Rhetoric or Realities in Bangladesh*

UDDIN AHMED Musleh*

Synopsis

The Local government in the modern world is experiencing profound change in the decentralization paradigm, which basically aims to strengthen the local government as a self-government institution and thus to encounter the pro-people local governance by mobilizing revenue with the efforts of enhancing local resources. In spite of the fact that the local government in Asian Countries like Japan, China, Indonesia India, Nepal and Bangladesh has a long heritage. But it is still the weakened as well as neglected tier of the government in South Asian Countries both from the viewpoints of decentralization and financial self-sufficiency. Though the role of the local government institutions in the context of the viewpoints of decentralization efforts and development have been gradually increasing over the years in many developing countries, irrespective of the stage of economic growth and development. In some countries of the developing world, local resources and revenue mobilization are yet to perform adequate revenue raising capacity and capability due to lack of proper commitment towards decentralization of authority. Amongst the rural local bodies ,the Zila Parishad is running without an elected Parishad, Upazila Parishad is passing through a transition while the Rural Union Parishads (UPs), the lowest tier of local government are provided with several own revenue sources but they are yet to achieve adequate revenue raising capacity and performance. Mobilization of resources and revenue collection are still challenging task due to lack of real commitment from both central and local government. In addition, all rural areas in Bangladesh are not identical, variations are either in terms of socio-economic and demographic settings or in terms of vulnerability owing to frequent natural calamity or harsh climatic conditions. These variations, challenges and opportunities have impact on local revenue collection and resource mobilization. Unfortunately, at the national level, there is no overall record about local revenue performance though in many studies it is claimed that the revenue collection performance is not impressive mainly due to centralized tax structure, narrow tax bases and higher tiers access to the rural local fiscal domain. Therefore, this study has made an effort to investigate recent local UPs functional jurisdiction, recent decentralization efforts of local revenue mobilization and performance in the backdrop of participatory budgeting and planning practice with the introduction of discretionary and performance grants from central government with a short literature review. The study used the primary sources of information as well as secondary sources, interview methods and outcomes followed by discussions and findings which concludes with observations and implications. Albeit some limitations, this study has tried to reveal some common trait of local resources mobilization of UPs.

* Department of Public Administration University of Dhaka, Bangladesh &
Visiting Professor Graduate School of East Asian Studies Yamaguchi University, Japan

1. Introduction

Local government is a form of government within the jurisdiction of central system of government which in a majority of contexts, exists as the lowest field level tier of government administration within a given state. Local government is basically an organized social entity with a feeling of oneness. By definition, it means an infra-sovereign governmental unit within the sovereign state dealing mainly with local level affairs, delivery of local services, welfare activities of local communities and administered by local authorities. In political terms, it is concerned with the good governance of a defined local area, constituting a political sub-division of a nation, state or other major political unit. Local governments generally act within powers delegated to them by state constitution, legislation by the parliament or directives of the higher level of central administration which work in a specific/defined area and population. In federal states, local government generally comprises the third tier of government, whereas in unitary states, local government usually occupies the second tier of government, often with enjoying greater self-governing powers than higher level administrative units. Over the course of time, after their independence, the paradigm of local government in South and South-East Asian countries have changed with their political and economic façade. Elected democratic body is now taking place in many countries of Asia and Africa in offering realistic possibilities for citizen's participation and local resources mobilization for local development. The legal status of local governments varies across developing countries. As for example, in Brazil, India, South Africa and Uganda, local governments have a constitutional status whereas in Indonesia and Poland, local governments were created by central legislation but in Argentina by provincial legislation and in China by an executive order of the central government. It is interesting to note that throughout the world, there is no clear-cut pattern in the autonomy and range of local service delivery as well as development activities provided by local governments deriving their status from central and state constitutions or legislation. However, local governments that are created through legislation, in general, are significantly weaker—with the notable exception of some few countries. It has a long history in South Asian developing countries and is widely recognized as a vital instrument for ensuring grass root level participatory democracy through decentralization of power and authority at the local level.

National political parties through election aggregate the demands of the dispersed population and describe common will for the greater political interests to serve the nation. Local resources mobilisation in both urban and rural local government units is a matter of continuing debate which centres on sound fiscal health of local governments. Recently, development partners and central governments supports have brought about some positive changes in the fiscal role of local government, but much success yet to be achieved. Since development of local government is the responsibility of the local actors' dynamic role and mobilization of local resources, it is contended that recent fiscal decentralization move without some fiscal responsibility will lose

much of their meaning (World Bank 2009). On the other hand, if the transfer of powers and responsibilities from the central authority are not matched by the ability to finance in carrying out of those functions, there will be a risk of creating a fictional decentralization. By tradition, a holistic rural development concept is still being perceived at the local level with the notion that economic growth fails to enable rural communities to achieve self-reliant and sustainable development which has created demand for righteous share from national revenue to implement local development programs through local participation (Chiangmai, 1999). However, the role of local government in the development effort has been gradually increasing over the years, irrespective of the stage of economic growth in the country. In Nepal, the Local-Self Governance Act, 1999 had reinforced Village Development Committee to exploit local revenue and ensure participatory development. In Thailand, the National Decentralization Act, 1999 has increased local government own revenue around 43 per cent in 2002 and there is percentage changes from 0.09 in 1999 to 8.51 in 2006 (Suwanmala 2002; ILGI and WBI 2006). In the Philippines local government code enacted in 1991, has granted more autonomy not only to mobilize resources but also to allocate them and local governments are entitled to share 40 per cent in the national taxes from 1994 onward (Capuno 2002; Oriol 2002). In Bolivia decentralization reform has brought about enormous changes in local public investment and local revenue raising (Faguet 2003). Ugandan's Local Government Act of 1997 provided authority to local councils at the sub county level to raise revenues and initiate development projects (Works 2002). The fiscal decentralization reform in Indonesia provides lessons regarding formulation of local government budgeting based on expenditure needs and minimum service standard including allocation of central resources based on equitable share in the form of unconditional block grants (Martinez-Vazquez et. al. 2004). Decentralization does have several dimensions, and its apposite exposure and appearance vary across countries, and its implementation takes considerable time, and it is not instinctively positive or negative, and its efficacy depends on particular country context and conditions (Smoke, 2003).

The contemporary Bangladesh is experiencing profound change in the decentralization paradigm, which basically aims to strengthen the local government as a body corporate and thus to encounter the pro-people local governance by mobilizing local resources and enhancing local revenue. In spite of the fact that the local government in South Asian countries like India, Pakistan and Bangladesh has a long heritage, it is the weakened as well as neglected tier of the Government both from the viewpoints of government and economic perspectives. The local government in general and the newly created Local Government Upazila (Sub-District) Parishad (Council) in particular is passing through a transition. In spite of the constitutional guarantee for establishment of the democratic local government in every administrative unit of the Republic¹, amongst the rural local government institutions, the Zila Parishad (District

¹ See Musleh Uddin Ahmed et.al (2010) , *Democratic Decentralization in Bangladesh i: An Analysis in Social Science Review – the Dhaka University Studies*, Part D, Vol. 27 No.2 Dec. pp 37-48

Council) is running without an elected body by the hands of the bureaucrats under the leadership of a government appointed chairman (a man of political party in power), Upazila Parishad has elected chairman and vice chairmen while the grass root level local government unit i.e., Union Parishad (Village level Council) is running with fully an elected body. It is evident that democratic decentralization provides the environment for wider citizen's participation and inclusiveness. And thus developing political capacity of local citizens for demanding transparency and accountability, and engaging local authorities towards economic advancement are apparently ways to ensure the sustainable poverty reduction by providing service delivery with right based approach in the rural areas

2. Objective and Methodology

The role of local government in the development effort has been gradually increasing over the years in many countries, irrespective of the stage of economic growth. It has a long history in South Asian developing countries and is widely recognized as a vital institution for ensuring grass root level democracy. In some countries of the world especially in Bangladesh, Union Parishads (UPs), the lowest tier of local government institution are yet to perform adequate revenue raising performance. In addition, all rural areas in Bangladesh are not identical, variations are either in terms of socio-economic and demographic settings which have impact on local resource generation and mobilization. Therefore, this study has made an effort to investigate recent local UPs functional jurisdiction, recent decentralization efforts of local revenue mobilization and performance in the backdrop of participatory budgeting and planning practice with the introduction of discretionary and performance grants from central government with a short literature review. The study used the primary sources of information as well as secondary sources, interview methods and outcomes followed by discussions and findings which concludes with observations and implications. Albeit some limitations, this study has tried to reveal some common trait of local resources mobilization of UPs.

3. Nature of Local Revenue/Resource Mobilization in Developing Countries

In real life, rural local government revenue structure in most of the developing countries is narrow and due to institutional weakness, local level revenue administration is weak. In developing country most of the rural local governments have little chance to be financially self-reliant and on the other hand central government has limitations in providing sufficient grants. Therefore, both central and local revenue supports are needed to serve rural citizen. Enormous study asserted that fiscal capacity and fiscal need of many developing countries are not determined on empirical basis to harness optimum local resources and providing central grants to meet the

actual deficit. Central fiscal support and local revenue efforts can enable local government in generating more local resources and in providing more development works as per local preferences. High dependency on central has an inefficiency effects on spending while little revenue raised locally might have low accountability to local constituents. Substantial voluntary compliance of local people is also essential in order to have a sustainable local revenue mobilization system.

In developing countries, revenue from property tax, though buoyancy source of own revenue, but in general this source is less significant and can generate maximum 40 per cent of local government revenue, 2 per cent of total government revenue and about 0.5 per cent of GDP (Kelly & Montes, 2007). Around the globe, nominal rate of this tax, in general, shows a typical range between 0.5 and 1.0 per cent and assessed value of property is usually lower than market value due to legal settings (Martinez-Vazquez & Rider, 2008). In Indonesia, the centrally-set land tax rate is only 0.5 per cent and in the Philippines though nominal rate is 2 per cent, the effective rate is only 0.07 per cent (Guevara, Gracia, & Espano, 1994). Despite some limitations, property taxation is considered ideal and buoyant revenue source for local government finance (Bird & Slack 1991; Bhal 1998). In developing countries other common own revenue sources are business license fees, vehicle fees, community or poll tax, beneficiaries charges, signboard tax, fees on fair and shared revenue derived from local sources. However, own revenue generation feasibility of rural local government depends on local fiscal structure, use of revenue for local needs, development expenditure autonomy and revenue raising efforts. The size and freedom of the local government are considered crucial that determine the structures and generation of revenue and adequacy of local finance. In theory, a sizeable local government in terms of human settlements and productive land area have better prospects of more revenue generation (Hye, 1985). Revenue generation in rural local government, is always a great challenge and the mechanisms by which local financial resources can be mobilized have raised key issues, like revenue raising ability, effects on economic efficiency, equity implications and administrative feasibility (Bahl, 1984).

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 least developed and developing countries. The reasons of such decline are: *first*, not proper addressing of legal, fiscal and institutional frameworks and the local government incentive system; *second*, disincentives of central transfer system in improving revenue mobilization; *third*, weak incentives to collect taxes; *fourth*, unfavorable local government tax assignments leading to unpopular tasks that are difficult to collect; *fifth*, 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. All these obstacles emphasize on fiscal decentralization and has turned to the question of how and what specific revenue sources might be most feasible. Recent study shows that fiscal decentralization has induced fiscal

responsibility and financial resource mobilization in Philippines (Loughlin et. al. 2006; Bird & Vaillancourt, 2006). Fiscal decentralization can broaden the tax net, tax collection and administrative efficiency, spending responsibilities and lower costs of tax collection (Shah, 1997). It is argued that fiscal decentralization has positive impact in improving design and implementation of local level plan and to mobilize and allocate resources that might utilize the growth potential of local areas (ESCAP, 1978). The other scholarly opinions are: constituent pressure on local governments in managing resources and delivering services (Putnam, 1993), appoint competent staff (Fiszbein, 1997), political autonomy which in return motivates participation (Inter-American Development Bank 1997), responsiveness to citizens' preferences (Huther & Shah, 1998) and strengthens local level accountability (Seabright, 1996). It is also argued that resource mobilization will increase if citizens are involved in budgeting decisions through participatory processes because participation will induce more willingness to pay for services through local taxes.

On the contrary, argument have been raised that in a decentralized financing system, local participatory planning and public choice and priorities may not match wider national goals and within a given budget constraint a consensual local needs and priorities will have biased tendency in benefiting smaller wealthiest section. Many scholarly works assert that there is lack of transparency of grant design which works against the objective of transfers and there is evidence that government has not always kept commitment (Estache & Sinha, 1995). There evidence that decentralization created inequalities in poor areas of Argentina (Ravallion, 1998) and poorer regions are provided with lower level services in China (West & Wong, 1995). In Uganda no positive relationship were found between efficiency and equity of local public service delivery (Azfar & Livingston, 2002). It has association with slower growth (Davoodi and Zou 1998; Xie, Zou & Davoodi, 1999) and it is found that local governments become corrupt and decentralization results in greater state capture (Goldsmith, 1999; Bardhan & Mookherjee, 2000). Some findings showed that there are mixed outcomes of decentralization, like Philippines and Uganda could not produce positive impacts due to hamstrung finance and local governance constraints (Azfar et al., 2000) and it has evidence of slow economic growth in USA and Mexico but no negative impact was found for economic growth in Germany, India, Italy and Spain (Rodriguez-Pose & Bwire, 2003).

4. Local Government System in Bangladesh

The system of Local Governments –or rather local governance- in Bangladesh has a long history that can be traced back to the period of the British rule (1765-1947) and the Bengal *Chowkidari* Act of 1870, the Bengal Local Self-Government Act of 1885 that was followed by the Bengal Local Self Government (Amendment) Act of 1908, and the Bengal Village Self Government Act of 1919. Under the *Chowkidari* Act, the District Magistrate was empowered to nominate a *Panchayat* of 5 members, which de facto formed local government at the *Union*

level. The main function of the *Panchayat* –and in line with the objectives of the British ruler– were to maintain law and order and collect taxes and –in order to achieve these objectives–, to appoint *Chowkidars* (village police). Both during the time Bangladesh was part of Pakistan (1947-1971), and during the time after independence (in 1971), the configuration of Local Government institutions (in terms of the names, composition and even the number of tiers) regularly changed – often after elections upon change of the ruling party. Local Governments are described in the Constitution of Bangladesh, but only in general terms (see Table - 1) and details are to be established by Acts of Parliament – and hence can be changed relatively easily – which has happened (too) frequently over the past decades.

Table--1 : Constitution of Bangladesh – Articles related to Local Government

<p>Art 9 : Promotion of Local Government Institutions The State shall encourage local Government institutions composed of representatives of the areas concerned and in such institutions special representation shall be given, as far as possible, to peasants, workers and women.</p> <p>CHAPTER III LOCAL GOVERNMENT</p> <p>Art 59. Local Government (1) Local Government in every administrative unit of the Republic shall be entrusted to bodies, composed of persons elected in accordance with law. (2) Everybody such as is referred to in clause (1) shall, subject to this Constitution and any other law, perform within the appropriate administrative unit such functions as shall be prescribed by Act of Parliament, which may include functions relating to- (a) Administration and the work of public officers; (b) the maintenance of public order; (c) the preparation and implementation of plans relating to public services and economic development.</p> <p>Art 60. Powers of local government bodies For the purpose of giving full effect to the provisions of article 59 Parliament shall, by law, confer powers on the local government bodies referred to in that article, including power to impose taxes for local purposes, to prepare their budgets and to maintain funds.</p>
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5. Relationship of Local Bodies with the Administrative Setup

The present administrative structure at sub-national level is comprised of eight divisions, 64 districts, some 483 *Upazilas* and around 4505 UPs the latter with an average population of around 27,000 people and average land area of roughly 30km².

Table-2 provides a summary of the present administrative set-up and the major challenges, which are –as far as the UPs are concerned– further discussed below.

Table -2: Administrative and Local Government Units in Rural Bangladesh

Administrative Unit	LG unit	Average size	Observation
8 Divisions	-		
64 Districts	Zila Parishad	2,320,000 people +/- 2,250 sq.km	LG units not established, but the present ruling party is considering its re-establishment. The district Administrator (appointed by) is the (administrative) head of the district.
483 Upazilas (Sub Districts)	Upazila Parishad	308,000 people +/- 300 sq.km	After a period of being disbanded (from 1991 to 2008) the LG units at the sub district level are operational again but the relationship between the Central Government Agencies (headed by the UNO) and the Local Government (headed by the elected chair person) is yet to crystallise, also because the UNO has the dual role of (i) a member of the UPZ parishad and (ii) head of the central government departments; hence combining a Central Government Role with a Local Government role.
---	4,505 Union Parishad at Village level (comprising 40,392 Wards / Villages	27,000 people +/- 26 sq.km	The UPs are the oldest and most stable form of LG.

6. Role of Local Government Institutions

At present, there are three tiers of rural local government in Bangladesh, known as Zila Parishad (ZP) at the district, Upazila Parishad (UZP) at the sub-district and Union Parishad (UP) at the union or villages level. The Zila Parishad at the District is the vital unit of administration, though it has no elected local body. But, very recently, the government nominated the chairman of the zila parishad from the local level leaders of the political party in power to accommodate the political partymen in local power politics. The Upazila Parishad at Upazila (mid-level tier of administration) has one chairman and two vice chairmen directly elected by the people. The other members of the Upazilas are representative members (Chairmen of the local Union Parishads), official members (Office heads of the Upazilas) and some nominated local members. The Union Parishad at the grass root Union level (comprising with many villages and its one chairman, nine members and three women members are elected by the people directly. Besides, the field level administrative structure is comprised of 8 divisions, 64 districts and 483 Upazilas. The field level grass-root local government tier i.e., the Union Parishads (UPs)

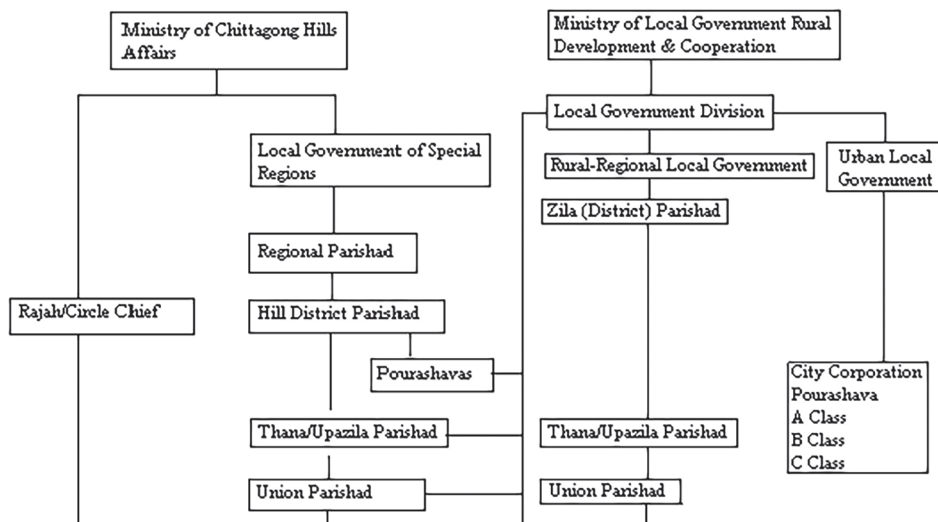
are, at this point, the only elected tier of sub-national government in rural areas in Bangladesh. They have been existed as elected local governments for well over a century.² The 4,505 UPs are widely regarded as key players in development, service delivery and poverty reduction. Each UP is divided into nine wards (which generally comprise one, two or three villages). One Member is elected from each ward, with three additional Women Members, each elected to represent three wards. The Chairman is directly elected by the people. In principle, there are Ward Development Committees in each ward, chaired by the UP Member for that ward, although it is doubtful whether these are really functioning in most UPs. The relatively small scale of UPs (average population 27,000) means that they are comparatively close to the people they represent, offering realistic possibilities for citizen participation, responsiveness and local accountability. Nevertheless, they have serious limitations, including elite domination, subordination to central government appointed officials at higher levels and lack of staffing (UPs have only one officer, the Secretary, to undertake all the responsibilities assigned to UPs). Not least of their weaknesses is their lack of financial resources and consequent dependence on central transfers. Some UPs collect virtually no revenue at all, and for most UPs, local revenues amount to only Taka 100-300 per person, although revenues are much higher in the peri-urban areas where there may be significant commercial and industrial activity.

It should be noted that UPs only cover the rural areas. Besides, in the urban areas, fully elected local government bodies are operating in Pourashavas (at the medium and small urban areas) and City Corporations (at the large urban areas at the divisional cities). It has a big impact on local revenue, since the main tax objects, such as commerce and industry, are located in urban areas. This is, of course, the case in most countries, but is amplified in Bangladesh because UPs have a more limited set of tax instruments than cities and pourashavas (the Holding Tax in UPs is limited to residential property whereas in cities and pourashavas there is a tax on land and buildings that includes also non-residential property). Government policy has attached importance to creating efficient and effective local government institutions for decentralized decision-making within a participatory framework. Union Parishads being the administrative structure closest to the communities are emphasized as the proper venue for promoting socio-economic changes and infrastructure development in rural Bangladesh. They are empowered to undertake revenue collection and local administration, and promote local development. Union Parishads receive allocation for projects through the government annual development program, discretionary and performance grants from the government but are also vested with powers to raise revenues to carry out their functions. However, most Union Parishad in the rural regions have very limited capacity to carry out their functions, and are poorly equipped to provide meaningful development planning and administration for their constituencies. There

² Musleh Uddin Ahmed, 1996. *Local self-government System in Bangladesh*, in Prof. Abul Kalam (ed.), *Bangladesh Internal Dynamics and External Linkages*, Dhaka : University Press Limited, August., pp. 73-89.

is need to strengthen the capacity of the Union Parishad in their areas, and empower them to take more responsibility for service delivery at the local level through the mobilization of local revenues.³ At present, GOB has designated Union Parishad as the focal point of the local government system in the rural areas. But there is special type of local government system operating in three Hill districts of Chittagong, namely Rangamati, Bandarban and Khagrachari. In these three districts, different types of local government units are functioning under the control of the Ministry of Chittagong Hill Affairs. But, other local government units of the 61 districts are functioning under the control of the Ministry of Local Government, Rural Development and Cooperatives.

Figure 1: Local Government System in Bangladesh



I. Zila Parishad at the District

The Local Government (Zila Parishad) Act, 1988 that applies to 64 Zila Parishads, enumerates 12 compulsory and 69 optional functions for the Zila Parishads. The most important function is planning, promotion and execution of development and welfare programs within the district. The important compulsory functions are as follows:

- Scrutiny of the development efforts within the district;
- Evaluation of the implementation of the development projects by the Upazila Parishads and making arrangements for auditing of Upazila and Zila Parishad accounts;
- Establishment and maintenance of public libraries;
- Construction, maintenance and development of roads, culverts and bridges not

³ Musleh Uddin Ahmed (2010), *Framework for a Strategy of UP Revenue/Resource Mobilization Piloting, Government of Bangladesh, Ministry of LGRDC/LGSP-LIC, October.*

- retained by the Upazila Parishad, Pourashava or the government;
- Plantation and conservation of roadside trees for public use;
 - Promotion and maintenance of gardens, playgrounds and open fields for public use;
 - Management and control of ferry-ghats not maintained by the government, Upazila Parishad or Pourashavas;
 - Construction and maintenance of called *Dak bungalows* (rest houses);
 - Rendering assistance and encouragement to the Upazila Parishads; and
 - Execution of development programs entrusted by the government.

The optional functions of the Zila Parishads relate to promotion of education, culture, social development, local economy, public health, public works, and religious institutions within the district. Besides, the Zila Parishads can take up projects for promotion of cattle and poultry farming, cottage industry, construction of markets, etc.

The sources of income of the Zila Parishads are as follows:

- Share from the tax on immovable property;
- Tax on advertisement;
- Tolls on roads, bridges and ferries maintained by the Zila Parishads; rate for performing public welfare functions, fees from schools established or managed by the Zila Parishad;
- Fees for providing special services;
- Fees for deriving benefits from the welfare establishment; and
- Income from taxes or any other source authorized by the government.

The most important tax source is the immovable property's transfer tax (IPTT), which is 1 percent levy imposed on the value of all land and permanent structures sold within the boundaries of the district. It is collected by the Ministry of Land, which relinquishes 97 percent of the proceeds to the Zila Parishad and retains the remaining 3 percent to cover administrative costs. Due to Parishad's poor control over this tax, it is little more than another government grants whose size depends upon property transactions within the district. The main source of non-tax revenue of a Parishad are toll on roads, bridges and ferries, income from profits and rents on various types of property such as buildings and land, road side ditches for fishing, staff quarters, equipment, dak-bungalows, etc. and sale of road side trees.

II. Upazila Parishad at the Upazila (Sub-District)

Upazila Parishad was established in 2008 with one elected Chairman, one elected Vice Chairman, one elected women Vice Chairman, representatives members (elected chairmen of the union parishad of the upazila) and other official and nominated members. The functions of

the Upazila Parishads (UPZ) are:

- Review and co-ordinate project feasibility, area-wise priorities for development projects, and other matters
- Prepare development projects
- Advise UPs in preparing and implementing rural development programs
- Ensure coordination between locally prepared projects and national development programs
- Advise on acceptance and implementation of development projects upon the request of the UPs
- Resolve inter-Union and inter-sectoral conflicts
- Review the progress of development projects under implementation in the Upazila

The membership of the UZP comprises:

- One elected Chairman, one elected Vice Chairman and one elected women Vice Chairman
- The Chairmen of all the Union Parishads of the Upazila and all Mayors of Pourashavas of the UZP.
- One-third of the female members of the UPs and Pourashavas in the Upazila (elected from their reserved seats), who are elected by elected women members from their reserved seats of UPs.

Members of Parliament whose constituency includes part of the Upazila act as advisers to the UZP. The Upazila Nirbahi (Executive) Officer called UNO acts as head of administration in the Upazila. The UZP is important in respect of rural infrastructure development because it is responsible for the allocation to projects of the Block Grant for Union and Upazila Development, and for the allocation of funds that flow to the Upazila from market leasing. It is the Union Parishad Chairmen who act as Members of the Upazila Parishad sitting on the meeting and have the voting power over the allocation of funds.

As we have seen from Table-2, out of the 5 administrative levels, only 3 have legal provisions for local government / local governance structures, while for only two levels (UP and UPZ) they are effectively functional with elected office bearers in place. Whereas the UPs have very limited staff (apart from the Secretary virtually none), most sector staff is situated at the Upazila and districts levels – the UPZ being generally the lowest level where central government staff is located or attached to (e.g. in cases where staff is located at the UP level, but organization-wise linked to the sub-district level). Many central government run activities, projects and programs are on the ground ran by staff located in the sector departments at the Upazila (and/or district) levels.

Whereas in the 1980s the UNO was explicitly made answerable to the *Upazila Parishad*, thereby de facto placing all the sector departments at that level under the 'command of the elected body. In the present UZP Act (2009), the UNO is secretary to the said Parishad, and hence

may need to follow the instructions of the Parishads regarding UZP activities, but –vis-à-vis the Parishad, the UNO then retains its freedom with regards to the line ministries present at the sub-district level. As the UZP has no staff for itself (not even a clerk, accountant or bookkeeper), the UZP remains largely dependent on the ‘willingness’ of both UNO and line ministries to implement UZP activities. As said, for the activities in which the UP level is involved, these are largely managed by the line ministries under the purview of the UNO, as sub-district based (as an administrative unit) central government staff.

III. Union Parishad at the Grass-Root Rural Level

The total number of UP is 4505 with an average population of 27,000 in each UP and average land area of 30 sq. km. (UNDP 2010). 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. At present, the Union Parishad is the oldest local government institution. The UP is an elected body composed of 13 members; one from each of the nine wards, three women members (from reserved seats – one from each of three wards) and the chairman elected by the total electorate of the UP. The Union is staffed by a full time Secretary, appointed by the Deputy Commissioner who is head of district administration and local police (1 Dafadar and 9-12 Gram Polices). The UP Secretary is responsible for accounting and record keeping and all kinds of registration e.g. birth, death etc. Very recently, government has posted an Accountant cum Computer Operator at UP.

a. Legal Functions of Union Parishad

The Local Government (UP) Act, 2009 assigned it with 38 functions. The functions of UPs are wide ranging and do not correspond with the allocated resources. However, Article 47 (1) (2) of the Local Government (Union Parishad) Act, 2009 specifies functions which the UP are obligated to undertake (GoB, 2009). The main functions of the Parishad shall be as follows, namely: administration and establishment matter; maintaining of public discipline; delivery of public welfare services; and preparation and implementation of local economic and social development plan (see Table-3). In reality, the UPs are mostly involved in the selection and implementation of schemes, sanitation programs (latrines), local level revenue collection, registration of births and deaths, social safety net activities such as, distribution of relief goods and Vulnerable Group Feeding (VGF), preparation of list of widows for pension distribution and organization of food/cash for work activities (popularly known as Kabikha); maintenance of law and order including conflicts resolution and administration of justice (village court). The Act also empowers the UPs to monitor the functions and activities of the Union-level officials of the service delivery departments of the central government and report on their performances to the higher authorities located at the Upazila.

Table -3 : Functions of the Union Parishads (second schedule LG (UP) Act 2009)

According to Article 47 of the LG (UP) Act (2009), the main functions of the Parishad are the following :

- a) Administration and establishment matter;
- b) Maintaining of public discipline;
- c) Delivery of public welfare services; and
- d) Preparation and implementation of local economic and social development plan

These are further detailed in schedule 2 of the same Act in 39 different types of activities as follows (headings added and –as compared to Act- order changed):

Administration and Registry

1. Preparation of five years and various time limited development plan
2. Assessment and recovering of tax, fee, toll, levy etc.
3. Registration of birth and death

Law and Order

4. Implement responsibility for maintaining law and order as provided by the Government and undertake necessary measures.
5. Protection of unauthorized admission to public streets, highways and public places and prevention and abatement of nuisance on those places and their causes.
6. Undertake measures for security, convenience or facilities for Union inhabitants.

Management of public spaces, utilities

7. Take care of public places, open spaces, gardens and play grounds.
8. Lightening the Union Parishad roads and public places.
9. Operation and maintenance of burial ground, burn place, public meeting place and other Government property.
10. Ensure collection, removal and management of dung and garbage.

Service delivery (sectors education, health, water, agriculture, livestock & fisheries, rural infrastructure, disaster management and cooperatives)

11. Related with education, Primary & Mass education
12. Undertake necessary measures for epidemic control and disaster management.
13. Implementation of activities relating to health & family planning.
14. Provision of first-aid centres.
15. Management and maintenance of wells, water pumps, tanks, ponds and other sources of water supply.
16. Preventing the contamination of the sources of water-supply for drinking and prohibition of the use of water of wells, ponds or other sources of water-supply suspected to be dangerous to public health.
17. Undertake necessary measures for development of agriculture, fishery & livestock and other economic development.
18. Undertake measures for additional food production.
19. Regulation and maintenance of cattle pounds.
20. Undertake necessary measures in environmental development and conservation.
21. Development, protection and maintenance of rural infrastructure.
22. Prevent damages or destruction of public streets, highways.
23. Undertake necessary initiatives and provide assistance in games & sports, social development, cultural activities etc.
24. Tree plantation and caretaking and protection of trees from stealing and damages.
25. Undertake necessary measures and provide all along support to Government to encounter fire, flood, hailstorm, earthquake or other natural disasters.
26. Development and encourage the cooperative movement and rural crafts.

Welfare

27. Accomplishment of necessary measures relating to resolution of family conflicts, women and child welfare.
28. Preservation of list of widows, orphans, poor and destitute and help them.

Regulatory functions

29. Regulation of offensive and unsafe trades.
30. Removal and regulation of carcasses of dead animals and regulation of the slaughtering of animals.
31. Regulation of new house, building construction and reconstruction and dangerous building structures.
32. Prohibition & regulation of the steeping of hemp, jute or other trees in or near ponds or other sources of water-supply.
33. Prohibition and regulation of dying or tanning of skins within residential areas.
34. Prohibition and regulation of excavation of earth stones or other material within residential areas.
35. Prohibition and regulation of establishment of brick kilns, potteries or other kilns within residential areas.
36. Prohibition and regulation of bathing, washing of cloths and watering of animals at or near wells for drinking water, ponds or other sources of water-supply.

Other

37. Apply and encourage e-governance
38. Extend cooperation to other organizations engaged in work similar to Union Parishad.
39. Any other responsibilities as directed by the Government.

Sometimes it is suggested that these 39 activities can be divided in mandatory (obligatory) and optional activities (functions that UPs may execute but are not obliged to), but the Act does not seem to make that distinction.

b. Legal Status of UPs Revenue Mobilization

Section 53(ii) and section 65 of the Local Government (Union Parishad) Act, 2009 mandated the UPs to generate revenue/resources from some particular sources by imposing taxes, rates, fees, tolls fines and other charges within their administrative boundaries and the section 68 authorized the UPs to collect the taxes to meet their expenditure and finance their own development activities.⁴ Section 66 of the act also empowered the government to formulate the new Model Tax Schedule. The present UP Model Tax Schedule was formulated in 2012 under the Section 55 of the Local Government (Union Parishad) Ordinance, 2009 which has described the imposition of holding tax (buildings and land), fixed amount taxes on 93 items of business, trades and professions, taxes on advertisement, cinemas and some vehicles.⁵ The detail tax assessment system and collection procedure has discussed in the section 22 to 30 in chapter III of the Union Councils (Taxation) Rules, 1960 and the Instructions of the Guidelines on Tax Assessment and Collection Strategy issued by the Local Government Division of the Ministry

⁴ GoB. Bangladesh Jatiya Shangshad, *The Local Government (Union Parishad) Act, 2009*. Dhaka, Bangladesh Gazette, 15 Oct., 2010

⁵ GoB. Bangladesh Jatiya Shangshad, *The Union Parishad Model Tax Schedule, 2012* Dhaka, Bangladesh Gazette, 06 Dec., 2012.

of LGRDC in 2003.⁶

i. Present System of Tax Assessment

According to the section 22 in chapter III of the Union Councils (Taxation) Rules, 1960 and the Guidelines on Tax Assessment and Collection Strategy issued by the Local Government Division of the Ministry of LGRDC in 2003, assessment should be based on the 7% of the annual value of the property with the maximum ceiling of Taka 500 for any one household/property (including the land on which the property is situated, but not agricultural land). Tax is to be assessed and levied on the basis of the Annual Rental Value (ARV) on constructed properties, buildings (building includes any shop, house, hut, outhouse, shed, stable or enclosure built from any material and used for any purpose) or land (excluding agricultural land) at a rate of up to 7%. ARV can either be determined from actual rents if the building is rented (or if it is not, from rental data for comparable buildings), or calculated from construction costs. Regulations specify the way the tax would be calculated. Even where the house is owner occupied, rental value can be determined based on rents for equivalent properties. The rate of 7% of the annual rental value (ARV) can be applied to assess the tax on holding (buildings and land) for wholly let-out buildings/land or for wholly occupied buildings/land as well as partly rented and partly occupied buildings/land. Where rental value data does not exist, the capital value of the house can be estimated, using Public Works Department's (PWD) construction cost figures converted to rental value by applying a 7.5% rate of return and adding the ground rent for the land. The assessment is then calculated as 10/12^{ths} of the annual rental value allowing deduction of two months rent as the cost of maintenance, if it is rented house and also deductions of annual interest of the loan if the house is built with bank loan. After deduction of two months rent plus annual interest, tax would be calculated at the rate of 7% of ARV. If the house is occupied by the owner than the provision for the deduction of further 1/4th (one-fourth) of the rental value after deducting 2/12^{ths} of the annual rental value i.e., allowing two months rent as the cost of maintenance house and also deductions of annual interest of the loan if the house is built with bank loan before the assessment is made at the rate of 7% of ARV.

Holding tax is the main revenue source for UPs. In many UPs, the tax is taken to apply only to residential buildings/properties but very few UPs holding tax is applied to some of the non-agricultural land. Thus, there remains an ambiguity about the application of the tax to non-agricultural land. In relation to holding tax on residential property, performance is generally not bad in the context of the target set up and the achievement of the target but in reality, many UPs set their achievable lower target to show their better collection performance without considering household income. However, it is observed in some UPs (notably in Sirajganj), revenue performance has improved as people are involved in decisions about the use of resources and

⁶ *GoB. S.R.O No, HSLG/S-VIII/BD-71/59/76. The Union Councils (Taxation) Rules, 1960.and GoB, Local Government Division of the Ministry of LGRDC, Instructions of the Guidelines on Tax Assessment and Collection Strategy issued in 2003.*

as accountability for tax revenue is strengthened.

For many UPs visited, this system is quite complicated, and they generally lack the skills to properly implement the present tax assessment system. Some UPs use part-time assessors (typically students) to prepare the valuations based on the official formula.⁷ However, in many cases proper assessment are quite absent. In some UPs, arbitrary adjustments are made, whether on the basis of assumptions of household income or for other reasons, so that the final assessments bear little relationship to the formula. In other places, UPs are making much simpler assessments based on the number of rooms and types of construction and facilities (water supply, cleanliness etc.). These assessments may be sufficiently fair, especially, if these are made in a transparent way. However, the problem with either arrangement is that assessments are often not made systematically and adjustments for household income or poverty may not be made transparently. As a result, there may be significant inequities in the assessment system. This can undermine people's trust in the system, and therefore their willingness to pay.

The calculation set out in the Ministry's 2003 guideline (but which is based on established practices and applies also in paurshavas and cities) contains a number of anomalies. Firstly, it gives a reduction on the assessment for the interest costs where a property is subject to a loan or mortgage. This is not appropriate, since it creates an inequity simply according to the method of financing. It is also likely to benefit the better off who are more likely than the poor to use loan finance for their house. Secondly, it gives a 25% reduction for owner occupiers, on the grounds that they are not earning income from the house. However, in principle, the type of tenure is irrelevant to the value of the property, or to the costs to the local government of providing services to that property. This creates an inequity between types of tenure, benefiting owner-occupiers.⁸ If the holding tax is to remain the main source of UP revenue, it is suggested that these anomalies be removed.

In practice, few UPs appear to be using this method of assessment, whether for lack of understanding of the rental value method or lack of data, or simply because it seems unnecessarily complicated. Even where UPs attempt to use the method, the final assessment is usually adjusted (often without any clear relationship to the original figure) on the grounds that the household cannot afford to pay, or for some other reason. The resulting, adjusted assessments

⁷ *An NGO, Comilla Shastha Sheba Foundation, has started offering a service to UPs in one district (perhaps more) to make assessments of holding tax. They offer to compile the UP's assessment register using the proper ARV method, at no cost to the UP. They generate some revenue by offering to households a plot number plate, but this is optional. From the one example seen, it appears that the assessment register is properly compiled, although how accurate or uniform are the valuations is difficult to tell. Such a service could well be appropriate for UPs to use, although it is at present only available in a limited area*

⁸ *Nor can it be assumed that the resulting higher tax for rented housing is born by the landlords: as with any tax, the burden is shared between buyer and seller according to the elasticity's of supply and demand; thus at least part of the burden of the high tax – and probably the majority in the case of rented housing – will be borne by the tenant.*

are generally much lower than the formula would have suggested, especially for the more valuable properties. There are, therefore, some doubts about the validity of the assessment, even when the official method is applied.

Most UPs appear to be using a cruder system. This involves assessing houses against some general criteria: number of rooms, size of rooms, house construction materials, provision of tube well and toilet facilities. Typically, this results in assessment of Taka 10-20 for a one-room house of temporary materials to Taka 150-250 for a four roomed house of permanent materials. The resulting assessment may also be modified by assumptions about the occupier's ability to pay. Overall, this method of assessment may be acceptable, providing the criteria are clear and applied consistently and transparently, for example, in the open budget meeting. In the end, what matters is not the absolute value of the property but rather a fair distribution of the tax burden between households. But it does require that a clear set of criteria is consistently applied and that the process is sufficiently transparent.

Each UP is supposed to have a register of all houses⁹, together details of the property and the owner or occupier and the assessed values. These lists were generally compiled more five years ago, and are now due for revision (in one case, the register had not been revised since 1991). It was claimed that adjustments are made each year for new houses or changes to houses. In the UPs visited, the registers were said to have been compiled either using data from a survey conducted by students, contracted by the UP and guided by the UP chairman and secretary, or on a ward basis by UP members themselves. In some cases, it was claimed, the registers of assessments were compiled in public meetings. If that is so, it should ensure a degree of transparency and fairness. But there are risks that only certain people attend such meetings, so that others are less fairly treated, although given the very low levels of the assessments, a degree of unfairness may not be a major issue.

Where the ARV method is used, the tax rate has to be set (up to 7%) and applied. Where the simpler system is used, the assessment comes directly to an amount per house, which may or may not have any relationship to a rate of tax on the annual rental value. The tax rate, and the fixed assessments, appears not to have been changed since the current tax rules came into effect in 2003, apart from where there have been changes to individual properties. In most cases, the resulting tax assessments are very low: Taka 20 – 60 per year in most cases (equivalent to about US 30 – 80 cents), with some at Taka 100 or 200.¹⁰ Exceptionally there are assessments of Taka 400 or 500. However, in the UPs in Gazipur, on the fringe of Dhaka, there were a number houses assessed at the ceiling rate of Taka 500, including a number of multi-storey blocks

⁹ *It is claimed that these registers are completed, but it is possible that some properties are not included, whether because they are new or for some other reason.*

¹⁰ *As an indication of how low these tax assessments are, the typical assessment of Taka 20 – 60 corresponds to 0.15 – 0.4% of the annual minimum wage of a garment worker. In one UP that had not revised its assessments since 1991, there were assessments of Taka 3 – 5, amounts which are now too low to be collectable.*

of rooms for garment workers.¹¹ Overall, the average assessment was probably around Taka 35 to Taka 50.

ii. Present Revenue Collection and its Performance

Section 53(ii) and section 65 of the Local Government (Union Parishad) Act, 2009 mandated the UPs to generate revenue/resources from some particular sources by imposing taxes, rates, fees, tolls fines and other charges within their administrative boundaries and the section 68 authorized the UPs to collect the taxes to meet their expenditure and finance their own development activities.¹² Section 66 of the act also empowered the government to formulate the new Model Tax Schedule. But the present UP Model Tax Schedule was formulated in 2012 under the Section 55 of the Local Government (Union Parishad) Act, 2009 which has described the imposition of holding tax (buildings and land), fixed amount taxes on 93 items of business, trades and professions, taxes on advertisement, cinemas and some vehicles.¹³ The detail tax assessment system and collection procedure has discussed in the section 22 to 30 in chapter III of the Union Councils (Taxation) Rules, 1960 and the Instructions of the Guidelines on Tax Assessment and Collection Strategy issued by the Local Government Division of the Ministry of LGRDC in 2003.¹⁴

Revenue/resource mobilization is one of the major concerns for UP to deliver quality of services to the citizens. Currently the UPs have three sources of following formal revenue income. Besides these, UPs have many other opportunities to explore and generate revenue from optional and non-conventional sources.

- Own revenue: Own revenue consists of the holding tax (buildings and land), tax on trades, businesses, professions, advertisement cinemas, exhibitions and vehicles, registration and other fees, tolls, charges .fines. etc.
- Shared revenue: Shared revenue includes the 1% of the land transfer tax collected by the Land Registration office at Upazila level, Share of market leasing fees etc.
- Transfer from central government: Transfer from central government includes the block grant allocation at the Upazila level as part of the national ADP in the name of UPZ development grants (subsequently shared among all UP) and the UP development block grants; revenue grants for salaries, bonuses and administrative costs;

¹¹ *Where such blocks consist of separate apartments, presumably each apartment can be taxed separately, but where the block consists of multiple rooms, for example for garment workers, then only one tax can be levied on the whole block. In one UP, such a block was reported to be earning a monthly rental of well over Taka 10,000, yet the maximum annual tax that could be levied was Taka 500.*

¹² *GoB. Bangladesh Jatiya Shangshad, The Local Government (Union Parishad) Act, 2009. Dhaka, Bangladesh Gazette, 15 Oct., 2010.*

¹³ *GoB. Bangladesh Jatiya Shangshad, The Union Parishad Model Tax Schedule, 2012 Dhaka, Bangladesh Gazette, 06 Dec., 2012.*

¹⁴ *GoB. S.R.O No, HSLG/S-VIII/BD-71/59/76. The Union Councils (Taxation) Rules, 1960.and GoB, Local Government Division of the Ministry of LGRDC, Instructions of the Guidelines on Tax Assessment and Collection Strategy issued in 2003.*

discretionary grants from government for development expenditure and grants/loans from donor funded programs/projects like LGD/LGSP's EBG block grant to 4501 UPs, LGD/LGSP-LIC's SBG block grants to 362 UPs of 6 LGSP-LIC districts and LGD/REOPA grants to UPs of 6 LGSP-LIC districts. Besides these, Ministry of Food and Disaster Management has transferred food/wheat grants to Ups in the name of test relief, food for works (kabika) and food for taka (kabita) programme.

The major own sources revenue income of UPs are as follows:

- Holding Tax on buildings and land (excluding agricultural land) within the UP, tax levied on the basis of the tax assessment of holding (buildings and land) at the rate of 7% of the annual value of the buildings or land;
- Taxes on business, trades and professions with fixed amount imposed on 93 items,
- Taxes on advertisements, cinemas, vehicles fairs and exhibitions;
- Taxes on commercial activities within the UP
- Lease money from huts and bazaars, currently administered by Upazilas, with UPs receiving a share;
- 1% share of the nationally collected Land Transfer Tax;
- Fees for various certificates (birth, citizenship, etc.);
- Other local charges and misc. income (bank interest, rents from UP property, etc.);
- Regular transfers from central government: both the revenue salary grant and the ADP grant that is managed at Upazila level as well as direct ADP grant to the UP;
- Special transfers under various government and donor-funded programs/projects, such as LGSP's EBG block grant to 4501 Ups.
- Ministry of Food and Disaster Management has transferred food/wheat grants to Ups in the name of test relief, food for works (kabika) and food for taka (kabita) program etc.

Own and shared revenues are deposited in the UP revenue accounts which are managed by the Chairman and the Secretary (co-signatory). The payments are executed by either the Secretary or the Chairman and recorded in the concerned accounting books. There are no requirements for reporting the financial statements and bills related to own and shared revenues to Upazila Accounting Officer. The ADP block grant at the Upazila level is transferred by the Chief Accounts Officer (CAO) of the Ministry of Local Government, Rural Development and Cooperatives to the bank account at the Upazila level that acts as the treasury. Once the projects are approved below TK 1 lac, the Project Implementation Committee (PIC) and Project Supervision Committee (PSC) are formed. But the project of more than TK 1 lac must be implementing through open tender. The Accounts Officer directly or indirectly (through the Upazila Engineer) executes the payments of bills. The Accounts Officer does not report back to Controller General of Accounts (CGA) Thus, funds are never transferred to UP.

In the case of direct UP block grants introduced in 2004, the funds are transferred from the bank that performs the treasury function at the Upazila level in four instalments in the course of the fiscal year on the basis of UP requests countersigned by the Upazila Nirbahi Officer (UNO). At the end of the year the UP has to provide the Accounts Officer with the receipts of payments together with a financial statement. The last allotment is transferred only when the Accounts Officer has reconciled the previous ones. The Accounts Officer does not report back to CGA. Direct funding to Union Parishads is quite a new phenomenon in Bangladesh. The Sirajgang Local Governance Development Fund Project (SLGDFFP) (funded by UNDP and UNCDF) first piloted the concept in Union Parishads that were covered under the project. Inspired by the successes of this new approach, the government has been providing Block Grants directly to UPs since 2004. It is envisaged that the LGSP will cover all the UPs in Bangladesh in phases. The performance based direct fund transfer has been the most important salient feature of this project. In the same vein, some other projects in different sectors with financial support from various development partners have been launched.

Bills are not issued for holding tax. This is not surprising, given the small amounts involved and the cost of issuing bills. Instead, either taxpayer comes to the UP office to pay or tax collectors contracted by the UP go house-to-house to collect the tax. Payments can be in more than one instalment (normally two). Collectors (up to one per ward, but often only one for the UP) are paid 15% commission. Guidelines of Instruction issued by the LGD in 2003 allows a further 5% to be allocated to village police, and to reward the best performing collectors, but in many UPs, it spent 3% to remunerate the village police in the ward concerned, 0.5% for the head of the village police group and a further 1.5% for incentives for the best collection performance. This commission is supposed to be paid from the bank once the money collected has been deposited into the bank, although it seems likely that, in many cases, collectors deduct their commission before depositing the money. Collectors are issued with a ward register of properties and their assessed values, and with serially numbered receipt books. But in many UPs, Collectors generally issued blank receipts to the tax payers instantly followed by printed receipts later on, it is observed. Every few days (or once a receipt book is used up), the cash is deposited at the UP office, and the receipt book and register are checked by the UP Secretary against the cash before the money is deposited in the bank. A chronological register is also kept of all payments received, together with the number of the receipt issued.

In the UPs where a relatively high proportion of tax assessments are recorded as being collected, this leaves little scope for fraud or collusion. However, there are, no doubt, places where the system is not operating properly. There could be fraud in terms of collectors pocketing the tax payment and not issuing a printed receipt, or issuing fake receipts; or there could be collusion between taxpayer and collector to pay a smaller amount, again without a receipt. But unless there is a record of payments against assessments, it is not obvious which households have not paid. If no record of defaulters is ever produced or publicized, and if no action is taken against

defaulters except follow-up by the same collector who had perpetrated the fraud, then the fraud may never be revealed. Such fraud can be countered by producing and publishing a list of defaulters, so that taxpayers who have paid without getting a genuine receipt will complain. It could also be countered by rotating tax collectors between wards so that follow-up of apparent defaulters reveals any fraud. However, rotating collectors may be difficult if the system is for them to collect from the ward where they live.

The system used in most UPs does not make it easy to identify and hence follow-up non-payers. Collections are recorded in a chronological register. Although this records the plot number, it would require a separate exercise to check against the assessment register to identify who had not paid. In practice, lists of defaulters are not produced for purposes of follow-up, and there is no record of arrears. Although claims are made about follow-up action, it is doubtful if this really happens. Collection rates are generally very low in some UPs where people are being poor, problems of floods, and reluctance of elected Chairmen to take unpopular enforcement action. A few places have managed to increase collection rates significantly. It is observed that collection rates for UPs in Sirajganj district as a percentage of budgeted revenue, ranging up to 91%. However, budgeted figures may not reflect the full potential revenue (especially if arrears are not included), so these figures may overstate the performance. Moreover, a significant proportion of the revenue may be paid by a few business or institutional payers. For example, one UP visited (Danga in Narshingdi district) had managed to collect around half of amount holding tax due in 2008/09, but 70% came from just five institutional and brick field owners/payers. The remaining 30% came from 580 other payers (17% of households), while 83% of households paid nothing. In another UP (Nurpur), receipts were issued to 400 households (12% of the total number of households), and money received amounted to 18% of the total assessment. UP can also impose tax on railway stations, power plant etc because if it is located within the UP areas. In Debhata UP of Shatkira LIC district, it is observed that UP collected holding tax from Upazila office complex and BDR Check post as these are located in UP areas.

c. Budgetary Procedure and Financial Management System

Financial resources of UPs include receivables from three sources, own revenues, shared revenues, and transfer from central government. Own revenues consist of the holding tax (homestead), trade and business license fees, registry fees and other minor fees. Shared revenue includes the 1% of the land transfer tax collected by the Land Registration office at Upazila, 5% of market leasing fees for one selected market within the UP and ferry/jolmohol (Pond) lease fees. Transfer from central government includes the block grant allocation at Upazila level as part of the national Annual Development Program and the UP direct block grant (about US\$1000 to 2000).

For collecting taxes, UPs generally appoint tax collectors on commission basis (15% to 20% commission of collection money). Holding tax constitute the major source of internal revenue.

The other important source is revenue received from lease of hats and bazars within the jurisdictions of the UPs. But the scenario of tax collection, especially holding tax is, however, not encouraging. A number of reasons are responsible for such situation, such as, perceived risk of losing popularity, lack of required skills/competency to assess taxes, lack of adequate manpower at the disposal of the UPs to engage for revenue collection and finally, reluctance on the part of the people to pay local taxes.

As a result, the chairmen and members of the UPs are observed to be reluctant to collect revenues even from the conventional sources. It was revealed during the field visits that there was a lack of initiative and motivation on the part of the UP functionaries both elected and appointed to identify new local sources of revenue. Again, the UPs are further constrained in the area of resources by the fact that they are not entitled to receive the total revenue generated from some of the local sources collected by the central government functionaries working at the Upazila level. These are being distributed to different tiers of administration. Of the revenue generated from the leasing of the rural hats and bazars (markets), 5% of market leasing fees for one selected market within the UP, 20 percent is retained by the national government, 41 percent by the Upazila, 15 percent is earmarked for the maintenance of hat-bazar which given lease, 10 percent is earmarked for the development of hat-bazar which one given lease, and the rest 4 per cent is the entitlement of the welfare fund of the freedom fighters. Here it should be pointed out that the resources generated from local sources are retained in account maintained by the Upazila Nirbahi (Executive) Officer (UNO). Later, these are disbursed to UPs on the basis of prescribed government guidelines. The other source of financial resource of the Union Parishads is the Annual Development Plan (ADP) Block Grant from the national government. Here it may be mentioned that the grants are distributed on the basis of certain predetermined criteria of the central government. But in most of the cases, the distribution is done on the basis of population. It may be mentioned here that Union Parishads receive block grants outside the ADP for implementation of schemes that they plan. And the block grant mechanism is being rolled out in phases in all unions. The positive experience emerging from different models and practices (e.g Sirajganj model) suggest that UPs can manage public expenditure in an efficient and pro-poor manner in the right context by ensuring people's participation in development activities.

7. Experiences from Bangladesh

Selection of UP Cases and Data Approach

Based on the record of Ministry of Local Government, Rural Development and Cooperatives, three UPs are purposively selected from three different Regions, Districts and Upazila (sub-district) of the country. An average annual revenue performance criterion is used to classify three cases, based on three years (2008/9 to 2010/11) actual revenue collection while compare

it with published revenue performance data of other UPs (GOB, 2013). Hence, three UP cases are defined as High Revenue Performing UPs (HRP) (income more than Tk.10,00,000), Medium Revenue Performing UPs (MRP) (income more than Tk.5,00,000) and Low Revenue Performing UPs (LRP) (income less than Tk.5,00,000). This broad categorization is made to show a comparison on UPs own fiscal capacity and revenue efforts including revenue performance of three cases (Patton 1990; Yin 1989). Other selection criteria used for sampled UPs include local socio-economic activities, good documentation of revenue records, human settlements, natural disaster management, NGO's activities, distance from district and upazila headquarters, and existing revenue base with potentials of local resources generation. The study is based on field works (2012/13), case study approach is used to provide analysis and findings in a comparative perspective, then to generalize findings based on commonalities.

Among selected cases, UNDP assisted program was carried (2007-2008) in MRP UP for capacity building 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 UPs is shown in Table -4.

Table- 4:. Selected UPs profile

Description	Shamnagar (HRP UP)	Jagir (MRP UP)	Snanghat (LRP UP)
<i>Geographic Information</i>			
UPs location in the region	South-west	Central	North-East
Location in Division	Khuna	Dhaka	Syllhet
Location in District	Shatkhira	Manikgonj	Hobigonj
Location in Upazila (Sub-district)	Shamnagar	Jagir	Choumohoni
Distance from district head quarter (Kilometre)	42	38	30
Distance from Upazila head quarter (Kilometre)	1	2	10
Land area (sq. km)	18.53	5.19	13.10
Total land (hector)	1904	725.46	371
<i>Demographic Information</i>			
Population	42 223	114 833	30 113
Density (per sq. km)	2213	23 104	2206
Villages	13	18	16
Households	6882	26 558	8890
Literacy rate (per cent)	45	49	70
<i>Basic Socio-Economic Information</i>			
Small industries	4	170	4
Commercial shops/enterprises	490	1473	250
Rice mills	25	-	-
Open and permanent markets	4	7	4
Non-motorized vehicles	396	2961	132
Bank and Insurance company	6	5	3
NGOs	5	5	9
<i>Infrastructure and physical facilitiesa</i>			
UP owned earthen road	24 km	5 km	30km

UP owned HBB road	1.5 km	8 km	1 km
Bridge and culvert	80	4	7
Agricultural irrigation scheme	30	2	20
Tube well for drinking water supply	3700	3000	4400
<i>Natural disaster Information</i>			
Major natural disaster occurred every year	Flood, Cyclone and water logging	River bank erosion, Water logging and flooding	temporary flooding and water logging

Source: UP and Upazila Statistic Office, 2013 and field data

*Specifically 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 Upazila Road, Zila Parishad Road and Road & Highways Department roads.

Both secondary and primary data used in the study. Primary data obtained from total 200 respondents consisting UP functionaries (20 per cent) as key informants, local people (60 per cent) (comprising Households, Businessmen, Local leaders/elites, NGO workers and local farmers), relevant Upazila, District and Ministry officials (20 per cent). To obtain data, researcher interacted with district and Upazila officials, UP members as well as with purposive sampling of local citizenry of various strata. Networks were developed with key informants through a constant process of interactive interviewing and cross checking to build an understanding of the dynamics of local resources mobilization. The survey, observation, questionnaire survey, structured and unstructured interview, FGD including written information where it required, are used in data collection. Data analysis reviews available literature, published report and relevant documents. Quantitative data on local revenue trend, performance and efforts are explained through illustrative tables and descriptive statistics. Pearson's correlation coefficient is applied to examine the UPs tax revenue collection relationships with conditional and unconditional grants, tax assessment, and development expenditure. Qualitative data in the form of opinions and multiple responses are used to complement the quantitative analysis.

8. Discussion and Findings

a. UPs fiscal capacity and performance

Local government's fiscal capacity is the ability to raise revenue from their legally assigned sources. UPs are assigned with six major sources but it is found that viable revenue sources available to UPs and utilized by UPs are quite limited and low yielding (see Table -5). UPs revenue efforts from small viable tax bases are relatively poor. Among total revenue sources, it is found that in HRP MRP and LRP UP, though holding tax¹⁵ constitutes the substantial

¹⁵ the holding tax concept instead of property tax on homestead and 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 under the term Holding Tax'.

proportion but they are able to capture only about 45, 28 and 26 per cent respectively in comparison to their existing potentials¹⁶. In many cases, UPs are restricted by central government regulation in fixing holding tax rates, bases and administering the sources that further limits their ability to raise revenues.

Table -5: Composition and Contribution of Own Revenue Sources (2008/09 to 2010/11)a.

Sources	HRP UP		MRP UP		LRP UP	
Holding tax	4362	(45.1)	632	(28.2)	404	(26.3)
Tax on Signboard/bill board	-		-		-	
Tax on profession, trade, commerce and callings	1371	(14.1)	31	(1.5)	186	(9.2)
Tax on cinemas, and audio-visual exhibition	-		3	(0.1)		
Fees on non-motorized vehicles	507	(5.0)			22	(1.3)
Rate on fair and commercial exhibitions	-		-		-	
Fees on village court	2	(0.02)	-		-	
Fees on Ferry locally called 'Kheya Ghat'	-		172	(7.5)	-	
Lease on public open market	-		-		11	(0.66)
Interest on Bank deposit/Income generating activities	-		110	(4.8)	-	
Fees on slaughter houses	-		-		5	(0.03)
5 per cent Share from market auction/lease value	1469	(15.6)	828	(36.3)	181	(10.9)
1 per cent Share of land registration fees	1938	(20.1)	506	(22.2)	850	(51.2)
Local contribution	6	(0.07)	-		-	
Others	1	(0.01)	-		-	
Total	9656	(100)	2282	(100)	1659	(100)
Average annual own revenue	9,65,6		2,28,2	1,65,9		
Average annual government grant	6,55,9		7,56,5	2,40,1		
Own tax revenue in comparison to grants (per cent)	37.7		340	180		
Total average budget for 3 years	15,21,5		9,84,7	4,06,0		

Source: UP office and field data, 2013

^aAmount shown in thousand Tk., figure in parentheses are percentages of total.

It is understood from FGD that the assessment procedures and strategies that set out in the central tax assessment guideline, 2003 and Model tax schedule 2012, have raised debate among local people. 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 benefiting owner-occupiers. It is also observed that the rental or value based property taxation is possible only in those UPs who have major sources of

¹⁶ 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 annual amount is estimated (Tk.75.00 which is equivalent to one US\$) and agreed by UP functionaries and local people during FGD.

resources from industrial and commercial establishments, and UP having rural 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 (since there is no accurate statistics on related property) 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.

It is also observed that the non-tax revenue share from market auction (only 5 per cent) and land registration fees (only one per cent, which is 0.025 per cent of the sale value) are lopsided vertical allocation between central government and UPs. Share from these sources need to be rationalized¹⁷. A questionnaire survey shows that majority respondents (70.3 per cent) is in favor of increasing existing market auction share from 5 per cent to the break of 11 to 20 per cent. If it is considered that existing 5 per cent share to be increased to 20 per cent, UPs current average annual revenue from this source will increase by four times. Similarly majority UP functionaries' as well as local people opined (80 per cent) in increasing UPs land registration share from 1 per cent to the break of 10 to 15 per cent. If it is considered the existing one per cent share to be increased to five per cent, for HRP, MRP and LRP UP respectively and for all three UPs it will be average 70 per cent. Calculation shows that if share of Land Development Tax (LDT) is provided with UPs @ 2 per cent of collected revenue, total revenue of UPs will increase by 2.9 per cent for all three UPs and similar differential impact is also evident from the option of providing 10per cent share which shows that total income will be increased. 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.

It is found that the collection of business licences fees, non-motorized vehicles fees are deficient in compare to the existing base and rate potentials. UPs own statistics shows that in HRP, MRP and LRP UP there are good number of commercial shops and small industries, which are not being fully taken into tax coverage that reflects UPs inability or weak efforts in tapping the untapped revenues. Similarly despite potentials, revenue sources like, fees on profession and tax on signboard have never been collected by any one of the three UPs. On the other hand, UP functionaries and local people said that fees on fair, tax on movie show or entertainment show is not feasible at all. It is observed that for HRP UP tax revenue constitute the major portion of own revenue while for MRP and LRP UP local revenue shares are the major revenue sources. Since horizontal imbalance is evident in generating own financial resources, and

¹⁷ Report of the 'Local government institutions strengthening committee', government of Bangladesh, recommended in April 1998 that UP should receive lease money from market @50per cent, land registration fees @10per cent, share of land development tax @10per cent and accordingly report of 'Local Government strengthening committee' in November 2007 again recommended that land registration fees @2per cent, lease money from stone or sand extraction @3per cent and share of land development tax @3per cent can be provided to UP. But none of these recommendations were implemented yet by the government.

even if MRP and LRP UP utilize their full potential from tax revenue, horizontal imbalance will remain there. In such case this imbalance can be minimized with the formulae of 'percentage plus fixed amount'.

In HRP UP, own source revenue is significantly higher due to stronger economic activities, higher population with elite business class. But Under similar revenue structure, if it is compared in term of local economic activity, population, the performance of MRP UP is better than HRP UP. MRP UP has initiated some new measures like, employed young and women new tax collectors¹⁸, 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 15 to 25 years whose average age is more than 50 years and no strategy were adopted 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. They also added that central government before 2004 has not provided any incentive to collect local tax.

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 2008-09 to 2010-11 fiscal (see Table-5). For HRP UP, average own tax revenue collection in comparison to government grants in 2008-09, 2009-10 and 2010-11 fiscal is more than 37.7 per cent. For MRP UP, the effect of discretionary grant is higher than HRP UP which shows that average government grants in comparison to tax revenue collection is 340 per cent higher from 2008-09 to 2010-11. Similar effect also evident in the case of LRP UP, which shows that average government grants is 180 per cent higher in comparison to tax revenue generation from 2008-09 to 2010-11 fiscal years.

It is found that in all three UP cases, the increasing trend of revenue assessment, collection and development expenditure is reinforced by the introduction of open budget discussion, discretionary and performance grants though 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.

Since local resource mobilisation is relate with local governments role in local development, there should have specific expenditure responsibilities which they should demonstrate to gain

¹⁸ Tax collector is temporarily employed and receives only commission @ 15% on the tax collection.

the confidence of taxpayers, so that, residents might have positive views that they are getting something in return for their tax. On the other hand, if local spending is non-transparent, inefficient, corrupt, or if the local government does not have no technical capacity to deliver quality outputs, then residents will have little incentive to volunteer contribution or pay tax in exchange of benefits. If local bodies are offered a matching grant depending on the amount of own source revenues that they raise, this may provide an incentive for local government to increase their revenue effort. At the same time, negative incentives for revenue mobilization may be included in the design of the system of local government finance. For example, if local governments are forced to share their revenue sources with higher levels of government (such as is the case for revenues from UP market tenders above a certain threshold), then this would provide a significant negative incentive for local revenue mobilization. Similarly, when local governments lack a hard budget constraint and a system of nontransparent, negotiated intergovernmental fiscal transfers, local governments have no incentive to increase own source revenue collections.

Upazila officials noted that current incentive grant has some positive indications but important indicators like, planning and financial management, resource mobilisation, expenditure management, clean audit reports, transparency and local accountability is still not showing any positive hope and thus sustainability of the current incentive system will be at question if a conducive environment and utilisation of the collected funds is not nurtured at local level. National experts also opined that as per present context, there might be rate support grant for some UPs in addition to block grant system¹⁹, which is due to their varying needs of expenditure for similar nature of projects having harsh climatic impact and natural geographical conditions and difficult terrain (Bambang and Martinez-Vazques 2002).

Despite recent substantial progress, it is however, tax revenue collection effort is found weak in the event of remaining revenue potentials. FGD with local people and UP functionaries four main problems is identified which are: firstly, tradition of weak enforcement has induced non-compliance which has now posed a threat of potential conflict and challenge to establish a compliance culture; secondly, establishment of compliance is not feasible due to lengthy time, costly process, perception of local political pain and above all UP has to rely on local administration and police authority for legal supports which require prudent coordination; thirdly, setting of any business enterprises does not require UPs clearance, some enterprises are regulated by sectoral authority and in some cases fees are levied by ZP and UZP, which in fact revealed the overlapping and weak coordination of revenue administration in the UP level; fourthly, since no visible benefits are linked to tax payment, UP functionaries are not perceived

¹⁹ Since the present grant system is not sufficient to finance UPs development activities, local government strengthening committee in April, 1998 had recommended to provide an annual fixed percentage of 40per cent to UPs, 30per cent to Upazila Parishads and 30per cent to Zila Parishads from fixed 20per cent of the national revenue which is followed in many other developing countries like India, Thailand, Philippines, Indonesia. But unfortunately this recommendation has not yet been implemented by the government.

any accountability to central government or to electorates and even they do not want to antagonize wealthiest part of the society.

b. New System of Participatory Planning and Open Budget Discussion

Open budget meeting²⁰ and participatory planning (see Figure 2) is recently being practised through LGSP assistance, discretionary and performance grants system. The condition of participatory budgeting and planning imposed by the central administration has created local ownership and stake in project selection and implementation. Though Union Development Committee (UDC) has the final scheme selection authority, they have to depend on local participatory selection process which is ensured through Ward Development Committee (WDC). In the implementation process there is separate Scheme Supervision Committee (SSC) who has to in touch with local people (see Figure- 3). For development scheme, UP can spend five per cent for selection, preparation and visit of scheme through participatory planning. UP functionaries said that the new system of participatory budgeting and planning has induced local people to make resource plan and pay more taxes which was absent before.

Figure - 2: Participatory Development Planning Process in UPs

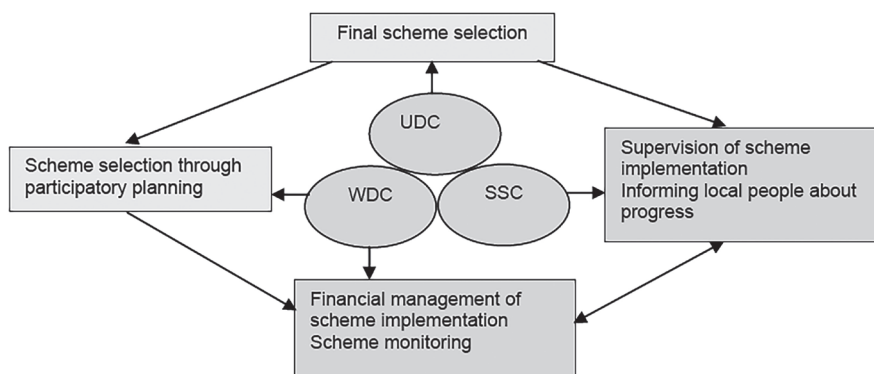
Confidence Building (1-2 hours)	Undertaken by ward development committee Process facilitated by Union Facilitation Teams (UFTs)
Transact talk	Help to rapport building and situation analysis
↓ ↓	
Situation analysis (4-5 hours) Need assessment through Mapping Problem identification Problem prioritization	Undertaken by ward development committee Usually 6-7 planning sub group including separate women group Process facilitated by UFTs Assessment of local social physical and small infrastructure needs and resources opportunities Group discussion using PRA technique Aggregation of priority problems
↓ ↓	
Scheme identification (4-5 days)	Undertaken by ward development committee Usually 6-7 planning sub group including separate women group Process facilitated by UFTs
Scheme prioritization	Ranking prioritize at sub group level, women priorities shown in separately coloured card.
Scheme visit	Fill up prescribed scheme form including preliminary estimated cost for technical feasibility of the schemes
Final scheme selection	Accepted by Union development committee (UDC) using UDC matrix

²⁰ Open budget meeting is organized at the UP office in the last week of May every year. Around 120 to 200 people normally attend in a meeting. UPs draft budget is made public by distributing draft printed copy from UP office. There is a fixed date to discuss the draft budget. In discussion, participants review the last year budget including implementation progress, incoming year budget with the annual projects/ plan that come from participatory planning of ward level UP representatives. Participants can ask for the clarification of different revenue and expenditures priorities stated in the budget document, review relevant other documents and assert their comments and recommendations to incorporate in the budget.

Preparation of scheme proposal	Formal scheme proposal
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Source: Field Survey, 2008 and UNCDF (2004).

Figure - 3. Key committees and their role in implementing UP development scheme



Source: Rahman et al. (2004).

Though UP functionaries are held responsible for preparing annual budget subject to guidelines embodied in administrative and procedural orders, it is found that UP budget is scrutinized by Upazial Nirbhai Officer at sub-district level, Deputy Director (Local Government) and Deputy Commissioner at district level, which reflects the bureaucratic spiral in UP budgeting. It is observed that UP representative and staffs have very little idea, training²¹ about the legal and procedural provisions and there is no pressure from the supervising authority to follow relevant rules strictly. It is informed by the district, Upazila and ministry level officials that UP budget never been compiled neither in the district level nor in the national level though UP is generating budget information every year.

UP functionaries said that in general, they had never been prepared any detailed plan though as per legislation UPs are responsible to prepare their detailed five years plan. UP functionaries also mentioned that they are recently involving local people into the planning process through open budget discussion where discretionary basic block grants allocation is made as per choice of local people²². Upazila Parishad supposed to compile all UPs five years plans as per Upazila planning book 1999 as set by the Ministry of Local Government. But this book had never been prepared by the Upazila Parishad²³. This results in a general lack of supervision and control.

²¹ Study of Musleh Uddin (2010), showed that significant portion (85per cent) of UP functionaries have not received any training.

²² Ministry of Local Government, Rural Development and Cooperative of Bangladesh Government issued a guideline for the use of development grants which provides condition for participatory budgeting and planning (p.9) effecting from 2004-05 and before this instruction, same ministry also declared 'Rural Development policy 2003' which emphasised on participatory planning at UP level (p.15 para. 5.1).

²³ Know from Upazila Officials' FGD, during field work.

With this structural deficiency, recently, UP started open budget discussion to comply the condition imposed by development grants for UP including BBG and LGSP allocation, and to enhance the transparency and participatory nature of budgeting. Out of three UP cases, only the MRP UP with the help of UNDP has introduced local planning and open budget discussion process at the ward level and UP level which are still in a trialing stage while HRP and LRP UP are still weak in formalizing both planning and open budget discussion process.

Do rural people of different stratum participate and influence budgetary allocations and do their views find a place in open budget discussion? Is one of the common questions being raised in FGD with local people, where they said, “We don’t want to go with confrontation with political clout and muscle power of UP chairman and due to the same reason socially we don’t want to go for friction with fellow residents”. This reply certainly reflects the less interest of commoners and disadvantaged groups and women to participate in UP budget meeting. It is understood that consensus on open budget was achieved not through any vote or any other form of endorsement but a mere dissemination of some information. Local people also commented that only some influential and party line political leaders articulate and express their views in large gatherings and common people are usually passive in such meetings.

Table-6: Multiple Responses of Local people on ‘Why they attend in Open Budget Discussion

Multiple responses	Frequency	per cent of Responses	per cent of cases
To comply UP members request	47	17.7	42.3
To know about government grants to UP	47	17.7	42.3
To know about UPs income and expenditure	45	17.0	40.5
To provide suggestions in preparing UP budget	40	15.1	36.0
To help UP in making UPs expenditure priority	34	12.8	30.6
To know how UP make expenditure plan	30	11.3	27.0
To assist UP in making its own resources plan	22	8.3	19.8
Total	265	100.0	238.7

Source: Field Survey, 2010

A questionnaire survey is conducted to understand the specific implication of open budget discussion and participation mode of local people. In the survey, random sample is used among those local people who have attended UPs open budget during 2008-09 and 2009-10. The multiple responses shows (see Table - 6) that highest 42 per cent cases, attendance is to keep the request of UP members and the lowest 19.8 per cent cases is related to assist UP in making own resources plan and while only 36 per cent cases are related to provide suggestion for UP budget preparation. In fact, majority attendance in open budget discussion meeting show passive participation which is to endorse the wish list of UP representatives. Very few cases are related to resources planning which is a disheartening indication in energizing the mobilisation of local resources.

Thus, it can be observed that without institutional shape, only an administrative mechanism for participation cannot ensure transparency and accountability where economically and politically marginalized groups are unable to challenge undemocratic practices. In fact, in the present context, both formal and informal institutions shed light on the ways in which UP operate and to some extent this formal institution is shaped by local informal leaders and central government's agencies as well. To deepen the engagement of all citizens including disadvantaged groups in UPs fiscal spaces, need particular attention to establish institutional shape that will prevent elite capture or dominance and will promote effective participation and relations of trust between government and citizens. Institutionalized shape²⁴ may be the effective mechanism to define the form of participation in the open budget discussion, as per present context of UPs where participation of large population is a daunting task²⁵.

Participatory planning and budgeting also take place at the UP level with the help of some reputed NGOs, such as, The Hunger Project initiated one-day open budget session at 25 UPs all over Bangladesh in 2002 and at 27 UPs in 2003; Agrogati Sangstha in 2003 and 2004 initiated open budget hearings and formulate five years plans at seven UPs of Satkhira district; and CARE-Bangladesh implemented project to support a larger goal of decentralizing public decision-making that covered 153 UPs throughout the country to instill an awareness of the roles and functions UPs. The intervention supported capacity building activities for UP functionaries and has promoted participation of marginalized groups in local level planning with special emphasis on the public role of women in government.

However, overall views show that open budget discussion has brought about diverse outlook among local people which also command citizens learning for meaningful participation and making UP budget as an actual planning tool. The national experts and ministry officials also noted that the discretionary basic block grants and open budget discussion in many cases have induced local people in sharing ownership of development projects as well as a learning forum for UPs resources and expenditure planning.

9. Observations

Many functions but not provision for adequate resources

As we have already seen, the UP Act assigned a number of functions but without provision of adequate financial resources available. The internal resources that are generated by the UPs are so insignificant in some UPs which do not enable the UPs to properly perform the assigned service delivery functions. The perpetual resource constraints deter the UPs from assuming

²⁴ There are some preliminary evidence from The Philippines, Thailand, Bolivia and Kerala state in India.

²⁵ UNCDF (2004) notes that in Bangladesh, around 1,100 people in each Union (of an adult population of approximately 15,000) were typically involved in ward and union level planning processes. This contrasts with the standard planning arrangement which is narrowly confined to 12 (or fewer) councilors with very limited formal consultation.

their responsibilities. Thus, in reality, other than some small infrastructure development and day to day activities, the UPs cannot undertake any noteworthy welfare activities. As a result, the services at the local level, throughout the country – and especially in rural areas – are overwhelmingly delivered by the line agencies of the central government.

The empirical evidence confirms that the quality and coverage of service provision are generally poor. For all functional purposes, these are only responsible to their hierarchical structure. However, no one can deny that the Union Parishads certainly have the potentials to become effective local government bodies capable of addressing local-level needs as focal points in a participatory development. It is to be noted that currently UPs do not have clear functional mandates, there is duplication with de-concentrated central government institutions; and also their effectiveness is severely constrained by the broader context of devolution in Bangladesh, where the UP is subordinated to higher tiers of government and has little fiscal or functional autonomy.

Absence of Active Standing Committees

For transacting different functions and businesses, it is mandatory on the part of the UPs to constitute Standing Committees. In practice, the Standing Committees have not been found operational though they exist on papers. During the field visits, it was revealed that all the Union Parishads have constituted the mandatory Standing Committees just to fulfill official requirement of the government.

No formal and participatory planning process in Budget preparation

One important point that emerged from our field visits is that there is no formal and participatory planning process through which a UP could arrive at rational decisions regarding the projects/schemes to be taken up for development. Every UP prepares a budget for the forthcoming year showing items of income (projected) and expenditures (expected). For example, in the proposed budget generally UP income was projected always higher than the actual income. The picture is more or less similar in almost all the Unions visited. Moreover, the budget is prepared mainly by the Secretary of the UP in consultation with the Chairman and the schemes which are included in the budgets are selected in the absence of any long term development plan of the Union. In Unions under the Local Government Support Project (LGSP), however, some planning and budgeting guidelines are given and they also impart necessary training on how to use these guidelines. The guidelines put emphasis on participatory identification and prioritization of local needs, through open public meetings with widespread community representation.

Lack of mobilization of local financial resources

Recently, both central and local governments have concentrated on mobilization of local

financial resources. But resources mobilization in rural areas is still challenging task due to lack of real commitment from both sides. In addition, all rural areas in Bangladesh are not identical. Variations are either in terms of socio-economic and demographic settings or in terms of vulnerability owing to frequent natural calamity or harsh climatic conditions. Remote rural UPs with poor communications system in some cases are sufficiently far removed from the nearest rural market or urban center, they are neither daily out-commuting deprivation nor ready access to medical and other services. Rural UPs within a day's commuting distance of major growth centers face a completely different set of challenges and opportunities. These variations, challenges and opportunities including existing demographic conditions have impact on local resource mobilization.

UPs are chronically resource poor and their reliance on central grants is still about 57 per cent (GOB 2011). Central government has declared policy to enhance local government expenditure but it is still below three per cent of GDP while in the national level, the share of tax and non-tax revenue in the GDP has increased from 7.1 per cent in 1990-91 to 11.6 per cent in 2011-12 (GOB 2013). The current share of local government and rural development in the total national public expenditure is only 7.2 per cent (GOB 2015). On the other hand, being a century old democratic body, UP is yet to be decentralised, while this institution is provided with mandatory and discretionary functions including own revenue raising powers. Despite UPs 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 and even in the era of national democratic governance system during last two decades.

Absence of overall record about UPs revenue performance

Unfortunately, at the national level, there is no overall record about UPs revenue performance though in many studies it is claimed that the performance is not impressive mainly due to centralized tax structure, narrow tax bases and higher tiers access to the UPs fiscal domain (Blair 1989; Noor 1983; Schroder 1984). UPs have in-built administrative weaknesses in mobilising own sources of resources. In addition, insufficient central allocation and the lack of effective mechanism to coordinate and integrate the role and functions of other tiers of local governments, sectoral agencies and local NGOs including private sectors have undermined UPs ability in mobilising local resources (Haque 2002). To build UPs capacity, central government recently introduced Local Governance Support Project (LGSP) with a cost of US\$ 218.12 million (2006 to 2011). LGSP is initiated from the experience and learning of Sirajgonj Local Government Development Project (SLGDP) (GOB 2008). A strategy paper was developed by the initiative of the Government of Bangladesh funded by the UNDP for mobilization of local resources and increasing the collection of local taxes from the existing and new sources for giving better services to the citizens. In this regard, piloting was conducted in 60 Union Parishads which has given a positive results. (Musleh Uddin, 2010).

Need to make UZP revenue sharing more transparent

UPs have generally little to no idea about the volume of the amounts available for them under the UZP revenue sharing arrangements. However, in general, the amounts as retained by the UZP seem large enough to cater for the UP salary complements (secretary and gram police; some BDT 138-thousand per UP per year) as no complaints were noted about UZP s being unable to honour their engagement e.g. with respect of the 25% contribution for the secretaries' salaries (although it is also possible that any shortcomings are picked by the Single Treasury Account system). There is the impression (also reported by Nick Davas, 2007 quoted in M U Ahmed, 2010) that at present the available amounts under UZP revenue sharing are not –or at least not all- used according to the rules. The only way to further 'investigate' is to create more transparency around the system of the revenue sharing.

This can first of all be done by clarifying (and probably also simplifying) the rules of the revenue sharing, and make sure that all concerned parties understand those rules. Secondly, there is scope (and need) for more transparency about the actual figures. The Governant circular policy paper on the leasing of *hats* and *bazars means local markets* (2002) specifies that the UNO administers the lease process and its proceeds. Even without revoking this, *Upazila Parishads*, now they are re-established should be given a greater role in the supervision and monitoring of these funds. At least the data could be discussed –e.g. quarterly- in the Parishad meetings.

Similar to the argument for salaries –being handled and recorded in one place-, Devas, already in 2007, went a step further and suggested that the lease process be given back to the UPs (and as such restore the situation that existed before 2002), also as meanwhile the performance and capacities of UPs have increased. The most important reasons forwarded, however, are that the present system is complicated and by the way of its organization bound to be un-transparent, while (against the argument that not every UP has a *hat* or *bazar*), differences between UPs need to be sorted within the larger picture of the overall system of intergovernmental transfers.

Scope to improve accounting of UPs – by streamlining instructions

The so-called P1 forms, showing income and expenditure, both budget as well as actual for the last-but-one year, obtained for a relatively small sample of UPs, learns that these forms are used in many different manners. Main issues are that (i) resources that are not passing the UP accounts are dealt with in different manners – some do show them – others do not. Total turnovers from one year to another show large variations, which of course can reflect big changes in the grants or resources allocated – but also seem, at least in part, to be due to incompatible ways of recording. The presentation of the P1-form, splitting income in (i) own revenues and (ii) grants and (iii) LG shared revenues and expenditure under (iv) establishment (recurrent) and (v) development, makes sense, but the liberal way UPs use the format makes it virtually

impossible to compare data or compile aggregates.

The audited statements of expenditure –naturally- only consider the monetary transactions of the UPs, which means that ‘lines’ that boast the UP/P-1 form (notably with regards to cash-for-work and food-for-work) are not included. The audited statements present income as per income categories, and expenditure by sector. Yet, as compared to the P1 form, the audited statement lacks the added detail as provided for in the P-1 form. Based on what is already available (P1 and audit template), and given what is found in the field, there firstly seems to be scope to take the best of both templates – to be put in the form of a simple chart of accounts, while secondly there certainly is need for training of the UPs in using and interpreting the provided formats in a similar manner.

10. Conclusion and Implications

From comparative study it is revealed that introduction of discretionary and performance grants including participatory budgeting and local development planning system become convergence to the central-local relations that resulted in UPs revenue augmentation while there are divergences being still evident from assignment of non-feasible local revenue sources, weak central support for local revenue administration, tradition of weak revenue efforts, ill designed local revenue shares for UPs, existence of bureaucratic spiral in the local revenue raising powers and budgeting, lack of training of UP functionaries and citizen learning in the participation process in making UP budget a real planning tool. The other divergences can be indirectly evident from real political choice in fiscal devolution rather than just showing respect to donors’ preferences. Central government should have realistic information about extent of local tax bases to define fiscal capacity and fiscal need of each UP. Tax revenue potential and collection trend also showed that there are still existence of huge untapped revenue that can be exploited with extended local efforts and central incentive mechanism. 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 increase of discretionary block grants to encourage UPs own tax revenue collection 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.

Regarding local revenue share adjustments, it is found that there are avenues to increase share from land registration fees, market auction fees, which are considered as easy to do and have a big impact on the local resources available to UPs with only a marginal effect on national budgetary resources. Share of land development tax and marriage registration fees can be determined with rational basis which are other extended areas of UPs stable revenue flow. In addition, UP functionaries also need to provide more efforts towards improving internal revenue

sources within existing legal frame and sought for new sources for capitalization including instilling transparency and accountability in their revenue management structure. This can be effectively carried out through formal local participatory governance system which can be done through effective monitoring by local people and by strengthening UPs standing committees. UP also need to carry people in the process of effective open budget system, participatory planning and execution of the projects which will encourage administrative openness and accountability including taxpayers compliance and sacrifice.

Union Parishads being century old institutions and democratically elected bodies, working closest to the rural people, have little achievements in relation to serve rural people to whom they are responsible by the statute. Central government, donors, international agencies and higher tier rural local governments for the last one decade have been showing their serious concerns over how this body can operate, and to what extent UP can fulfill expectations of rural citizen. To this end, implementation of fiscal decentralization in rural local government is still in its infant and there are challenges remain in the implementation process that requires continuous central commitment as well as local efforts. This study, however, have tried to reveal some common features and findings through comparative analysis. It is believed that the analysis and common findings are representative in nature from broader perspectives and in the prevailing socio-economic conditions of rural areas of Bangladesh. Similarly, from developing countries perspective, analysis and findings of this study has policy implications with respect to participatory budgeting and planning, local feedback of discretionary and performance grants, central government's orientation to local revenue sources adjustments and bringing innovation in local resources mobilization as per their social and economic context of the lowest tier rural local government.

In Bangladesh the key likely challenges are lack of political determination and of locally generated resources and revenue with competent leadership. Here historical evident, however, supports that more important than other concerns is basically dependency on the mode of the legislature for the power of the local government in terms of the central-local relationship, and of the degree of democratic, administrative and fiscal decentralization, and of functions as well as functionaries of the local government. Notwithstanding in order to mainstreaming the development of the poorer and marginal section of the society, strengthening the local government with democratic decentralized governance is a must. Thus, a national fiscal decentralization policy is inevitable and a crucial need for national development. The national decentralization fiscal policy would be significant not only to the context of streamlining the decentralization paradigm, but also to the perspective of underpinning the trust of local democratic decentralization to the all democratic political parties. In the foregoing paragraphs it has been mentioned already several times that the discussions as above need to take place in the broader context of fiscal decentralization, whereby it was noted that fiscal decentralization itself starts with defining the functional assignments of the various levels of government, which has to be in balance

with both staffing and financial resources. At present both the staff establishment as well as the budget of the UPs are at odds with the functions given to them under the act. Meanwhile, the Upazila Parishads struggle to define their roles, notably vis-à-vis the line ministries at the UZP level. All these are steps that form part of a wider decentralization (or local governance) reform. For such a governance reform to take shape, it will be needed to go in much more in detail of the various government functions and decide at which level of government each function is best performed, to subsequently ensure that each level also has the resources to effectively implement such functions. This, of course is a much broader process that will take time. Yet it is important to start articulating the longer-term vision as a guideline for governance reform at the local level. Meanwhile, for a start, some of the smaller steps towards the vision were outlined under the previous point of observations.

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