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Decentralization in Bangladesh: Change has been Illusive¹

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Introduction

Thirty-seven years after independence, restructuring of the state is again at the center of development dialog in Bangladesh. The dominance of family-based control over the two major political parties, the impasse over national elections and the reemergence of the army in national politics have given visible impetus to the debate on the structure of the nation-state in Bangladesh. In particular, there is an active ongoing discussion in civil society and among key policymakers whether Bangladesh should move from a highly centralized unitary state to a more devolved entity where power flows to the top from grassroots. Strengthening of local governments is increasingly seen as critical to bringing the state closer to the people, enhancing its accountability to citizens, and moving the country away from the ‘winner-takes-all’ politics of centralized governance.

In spite of their long history and constitutional status,² local governments in Bangladesh have a poor record of being an efficient, accountable and responsive provider of public services at local level. Over the decades, the local government system in Bangladesh has been “more an area of policy experimentation than one of stable institutional development” (Rahman and Islam 2002: 154). Decentralization reforms are debated every few years under governments of all hues, various committees are launched, recommendations are made, and even piecemeal actions are taken. Yet, to date, an accountable and capable local state that upholds public interests at the local level remains elusive to Bangladesh. This paper analyses the factors encumbering the development of such a local state. It draws both political economy narrative and fiscal data to identify the challenges

Political Economy of Local Government in Bangladesh

Bangladesh emerged as an independent nation state in 1971. Although a new state, Bangladesh is an old country with a long recorded history of several thousand years. In its recent past it was part of Pakistan (1947-1971) and was known as East Pakistan. Prior to this, different parts of the present Bangladesh territory were under the British India (1765-1947), the Mughals and other Muslim rulers, and before them under various Buddhist and Hindu rulers.

A turbulent history has followed Bangladesh since its liberation. The founding father and the first Prime Minister, Sheikh Mujibur Rahman, led his party, the Awami League (AL), to an electoral victory in 1973. However, deteriorating economic and political situation led Sheikh Mujib to declare a state of emergency in late 1974, and in early 1975 he became President, assuming dictatorial powers through one-party rule. He and several of his family members were assassinated by a group of army officers in August 1975. A series of further coups ensued, but by 1977 General Ziaur Rahman had consolidated his power and assumed the presidency. In June 1978 General Zia won the presidential election, and in the following year his newly formed party, the Bangladesh Nationalist Party (BNP), won two-thirds of the seats in parliament. However, in May 1981 General Zia was assassinated by a group of army officers.

² Local government is embedded in the post-liberation Constitution of Bangladesh. Article 11, for example, reads, “people will effectively participate through their elected representatives at all levels of administration to ensure a truly democratic system.” Further, Article 59 stipulates that: “Local government in every administrative unit of the Republic shall be entrusted to bodies, composed of persons elected in accordance with law.”

In March 1982 the army chief, General Hossain Mohammad Ershad, took power in a bloodless coup. After failing to legitimize his status through elections, in March 1985 Ershad banned political activity, staged a presidential election, and declared himself the winner, despite a dismal voter turnout. Three years of violence ensued and a state of emergency was declared by Ershad. In December 1990 Ershad relinquished power to a neutral caretaker government, which organized a free election in February 1991. The election was won by the BNP, led by Khaleda Zia, General Zia's widow. Subsequent elections in 1996 were won by the Awami League and its allies and in 2001 by the BNP and allies. Notably, with the return of democracy Bangladesh has also experienced a negative form of confrontational and agitational politics, what Blair (1995) terms as the *politics of the streets*, which has resulted in constant political instability.

The main political parties are the AL and the BNP, followed by smaller parties such as the Jatiya Party, the Jamaat-e-Islami, the Islami Oikyo Jote, and a host of smaller parties. The army has long played a prominent role in Bangladeshi politics, starting with the war of liberation in 1971 but being particularly notable following the military coup in mid-1975. After the fall of Ershad in 1990, the army temporarily withdrew from politics but again attempted to seize power in the run-up to the general election in June 1996, albeit unsuccessfully. In the decade that followed the army refrained from becoming directly involved in politics. In January 2007, however, the army took centre-stage yet again, when it put an end to violent street protests and the political impasse between the two main political parties. Since then Bangladesh has been ruled by a military-backed caretaker government.

The Bangladeshi civil service has been instrumental in sustaining military or semi-military rule in 1975-90, a linkage that has impeded the institutional development of the service. Career bureaucracy was established by the British in 1817 with the objective of creating a class of officials would act as the agents of the Crown. To ensure this, the bureaucracy, especially its higher echelons, was insulated from the people and oriented to bear loyalty towards the ruling class. Neither independence from the British in 1947 nor liberation in 1971 has brought any significant changes to this orientation (Morshed 1997: 9). The occasional and rather half-hearted reform initiatives have been largely resisted by the civil service, and, to the present day, it remains politicized, unaccountable to public and corrupt. One reason for the system of holding general elections under neutral caretaker governments is that many civil servants back one of the political parties in the hope of being awarded lucrative postings and other benefits.

The political history of local governments in Bangladesh can be summed under four periods: the pre-colonial period, colonial period (1726-1947), East Pakistan period (1947-71) and post-liberation period (since 1971).

Local governments in one form or another have been in existence in the Indian subcontinent for centuries. Two varieties of self-government institutions, i.e. the headman and Panchayats appear to have been operational in rural areas since early times. The headman was not an elected official but came from the most dominant family in the village. His importance was due to two factors: all contacts, be it political or administrative, between the villager and authorities had to be routed through him and he was involved in collection of taxes from the village. The Panchayat was an elected body with executive and judicial functions. But often the headman controlled the Panchayat (Siddiqui 1992:15).

The Panchayat system disappeared altogether during the Mughal rule of India. The Mughals devoted much more importance to the development of towns. The Kotwal or Chief Executive Officer of the town wielded wide-ranging powers including magisterial, police, fiscal and municipal power (ibid.: 17-18). Each town was subdivided into a number of wards or Mohallas.

A Mir Mohalla was appointed to act as a spokesman for each Mohalla. The Mughal system with all its novelties lacked mechanisms for participation by the citizens. It was nothing more than a top-down hierarchical administrative system that was intended to be an extension of the central authority into the local areas.

The introduction of local government in British Bangladesh goes back to the setting up of a municipal corporation in the Presidency town of Calcutta in 1726 by the English East India Company. During the next two hundred odd years of British rule over the Indian subcontinent, a number of experiments were made with the local government system to further their imperial interests. The British had little understanding of or interest in indigenous local self-governing institutions. The objectives of their efforts were three-fold: maximization of land revenue collection, maintenance of law and order, and, to a lesser extent, better management of local bodies with the intent of maintaining public health. The focus was much more on improving the administrative system rather than developing a representative and accountable government at the local level (Siddiqui 2003; Mallick 2004).

The formation of Pakistan in 1947 did not bring any immediate changes to the local government system in Bangladesh. In 1958 military rule was declared in the country by General Ayub Khan. All local bodies were suspended and their administration was brought under bureaucrats. In 1959, General Khan introduced a new four-tier local government system known as the Basic Democracy—a carefully orchestrated system combining direct elections at the village level with successively more indirect representations at higher levels. Several new pieces of legislation aimed at restructuring the local government system and bringing it under greater bureaucratic control were enacted during this period. With this, Bangladeshi local governments became political and administrative extensions of the central government in Karachi (Thorlind 2002).

The local councilors under the new system had the dual role of serving the community and electing the country's president as well as members of national and provincial assemblies. The structure of indirect democracy inevitably led to the patronization of the union council members. Their allegiance was purchased by giving them a cut on the money that flowed down (Blair 1985). Khan (1997) notes that the Basic Democracy concept lacked novelty and innovation as it bore clear resemblance to the union councils and municipal committees of the British days. With the end of the Ayub Khan era, the Basic Democracy system was dissolved in 1970.

In 1971 Bangladesh gained independence from Pakistan and immediately started its own experimentation with decentralization and popular participation. Among the notable legislative efforts in the post-1971 period are the Local Government Ordinance of 1976, establishing an elected Union Parishad and an administrative Thana Parishad, and its amendment in 1980 introducing Swanirvar Gram Sarkar (self-reliant village government), the Pourashava Ordinance of 1977, and the six city corporation ordinances at various times establishing Dhaka, Chittagong, Khulna, Rajshahi, Sylhet and Barisal City Corporations. Changes have been made from time to time in terms of the nomenclature of tiers of local government, but very little has been done to strengthen local government system per se.

The most significant change in post-liberation history of the local government system came about with the introduction of the Local Government Ordinance of 1982 by General Ershad. With this act, representative Upazila Parishads were introduced as an intermediate tier of local government, with a directly elected Chairman as the head and UP Chairs as members. The bureaucracy supporting the Upazila Parishad was also expanded substantially during this time. The Upazilas became the focus of development administration as well as an effective intermediate tier between unions and higher- levels of government. This experiment was well received in the country, but

did not sustain for long. After elections in 1991, Upazila Parishad system was scrapped by the newly elected BNP government and replaced with a deconcentrated administrative set up not very different from the pre-1982 system.

The main reason behind this decision was that many of the elected Upazila Parishad chairmen belonged to Ershad's Jatiya Party or the AL. They commanded strong electoral bases and were supported with real resources. Thus they were in direct competition and conflict with the newly elected Members of Parliament (MPs) over who would have greater influence on local development process, and in dispensing future patronage locally (Thorlind 2001).

The thing most striking about decentralization in Bangladesh is that, whenever new leaders have come to power, they have all tried to create their own *new* local government system, while reversing the efforts of the previous regimes. Thorlind (2001) suggests that the main reason behind these frequent changes has been a struggle by the political parties to secure their own electoral base in rural areas through distribution of patronage to local leaders. A defining landmark in this politics of patronage came with the introduction of food aid in association with the Basic Democracy program in the 1960s. Wheat became the new language of development, leading to the emergence of an enduring nexus binding together central politicians, bureaucrats, local public officials and even the NGOs, and institutionalizing patronage and corruption in the local development process (Rahman and Islam 2001). The "wheat culture" became a fundamentally distorting element and a diversion in the efforts on real devolution.

The drive to capture the rural voter base has also been a turbulent and often violent struggle between the more "secular and pro-India" AL on the one side and the more religious and pro-military BNP on the other side. Westgaard (1996b) observes that, in a country where political mobilization has been more top down than from grassroots, personal populism and nationalistic/religious ideologies have often been used by the military as well by political parties to mobilize people. The embodiment of strategy has been the change in identity from being "Bengali" to being "Muslim" and "Bangladeshi." This politics of religion and chauvinism has impeded grassroots advocacy, across political spectrum, for strengthening the local state.

The legacy of colonial bureaucracy continues to inhibit local self governments even today. The colonial rulers used administrative procedures for purposes of political and social control. The administrative structure so created has enshrined a dominating role for "magisterial and police functions," at the expense of other local functions aimed at public welfare. Thus the institutional arrangements of state power at the Zila and Upazila level even today are biased towards the above functions. This dysfunctionality is writ large in all the debates on decentralization. Rahman and Islam (op. cit. 158) argue that, on the one hand the discretionary capacity to punish.... has become a prized resource for political competitors marking a fundamental distortion of political goals at the local level, while on the other hand, the same capacity to punish also hangs like a Damocles sword over any consolidation of political and civil initiatives which aim for a democratic transformation in the institutional arrangement of state-power.

Adding to this, policy debates about decentralization in Bangladesh have sought to differentiate between accountability and efficiency dimensions of administration at the local level. Rahman (2001) notes that, this approach has led to an "implicit bifurcation" whereby accountability issues are emphasized for the lowest tier of government while development administration issues are tied to the upper tiers. A corollary trend at work here is that the public discourse invariably over-concentrates on representational issues while development administration remains the preserve of bureaucracy and experts (ibid.). Siddiqui (2000) has called this separation an "unresolved wrangle" and an inbuilt barrier to the development of inclusive and effective local governance.

This has been even more accentuated by the culture of development aid in Bangladesh wherein donors and external agencies have relied more on “efficient” bureaucratic and technocratic institutional structures to dispense aid.

There has been no dearth of administrative experimentation in decentralization and local government. Yet, basic reforms to strengthen the local government system by providing elected local governments at different tiers and measures to strengthen their political and administrative autonomy as well as their fiscal systems have been missing in all the maneuvers. Rahman and Islam (opp. cit.: 6) attribute this to a “fundamental ambivalence of policymakers towards the establishment of effective local self-governments.” They go on to note that such ambivalence is reflected above all in the radical imbalance in the levels of attention paid to representational issues, i.e., local elections, at the expense of jurisdictional issues, i.e., powers and functional domains of elected local bodies. It is also notable and somewhat paradoxical that the two most significant decentralization initiatives came during periods of martial law in Bangladesh.

In closing, there is always the question of why decentralize, rather than what and how. Bangladesh has made remarkable strides, in rather difficult circumstances, in a host of areas among them primary education, credit provision to poor, family planning and child immunization. These development gains have translated into gains in poverty reduction. Even while the decentralization agenda has languished, it can be argued that there has been no vacuum in local level development with the multitude of initiatives driven by central agencies and NGOs.

Rahman and Islam (2001) note that the net reductions in poverty reduction have now trickled down to around one percentage point a year. Thus there is a major challenge of revisiting existing strategies with a view of radically scaling up poverty reduction efforts. This lends urgency for a new engagement with the issue of local governance. The focus of this of course is to move local governments from being project implementing agencies to one of local governance as a political and institutional process that enhances developmental choices at the local level and better inclusion of all social groups in making these choices. Rahman further adds that local governance also becomes critical to the goal of regenerating local economy. However, he goes on to add that the cast of actors extend well beyond the traditional focus on local governments and sectors.

History of Local Government in Bangladesh

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The *Panchayat* system disappeared altogether during the Mughal rule of India. The *Mughals* devoted much more importance to the development of towns. The *Kotwal* or Chief Executive Officer of the town wielded wide-ranging powers including magisterial, police, fiscal and municipal power. He was assisted in performing his duties by two officials: a *Kazi* who was a

judicial officer and a *Mahatasib* who was assigned to prevent illegal practices, (Siddiqui 1992: 17-18). Each town was subdivided into a number of wards or *Mohallas*. A *Mir Mohalla* was appointed to act as a spokesman for each *Mohalla*. The *Mughal* system with all its novelties lacked mechanisms for participation by the citizens. It was nothing more than a top-down hierarchical administrative system that was intended to be an extension of the central authority into the local areas.

The introduction of local government in British Bangladesh goes back to the setting up of a municipal corporation in the Presidency town of Calcutta in 1726 by the English East India Company. During the next two hundred odd years of British rule over the Indian subcontinent, a number of experiments were made with the local government system with the intent to devise a system that would serve their imperial interest. The British had little understanding of and interest in indigenous local self-governing institutions. The objectives of British-era efforts were three-fold: maximization of land revenue collection, maintenance of law and order, and, to a lesser extent, better management of local bodies with the intent of maintaining public health. The focus was much more on improving the administrative system rather than developing a representative and accountable government at the local level (Siddiqui 2003; Mallick 2004).

The formation of Pakistan in 1947 did not bring any immediate changes to the local government system in Bangladesh. However, in 1958 military rule was declared in the country. All local bodies were suspended and their administration was brought under bureaucrats. In 1959, General Ayub Khan, in a significant move, introduced a new four-tier local government system known as the Basic Democracy. In line with the new framework, several new pieces of legislation aimed at restructuring the local government system and bringing it under greater bureaucratic control were enacted during this period. But the concept of Basic Democracy lacked novelty and innovation. Khan (1997) notes that it bore clear resemblance to the union councils and municipal committees of the British days. With the end of the Ayub Khan era, the Basic Democracy System was dissolved in 1969.

Immediately after Independence in 1971, the name of the Union Council was changed to Union *Panchayat* and an administrator was appointed to manage the affairs of the *Panchayat*. The name of *Thana* Council was changed to *Thana* Development Committee while the District Council was named *Zila* Board or District Board. Again in 1973, Union *Panchayat's* name reverted to Union *Parishad*. A more significant change in the local government system was brought about in 1976 through the Local Government Ordinance. This ordinance provided for a Union *Parishad* for a union, a *Thana Parishad* for a *Thana* and a *Zila Parishad* for a district. The Union *Parishad* comprised one elected Chairman and 9 elected members, two nominated women members and two peasant representative members. The *Thana Parishad* consisted of the Sub-Divisional Officer being the ex-officio Chairman, the Circle Officer and a Union *Parishad* Chairman. The *Zila* (District) *Parishad* was to consist of elected members, official members and women members whose numbers were determined by the government. Its term of office was five years. However, no elections were held and government officials ran the *Parishad*.

In 1980, as a result of an amendment of the Local Government Ordinance, the *Swanirvar Gram Sarker* (self-reliant village government) was introduced at the village level, but was abolished by a Martial Law Order in July 1982. A major change was initiated in the local government system through the introduction of the Local Government (*Upazila Parishad* and *Upazila* Administration Reorganization) Ordinance in 1982. This Ordinance was followed by the Local Government (Union *Parishad*) Ordinance in 1983, the Local Government (*Zila Parishad*) Act in 1988 and the three Hill Districts Acts and *Palli* Act in 1989. The *Upazila Parishad* Ordinance (1982) was particularly significant as this was supposed to help implementation of the decentralization

program of the government. In the *Upazila* System (as it came to be known), the (directly) elected Chairman would have the principal authority in running the affairs of the *Upazila*, his tenure being five years. The *Upazila Nirbahi* Officer would be subservient to the Chairman. After nine years of reasonably effective implementation, the Government of the Bangladesh Nationalist Party, who came to power through a fair election, abolished the *Upazila* system in 1991. During its five-year tenure, the government could not provide an alternative democratic form of local government. When after another free and fair election in 1996 the Bangladesh Awami League came to power, they constituted a Local Government Commission and came up with a Report on Local Government Institutions Strengthening in May 1997. The Commission has recommended a four-tier local government structure including *Gram/Palli* (Village) *Parishad*, *Union Parishad*, *Thana/Upazila Parishad* and *Zila* (District) *Parishad*.

Since independence in 1971, a number of attempts have been made to tinker with the local government system in Bangladesh more to suit the immediate needs of the ruling party of the day rather than to usher a vibrant local government system. More notable legislative efforts included the Local Government Ordinance of 1976, establishing an elected Union Parishad and an administrative Thana Parishad, and its amendment in 1980 introducing *Swanirvar Gram Sarkar* (self-reliant village government), the *Pourashava* Ordinance of 1977, and the six city corporation ordinances at various times establishing Dhaka, Chittagong, Khulna, Rajshahi, Sylhet and Barisal City Corporations. Changes have been made from time to time in terms of the nomenclature of tiers of local government, but almost nothing was done to strengthen local governments. Therefore, the structure of the local government system has remained more or less unchanged.

The most significant change in post-liberation history of the local government system came about during the martial law of General Ershad with the introduction of the Local Government Ordinance of 1982. With this act, representative *Upazila Parishads* were introduced as an intermediate tier of local government, with a directly elected Chairman as the head and UP Chairs as members. The bureaucracy supporting the *Upazila Parishad* was also expanded substantially during this time. The *Upazilas* became the focus of development administration as well as an effective intermediate tier between unions and higher- levels of government.

This experiment was well received in the country, but did not sustain for long. After elections in 1991, the *Upazila Parishad* system was scrapped and replaced with a deconcentrated administrative set up not very different from the pre-1982 system. Since then, changing BNP and Awami League governments have manipulated with the local government system to suit their short-term political expediencies. Yet, basic reforms to strengthen the local government system by providing elected local governments at various tiers and measures to strengthen their political and administrative autonomy as well as their fiscal systems were missing in all the maneuvers. It is also rather notable that the two most significant reforms to strengthen the local government system came during periods of martial law in Bangladesh.

Local Government System in Bangladesh

The local government system in Bangladesh is primarily deconcentrated rather than devolved. The local government structure consists of multiple layers of sub-national governments below the central government. Administrative Divisions are the highest level of sub-national government. They are deconcentrated bodies that contain offices of all major service delivery ministries. The six Administrative Divisions are primarily supervisory rather than service providing units of government. Below the Divisions are 64 *Zila Parishads* (districts), which are also deconcentrated central government institutions. About 30 Ministries and line agencies have offices at the *Zila*

level, including the LGED and the DPHE. The Zila operates through numerous committees, which is generally consistent with its coordination function.

Two categories of urban local governments exist: Pourashavas (municipalities) and City Corporations. There are six City Corporations, namely Dhaka, Chittagong, Rajshahi, Khulna, Barisal, and Sylhet (one for each of the Administrative Divisions), each having been established through a separate Ordinance. City Corporations have directly elected mayors and councils. The second category of urban local governments is Pourashavas. There are currently 309 Pourashavas. There are three categories of Pourashavas—A, B and C—depending on the amount of revenue they generate (Mallick 2004: 49).

In rural areas, two levels of local government exist, but unlike in the urban areas these are hierarchical in nature rather than alternative structures. There are 508 Upazila Parishads (or Sub-District Councils). As with the Zilas, many Ministries have offices at the Upazila level. Union Councils (Parishads) are the second level of rural government. There are currently 4,498 Union Parishads, but the number keeps changing frequently.

The local political structure differs by type of government. No elected body exists at the Division, Zila or Upazila levels, as they are run by administrators appointed by the national government. The Zila Parishad exists in law and on paper—in what has been described as a state of “suspended animation.” No elections have ever been held to Zila Parishad. While the Zila Parishad has revenue raising powers (which is little used), it has no elected functionaries. One tier below, at the Upazila level, the representative Upazila Parishads, constituted during the 1988 experiment and abolished in 1991, have been replaced with an Upazila Development Coordination Committee (UDCC), consisting of all UP chairs. The UDCC is responsible for coordinating and monitoring development spending and activities at the Upazila level. It also decides on the allocation of central government block grants among UPs. In practice, UDCC affairs are controlled by the UNO, often at the behest of the local MP.

The UPs, Pourashavas and City Corporations are elected bodies composed of Chairperson/Mayor, one representative from each ward and women members from reserved wards. The UP and Pourashava Chairpersons and City Corporation Mayors are directly elected by popular vote of the entire constituency while the ward members/commissioners are elected by their respective constituencies. In addition, there are reserved seats for women.

Local Government Functions and Finances

From a fiscal perspective, Bangladesh is a highly centralized state. By most standard measures of fiscal decentralization, say share of local expenditures to the total public expenditure, Bangladesh lags behind most countries of its size. For example, the local government expenditure as a percentage of GDP has not crossed more than three percent in Bangladesh (UNDP, 2003). The comparable figures for Indonesia or South Africa, two unitary countries that decentralized in the last 15 years or less, are. Further, the extent of fiscal powers accorded to various tiers of local governments is also very limited.

Table 1: MTBF allocations of Local Government Division

Description	Budget 2006-07	Estimate				Projection	
		Revised 2006-07	2006-07 (%)	Budget 2007-08	2007-08 (%)	2008-09	2009-10
Secretariat	44,189	44,189	3.39%	44,380	3.01%	45,494	52,340
Autonomous body & other institutions	35,000	35,000	2.68%	38,075	2.58%	38,080	43,810
LGED	1,100,000	1,100,000	84.34%	1,249,120	84.80%	1,463,546	1,683,854
DPHE	102,550	125,000	9.58%	141,425	9.60%	146,899	169,000
Total	1,281,739	1,304,189	100.00%	1,473,000	100.00%	1,694,019	1,949,004

(Figures in '000)

Local Revenues: The available options and own source revenues selected differ across the various kinds of local governments. Each government generally has a long list of potential revenue instruments comprising of various taxes, fees, and other income sources. However, in reality, many of these can generate little revenue and may cost as much to collect as they raise. Yet, the perception exists that local governments are failing to use their revenue raising ability.

Local governments in Bangladesh generate resources by taxing people within their respective jurisdictions, charging fees and rates for the services they provide to beneficiaries and procuring funds (grants) from the national government. Even if the relative importance of these receipts vary according to the tier of the local government concerned, all of them, by and large, heavily depend on the transfers from the central government, partly due to the narrow base on which to raise their taxes, and partly inefficiency in collecting taxes, rates from these bases. Of the local resources, taxes constitute an important source of revenue for the local governments in Bangladesh. There are two ways of collecting local taxes and rates: by the local bodies themselves, and by the national government on their behalf. The central government then shares a portion of the revenue collected in the jurisdictions to the concerned local government. The list of the sources of revenues for the local governments based model tax schedules promulgated under different ordinances since 1976 is quite comprehensive. But, the actual exploitations of these sources by the respective local bodies are a far cry due to inappropriate choice of the tax base and the nature of grant these local bodies receive from the central government.

Intergovernmental Transfers: In Bangladesh, the main fiscal transfer to local governments is made through the Annual Development Program (ADP) block grant mechanism. ADP is financed by the surplus of revenue budget and domestic and external loans/aid, and it funds the development budget of the government. The ADP allocations go into four broad expenditure headings: sector/program allocation, block allocation, self-financed allocation, and food assistance. Of these, the block allocations fund the local government block grants.

A large share of ADP allocations supports vertically-driven sector programs that are implemented directly by ministries and their line agencies. Only a small share of the allocations is channeled through block allocations, of which even a smaller share actually translates into transfers for local governments. "In fact, the local governments' share in the total public expenditure has not exceeded 2 percent" (GoB/PPRC 2003). Intergovernmental transfers through the LGD was about TK 18 billion in 2006-07, which represented about xx percent of the national budget. These transfers are very small by international standards, particularly since some of them are channeled through the deconcentrated Upazila and Zila levels of government. Also, Upazilas are used as conduits for several grant programs, including some grants provided by the LGD. Upazilas are

also the main decision makers for transfers through the Food for Work³ and Volunteer Group Development Project. Further, a number of donors choose to run local projects through the Upazila.

Table 2: LGD transfers to local governments, 2006-07 revised budget (Tk000)⁴⁵

Local Government	Recurrent	Percent	Development	Percent
Union Parishad	761,594	73.8	7,321,787	47.0
Pourashava	60,000	5.8	2,965,595	19.0
City Corporations	150,000	14.5	1,840,000	11.8
Upazila	115,154	11.2	1,200,154	7.7
Zila	5,000	0.5	2,250,000	14.4
Total	1,091,748	100.0	15,577,536	100.0

Source: Government of Bangladesh Budget, 2007-08.

Local governments also receive central assistance through other channels. For example, UPs are also given grants in grains for Test Relief, Food for Works (FFW), Vulnerable Group Development (VGD), Vulnerable Group Feeding (VGF), Rural Infrastructure Maintenance Program and Old Age Pensions and allowances for Widows and Muktijuddha (freedom fighters) in cash. These grants are often used for small-scale infrastructure development locally. However, UPs have very little discretion or spending authority over these grants. Pourashavas and CCs similarly receive grants for infrastructure development, mostly earmarked for specific projects, and funded either by donors or by the central government. Here again, the grants are more seen as being made to specific areas than to specific local governments.

Besides these development transfers, local government units (and almost exclusively Union Parishads) also receive a very limited amount of grants towards honorarium, salary and other allowances for the elected officials and staff. These are broadly known as allowances for the members and staffs and are as follows:

- One-third of the allowances of the Chairman;
- One-half of the allowances of the members;
- One-half of the allowances of Secretary and staff; and
- Festival allowances of village watchmen

Local Government Functions and Finances

Data on local government finances are scant in Bangladesh. Even within the relevant ministries, the MLGRD&C and the MOF, there is little information beyond aggregate budget figures and broad outlays. Further, doubts have also been expressed about the quality of data available. To fill

³ Recipients provide work on minor public projects in exchange for food aid. In some cases the grants to the Upazilas are in cash and in others in kind. One Upazila reported receiving 126 metric tons of rice last year through the program.

⁴ The recurrent transfers exclude one time transfer to Pourashavas of Tk 965,595 and to City Corporations of Tk 1,128,987 to pay electric arrears. The recurrent budget also does not account for Tk 64.0 million and TK 875.8 million in loans to Dhaka WASA and Tk 26.2 million for Chittagong WASA.

⁵ The budget also lists Tk 1.12 billion in transfers to the Gram Sarkar, which presumably refers to ward level grants.

this gap survey data were collected from three different tiers of local governments, viz. Union Parishads, Upazila Parishads, and Municipalities.

Revenues and expenditures of Union Parishad

Union Parishad revenues in general are very low and not at all sufficient to meet minimum standards of service delivery. For example, the total per capita revenue was Tk. 33.84 in 2006/07 and Tk. 45.44 in 2007/08 for the sample of 30 UPs surveyed.⁶ UPs rely very heavily on transfers for their financing. Between 64 and 70 percent of UP revenues come from various kinds of transfers (including salary subventions for UP staff). It is notable that, of these, direct block grants to UPs were less than 6 percent, while earmarked block grants of various kinds accounted for the rest. Between 22 and 27 percent of the transfers was used to pay for staff salaries and honoraria for the Chairman and the members of the Council.

Generally grants are of two kinds: specific grants and general purpose grants (developmental grants). UPs have a third category, namely percentage grants. The specific grants are given to the UPs under three separate but similar types of programs. These include Rural Works Programs (RWP) and Food for Works Program (FFWP) locally known as *Kabita/Kabikha*. To obtain these funds UPs are required to submit schemes to the concerned authorities every year with complete specifications and project estimates in prescribed formats. Besides, UPs also receives grants for test reliefs and gratuitous reliefs (TR/GR).

The Local Government Ordinance of 1976 included 28 revenue sources that could be used by Union Parishads, but in reality Union Parishads use few of these sources. UPs can raise revenues from holding tax, business and entertainment tax, fee on various licenses and services, lease of markets and ferry terminals and other structures, rentals of UP property, and income from other miscellaneous sources. Of these, the holding tax on the annual value of land is the most significant, followed by tax on land transfers and income from leasing of various UP properties. Property-based taxes include chowkidari taxes/rates. A model tax schedule exists and sets upper limits on the tax rates that Union Parishad can assess, but they may have modest ability to control some rates. UPs have no collection or assessment staff so their revenues are either collected by the Chairman and Council or on a sharing basis. The average UP from the sample generates about Tk. 470-520,000 of own revenues, which is between 36 and 29 percent of total UP revenues. The per capita own source revenue raised by UPs was very low—for the sample, it was Tk. 12.22 in 2006/07 and Tk. 13.57 in 2007/08.

⁶ The per capita figures are calculated on the basis of 2001 population census.

Table 3: UP revenue composition

	2006-07 (% of total)	2007-08 (% of total)
A. Own Revenues		
1. Annual Value of Land and Holdings	13.77	11.81
2. Lease of Hats and Bazaars	4.41	2.80
3. Tax on Land Transfer	7.93	7.11
Total Own Source	36.1	29.85
B. Government Grants		
<i>1. Specific grants</i>		
1.1 Grants from Upazila (KABITA/KABIKHA)	3.27	5.52
1.2 Grants from Zila Parishad	0.63	2.61
1.3 TR/GR grants/UP Parishad fund	1.01	2.05
<i>2. Development grants</i>		
2.1 Grants to help local development (agriculture, health & sanitation, road construction & maintenance, house building & repairing and other)	33.3	31.61
2.2 Block Grant	5.89	3.83
2.3 Expanded Block Grant	0.00	6.34
<i>3. Percent grants for the UP staff</i>		
3.1 Pay & allowances of chairman & members	4.38	3.34
3.2 Pay & allowances for secretary and other staff	12.94	12.15
Total Government Grants	63.9	70.13

Source: survey of 30 sample UPs

While property-based tax rate are fixed *a priori*, *chowkidari* taxes are determined annually in a number of steps. First, in a UP meeting the total amount of the union rates to be realized from the residents of the concerned UP in a year is decided upon. Second, the total amount is then prorated among the wards based on the population. Third, the amount attributed to a particular ward is prorated among constituting villages. Finally, the UP member in consultation with the village leaders set the rates to be paid by individual households based on their economic conditions. In contrast, according to the Local Government Ordinance, 1976 and its subsequent amendments, the UP is to prepare a valuation list of all buildings within the union through an assessor. However, the prescription has seldom been followed in practice. The present practice of levying the union rate without any fixed economic basis leaves sufficient leverage for both under-assessment of buildings owned by friends and relatives of the assessors and over-assessment of these properties owned by political rivals and opponents.

Taxes on professions were head taxes or poll taxes on those not engaged in agriculture, although there is some variation in the levy depending on the income of the professionals. For assessing other types of taxes and rates, UPs are guided by the rates mentioned in the MTS. But those rates were fixed in consideration of the economic conditions prevailing in the sixties.

UPs are chronically dependent on inter-governmental grants, at least in part because of the inability to collect much of the tax revenue that is due. This, in turn, implies loss of autonomy and inability of the UP to evolve as a meaningful local government body.

Table 4 shows the expenditure responsibilities of the UPs. It may be noted that UPs spend about 4 to 5 hundred thousands taka for salaries and allowances, which is more than one fifth of the total expenditures. About one-third of this amount is spent for honoraria of the chairman/members of the UP and the rest are spent for salary support for the UP staff. UPs spend 54 thousands to 80 thousand for regular office maintenance. This is about 4 percent of the total expenditures. It may be noted that expenditures for the general establishment rose by 25 percent between 2006-07 and 2007-08. Some of the expenditure increase may be attributed to increases in the salaries and allowances of the UP staffs due to the alignment of their compensation to the pay scale of the public employees. Even though a notable part of the revenue expenditures are for wages and salaries, it is also true that such compensations remain unpaid for several months in many cases.

About 60 percent of the expenditures by the UPs are for development purposes. Development expenditures accounted for the largest portion of the expenditure increase since 2006-07, as evidenced by the increased share in total expenditures. The major heads of development expenditures include agriculture, road construction and maintenance, and health and sanitation. These categories account for 35-40 percent of total expenditures of the UPs and constitute roughly half of the total development expenditures of the UP.

Table 4: UP expenditure composition

Expenditure Heads	2006-07	Share	2007-08	Share	Growth
A. Revenue Sector	512,241.24	40.82	631,944.03	37.62	23.37
1. General Establishment	423,678.24	33.77	532,681.37	31.71	25.73
(i) Salary and Allowances	369,457.01	29.45	452,433.53	26.93	22.46
(ii) Others	54,221.23	4.32	80,247.83	4.78	48.00
2. Health and Sanitation	10,341.67	0.82	18,833.33	1.12	82.11
3. Education (grants)	3,666.67	0.29	5,183.33	0.31	41.36
4. Tree Plantation	13,592.07	1.08	14,266.67	0.85	4.96
5. Other Expenditures	60,962.60	4.86	60,979.33	3.63	0.03
B. Development Sector	742,485.65	59.18	1,048,053.25	62.38	41.15
1. Agriculture	161,158.73	12.84	144,322.80	8.59	-10.45
2. Health and sanitation	121,214.29	9.66	184,187.93	10.96	51.95
3. Road construction and maintenance	219,658.67	17.51	301,677.59	17.96	37.34
4. Education	39,445.67	3.14	62,895.67	3.74	59.45
5. Irrigation and dam constructions	300.00	0.02	15,200.00	0.90	4966.67
6. Market construction/development	31,833.33	2.54	24,233.33	1.44	-23.87
7. Office building construction/repair	43,618.77	3.48	119,238.87	7.10	173.37
8. Reliefs	24,166.67	1.93	25,233.33	1.50	4.41
9. Others	101,089.53	8.06	171,063.73	10.18	69.22
Total Expenditures: (A+B)	1,254,726.89	100.00	1,679,997.28	100.00	33.89

Revenues and expenditures of Upazilas

During the 1980s the Upazilas claimed to be the fulcrum of local government activities and coordinating points for national government. However, this tier of local government has been heavily dependent on the national government since its birth in early 1980s and its demise in 1990s. However, the current Upazila system is the relics of its own past doing much of coordination of central and local government activities within its jurisdiction.

The average size of Upazila is about 240 square kilometer with a population of more than 270 thousands. More than 70 percent of the population is engaged in agriculture. An average Upazila has about 350 km of road network; half of these roads are *pucca* or semi-*pucca* and the rest are

kutchra. Most of the Upazilas have about 130 primary schools, 33 secondary schools, and 5 colleges. An average Upazila has one general hospital with 45 beds, 15 medical practitioners, and 7 nurses. It is alleged that most of the doctors reside in the nearby town with occasional visits to the Upazila health center/general hospital.

Upazilas do not employ any taxes or fees for service. They only generate own revenues from the leasing of markets and ferries and the rental of various Upazila properties. This is not unexpected since Upazilas are really deconcentrated entities. The share of own source revenue for a sample of 30 Upazilas was 43.47 percent in the year 2005/06 and 46.21 percent in 2006/07. Central transfers to Upazilas come through two main windows: *revenue transfers* that support the salaries and allowances of Upazila Parishad staff and fuel allowances, and *developmental grants* under the ADP program and other sources. Salaries and fuel allowances provided by the central government were approximately 5 percent of the total. Development grants were 51.65 percent in 2005/06 and 48.75 percent in 2006/07. Almost all of these come from the ADP program.

The average Upazila spent about 1.9 million taka in each of the two years surveyed for different development activities. This is about 72 per cent of total expenditures in 2005-06 and decreased to 67 per cent in the following year. These expenditures were incurred for construction and reconstruction of roads, bridges/culverts, markets, bus/taxi terminals, sewerage drains and other drains, and other Upazila infrastructures. Upazilas also incurred expenses for the construction and maintenance of the office buildings and staff quarters, slum development, health and sanitation, etc.

The average Upazila also spent about 760 thousand taka in 2005-06 for the general establishment, which is about 28 per cent of total expenditures. In the following year it increased to 928 thousands and its share in the total expenditures increased to 33 per cent. Most of the expenditures for general establishment were spent for maintenance of office vehicles and maintenance of markets under the jurisdiction of the Upazila.

Revenues and expenditures of Pourashavas

Data on expenditures and revenue were collected from 24 municipalities for 2006-07 and 2007-08. In collecting data particular attention was given to proportional representation of the municipalities. Accordingly, proportionate sampling was done among an A-1, A-2, B, and C categories of municipalities. The Appendix contains a list of municipalities surveyed. The average size of the municipalities is about 12 square kilometers with an average population of 40 thousand. About half of the inhabitants are engaged in agriculture. Each municipality has about 57 km of road networks. Less than half of the roads are *pucca*; another 20 per cent are semi-*pucca*; the rest are *kutchra* roads. The municipalities are supposedly urban areas. However, the provisions of urban amenities by the municipalities are far from satisfactory. Half of the municipalities do not have water supply provision and only one-third can regulate unsanitary and risky buildings. Half of the sample pourashavas have waste management and disposal facilities. Like the UPs, all of the municipalities reportedly register births, deaths, and marriages and celebrate national holidays.

An average municipality has about 16 primary schools, 6 high schools, and 3 colleges. The municipalities recruit the teachers/staff, enroll students, and manage the day-to-day affairs; in other cases higher-level deconcentrated governments operate these institutions. The municipalities have no legal authority over the latter institutions. This phenomenon is most likely to occur for the B and C category municipalities.

The healthcare facilities of the municipalities are, as expected, better than those found at the UP level. An average municipality has one general hospital and 2 healthcare centers with 15 doctors and 10 midwives and nurses for a population of 40 thousands. Apparently the municipal ratios of health services providers and potential patients are above the national average of Bangladesh. A disquieting aspect of the municipalities is the culture of 'tax avoidance'; about 2 thousands establishments are supposed to pay different local taxes but three quarters of them actually end up paying any taxes.

Pourashavas are granted 26 revenue sources but many are believed to generate very little revenue. The main own source revenues are property tax, land transfer tax, building permits, tax on professions and trades, advertisements tax, amusements tax, non-motorized vehicles tax, and several fees. A model tax schedule has been created that establishes rates, although municipalities may be able to alter the effective tax rate by upholding appeals.

Own source revenues are less than a third of total Pourashava revenues for a sample of 30 Pourashavas around the country. The rest come from transfers. Pourashavas depend heavily on project-specific funding followed by general block grants. Per capita Pourashava total revenue was much higher than for the UPs. The total per capita revenue was nearly Tk. 1220 in 2006/07 of which about Tk. 405 came from own sources, and a little over Tk.1930 in 2007/08 of which about Tk. 580 came from own source. Also, notable is the 58 percent jump in total Pourashava revenues between the two years.

Table 5: Pourashava revenues

		Percent		Percent	
	FY2006-07	Distribution	FY2007-08	Distribution	Growth
Own source					
Taxes	108,658,161	9.42%	145,728,435	7.96%	34.12%
Leases	59,853,986	5.19%	86,610,600	4.73%	44.70%
Rates	138,528,709	12.00%	137,448,459	7.51%	-0.78%
Fees	33,679,721	2.92%	48,864,000	2.67%	45.08%
Rentals	11,079,353	0.96%	31,850,000	1.74%	187.47%
Sales	9,660,370	0.84%	13,851,500	0.76%	43.38%
Other	21,642,342	1.88%	85,824,000	4.69%	296.56%
<i>Total Own Source</i>	<i>383,102,642</i>	<i>33.20%</i>	<i>550,176,994</i>	<i>30.07%</i>	<i>43.61%</i>
Transfers					
Other than Development	6,688,077	0.58%	8,282,000	0.45%	23.83%
General Government Grants	250,317,000	21.69%	287,015,000	15.68%	14.66%
Specific Projects	510,353,058	44.22%	975,495,169	53.31%	91.14%
Non-Governmental	3,560,000	0.31%	8,950,000	0.49%	151.40%
<i>Total Transfer</i>	<i>770,918,135</i>	<i>66.80%</i>	<i>1,279,742,169</i>	<i>69.93%</i>	<i>66.00%</i>
Total Revenue	1,154,020,777	100.00%	1,829,919,163	100.00%	58.57%

Source: survey of 30 Pourashavas

¹ Growth in nominal terms

The expenditure assignments for the municipalities are governed by the local government ordinance promulgated in 1976 and its subsequent amendments. In general, there are no set rules

for assigning expenditure responsibilities to the municipalities by the central government. Under the ordinance with its subsequent amendments, municipalities are assigned two types of responsibilities: (a) compulsory functions (b) optional functions. The compulsory functions assigned to ensure the basic amenities to the inhabitants of their jurisdictions. Some of these services include waste management, water supply and sanitation and drainage control. The optional services are provided as extended amenities to their inhabitants; some of these services include maintenance of educational institutions, control over private structures, establishment of charitable dispensaries, etc.

In 2006-07, current expenditures represented 35.4 per cent of total expenditures (Table 6). The share is estimated to have fallen significantly in 2007-08 because of rapid growth in development expenditures. Municipal expenditures in Bangladesh are low relative to the assigned responsibilities due to small level of resource base at their disposal from which to collect taxes and the limited absolute amounts of central government transfers.

Table 6: Pourashava expenditures

(Tk.'000)

	Total	Distribution	Total	Distribution		Per Capita Revenues	
	FY06-07		FY07-08	%	Growth	FY06-07	FY07-8
Current							
General Government							
Wages	145,394,833	12.50%	173,607,998	9.38%	19.40%	153.61	183.42
Other	186,054,462	15.99%	177,743,553	9.61%	-4.47%	196.57	187.79
Specific Departments							
Tax Collection	2,521,850	0.22%	2,826,000	0.15%	12.06%	2.66	2.99
Sanitation and Health	27,309,793	2.35%	27,284,320	1.47%	-0.09%	28.85	28.83
Education	4,341,539	0.37%	4,015,000	0.22%	-7.52%	4.59	4.24
Tree Planting	2,627,300	0.23%	2,010,000	0.11%	-23.50%	2.78	2.12
Other Current	43,076,401	3.70%	70,717,902	3.82%	64.17%	45.51	74.71
Total Current	411,326,178	35.36%	458,204,773	24.77%	11.40%	434.56	484.09
Development							
General	456,435,654	39.24%	704,605,524	38.09%	54.37%	482.22	744.41
Specific Projects	295,458,259	25.40%	687,186,651	37.15%	132.58%	312.15	726.01
Total Development	751,893,913	64.64%	1,391,792,175	75.23%	85.10%	794.37	1470.42
						0.00	0.00
Total Expenditures	1,163,220,091	100.00%	1,849,996,948	100.00%	59.04%	1228.94	1954.51

Source: sample of 26 Pourashavas

Revenues and expenditures of City Corporations

On the revenue side the main sources of revenue for City Corporations (CCs) are transfers and grants; taxes (property, entertainment, vehicle, professional etc.); fees and fines; rents and leases; and loans. Even though CCs have much higher local revenue potential than Pourashavas or UPs, just over a third of their revenues came from own-sources, a revenue share that is not dramatically different from other local governments (Table 7). The rest comes from various kinds of transfers, including general block grants and support for specific projects. In particular, the largest share came from financing for donor-supported projects, followed by financing for government-supported projects. Together, they constituted between 50 and 60 percent of the revenues of CCs for 2006/07 and 2007/08. Also interesting is the small decline in total revenues

from 2006/07 to 2007/08 (by little over 1 percent in nominal terms), which is in complete contrast to Pourashavas. This is especially marked in the case of transfers like the general block grant and donor supported projects.

There is widespread feeling that the current levels of own source revenue do not accurately reflect the potential of these cities. In particular, the large cities have not expanded the property tax rolls or undertaken timely assessments. Moreover, there are reports of large scale evasion and corruption in local tax administration. The collection rates are often much lower than the estimates, though this is likely an indictment of the planning process as well as the revenue collections weaknesses.

Table 7: City corporation revenues

(Tk.'000)

	FY2006-07	Percent Distribution	FY2007-08	Percent Distribution	Growth ^{1/}
Own source					
Taxes	2,925,029,468	13.26%	3,674,218,881	16.86%	25.61%
Leases	76,700,000	0.35%	133,700,000	0.61%	74.32%
Rates	982,070,067	4.45%	955,352,036	4.38%	-2.72%
Fees	1,243,737,000	5.64%	1,119,715,000	5.14%	-9.97%
Rentals	875,457,505	3.97%	634,585,000	2.91%	-27.51%
Sales	188,060,000	0.85%	121,000,000	0.56%	-35.66%
Other	1,252,598,700	5.68%	1,176,652,000	5.40%	-6.06%
Total Own Source	7,543,652,740	34.20%	7,815,222,917	35.86%	3.60%
Transfers					
Other than Development	295,600,000	1.34%	293,300,000	1.35%	-0.78%
General Government Grants	1,532,300,000	6.95%	1,150,000,000	5.28%	-24.95%
Specific Projects Gov't	4,040,079,000	18.32%	4,618,520,000	21.19%	14.32%
Specific Foreign Projects	8,645,400,000	39.20%	6,778,800,000	31.11%	-21.59%
Non-governmental			1,135,000,000	5.21%	
Total Transfer	14,513,379,000	65.80%	13,975,620,000	64.14%	-3.71%
Total Revenue	22,057,031,740	100.00%	21,790,842,917	100.00%	-1.21%

Source: survey of 6 CCs

^{1/} Growth in nominal terms

Revenue composition of individual cities shows considerable variation (Table 8). For example, Chittagong notably had a very high share of own source revenues compared to the other five CCs, while Barisal and Sylhet were almost entirely dependent on various types of transfers. Donor funding for various projects also showed notable variations among cities. Whereas Khulna and Chittagong were least dependent on foreign aid projects, Barisal and Sylhet were heavily dependent. Development expenditures are at least 72 percent of City Corporation disbursements in each year. Foreign aid finances the largest share of development expenditures, followed by transfers from the central government. But, nearly one-fourth of development expenditures are financed from own sources. Non-wage expenditures are the largest component of current expenditures, with wages under 10 percent.

Table 8: Revenue composition of individual City Corporations

	Dhaka (%)		Khulna (%)		Chittagong (%)		Rajshashi (%)		Barisal (%)		Sylhet (%)	
	06-07	07-08	06-07	07-08	06-07	07-08	06-07	07-08	06-07	07-08	06-07	07-08
Share of own-source	20.51	25.95	12.35	25.95	65.42	57.41	44.16	16.68	14.39	9.16	15.24	8.69
Share of transfers	79.49	74.05	87.65	74.05	34.58	42.59	55.84	83.32	85.61	90.84	84.76	91.31
Foreign aid project	34.14	27.83	11.24	8.48	12.18	19.19	13.62	22.30	42.11	42.87	41.77	43.32
Taxes												

Source: survey of 6 CCs

1/ All numbers are percentages of total revenues

Table 9: City Corporation expenditures

		Percent		Percent	
	FY2006-07	Distribution	FY2007-08	Distribution	Growth
EXPENDITURES					
Current Expenditures					
Wages	1,745,043,218	7.95%	1,762,412,830	8.17%	1.00%
Other	2,282,128,248	10.40%	3,540,917,000	16.42%	55.16%
Loan Repayment, etc.	541,600,000	2.47%	634,500,000	2.94%	17.15%
Total Current	4,568,771,466	20.81%	5,937,829,830	27.53%	29.97%
Development Expenditures					
Own Source Financed	4,068,233,000	18.53%	3,797,825,000	17.61%	-6.65%
Government	4,290,099,000	19.54%	4,533,520,000	21.02%	5.67%
Foreign Aided	9,025,718,274	41.11%	7,301,300,000	33.85%	-19.11%
Total Development	17,384,050,274	79.19%	15,632,645,000	72.47%	-10.07%
Total Expenditures	21,952,821,740	100.00%	21,570,474,830	100.00%	-1.74%
Closing Balances	3,126,762,662		13,692,032,152		

The overall expenditures for different tiers of local governments are shown below. What is striking is that urban local governments—Pourashavas and City Corporations—that represent only about 28 percent of the total population accounted for nearly 59 percent of the total local government expenditures. In contrast, Union Parishads accounted for less than 17 percent of the total local government expenditures. What is also notable, but rather unexplained, is that Gram Sarkars that were struck down by the Courts, accounted for a little over 6 percent of the expenditures. A comparison of the expenditure tables above illustrates that development expenditures are the predominant category for each level of government, though the development share is largest in the more urban governments. Wages are generally a minor share, with the share rising as the units become less urbanized.

Table 9: Local government expenditures summary (dev & non-dev)

(Tk '000)

Description	Budget 2006-07	Estimate				Projection	
		Revised 2006-07	2006-07 (%)	Budget 2007-08	2007-08 (%)	2008-09	2009-10
LGIs	5,217,500	7,471,787	41.77%	3,699,100	28.56%	6,025,000	6,870,060
City Corporations	5,217,500	7,471,787	41.77%	3,699,100	28.56%	6,025,000	6,870,060
Pourashava	1,660,000	3,025,595	16.92%	2,475,000	19.11%	2,110,000	2,380,000
Zila Parishad	1,245,000	1,845,000	10.32%	1,575,500	12.16%	1,587,000	1,788,000
Upazila Parishad	1,095,000	1,415,154	7.91%	1,520,000	11.74%	1,390,000	1,560,000
Union Parishad	2,550,000	3,011,594	16.84%	3,082,500	23.80%	3,250,000	3,700,000
Gram Sarkar	1,060,000	1,117,114	6.25%	600,000	4.63%	1,490,000	1,700,000
Total	12,827,500	17,886,244	100.00%	12,952,100	100.00%	15,852,000	17,998,060

Source: Finance Division, MoF, GoB

Planning, and Budgeting at Local Level

Expenditure planning in Bangladesh is undertaken at different levels by different agencies. Much of the planning is done vertically and the fund flows reflect this vertical orientation. At the national level, the Planning Commission has responsibility for macro- and strategic planning. At the sectoral level, various ministries and line departments, through their planning cells, undertake sector-specific planning. Sectoral planning under vertically integrated administrative structures is highly centralized and compartmentalized. Officers at the deconcentrated level provide inputs to sectoral agencies on development priorities and identify programs and projects, often without any local inputs. The practice is to rely on the “local knowledge” of the field level officer. While there are forums for consultation and coordination at the Zila (DDCC) and Upazila (UDCC) levels, in practice neither of these forums facilitates inputs from local bodies or citizens.

The Comilla Model of rural development provided the framework for local-level and area-based planning in rural local governments. The Upazila was the basic geographic and administrative unit for this. The formation of elected Upazila Parishads in 1982 created an institution at the Thana level with statutory planning powers and a degree of authority over the operation of government agencies at that level. However, the abolition of elected Upazila Parishads in 1991 eliminated planning at that level. At present, a bureaucracy led by the Upazila Engineer and overseen by the UNO undertakes Upazila level planning.

Currently, there are three defined procedures for local level area based planning:

- UPs are required to produce annual and five-year development plans based on guidelines prepared by LGD. However, UP planning is limited by strict guidelines that set out allocations across sectors and limit local discretion. Local planning becomes an ineffectual exercise in this scenario.
- UPs are also required to produce and update a Union Plan Book with the help of LGED, that identifies local resources and priorities. In practice, only a small share of UPs has prepared Plan Books, and where they have been prepared, these are more like wish lists of infrastructure projects and may not reflect public priorities or have any bearing on the actual resources available.
- Finally, at the Upazila level, there is provision for a Thana Plan Book. However, in the absence of a planning body at the Upazila level, the planning process, as noted earlier, is a sectoral and bureaucratic exercise led by the UNO and the Upazila Engineer.

Thus, at present, there is no coherent area-based and integrated local-level planning and expenditure prioritization process. The larger share of the resources –government and donor funds, and food aid—is channeled to the local level through LGED and other line agencies.

In the absence of any real expenditure planning, local budgeting has also been a fairly meaningless exercise devoid of both public inputs and analysis. Local bodies are required to balance budgets, and therefore, in that sense there is a hard budget constraint. However, in reality local governments often have very limited control over their resources. Current revenue patterns and previous revenue estimates are used to forecast future revenues with little consideration to factors affecting revenues. These forecasts show “taxes in arrears” as if they were ever to be collected, which leads to a major case of revenue overestimation.

In the case of UPs and Pourashavas, the Chairman and the Secretary prepare the budget. The previous year's budget becomes the starting point, and then some increments are added where necessary. Budgets are required to be prepared and submitted for approval by higher authorities by end-June. In reality, however, this often extends to July or later. UPs are required to hold an open budget meeting in order to take the community into confidence. In most cases it appears that the UP Chairman and the Secretary prepare the budget and finalize it with some inputs from members, but without active inputs from the community. In most cases the community has no clue of the budget. The situation is not very different in Pourashavas. Without any transparency, it is not unusual for budgeting to become an exercise in dispensing patronage and rents.

In the case of UPs, the final budget is then sent to the District Council's office for approval, while in the case of Pourashavas, the approving authority is LGD. LGD must then approve or amend the budget within 30 days. The budget is automatically approved if LGD does not respond in the 30-day period, and the perception exists that the budget is often accepted without LGD review or comment.

Building a Viable Local State: Key Issues in Decentralization and Local Governance in Bangladesh

Six key issues arise with the intergovernmental structure in Bangladesh:

- The system is heavily centralized
- The structure is complex and fluid
- Subnational governments have little accountability
- Expenditure assignments are very imprecise
- Local governments have limited access to own source revenues
- Intergovernmental transfers are small on international standards and unpredictable
- Central government monitoring is not focused on quality service delivery

Centralization: The Bangladesh government structure is very centralized in terms of both the relative size and the independence of subnational governments. The sub-national government structure is very small on international standards, whether measured in terms of the narrow set of expenditure responsibilities, low own source revenue, or limited transfers. The small set of responsibilities is not unusual for unitary countries or for the region, but fails to allow Bangladesh to benefit from many of the advantages associated with local governments' involvement in prioritizing services and managing delivery. Most Bangladesh local governments have no role in delivering education, health services, and other broad responsibilities that are performed by local governments in some other countries.

Subnational governments also have very little decision-making autonomy, which is evidenced on both the expenditure and revenue sides of the budget. The LGD or the District Council must approve annual local government budgets. Higher-level governments also must generally approve projects before they can be implemented. Tax and fee rates are set by the national government. Further, the MPs are actively involved in local government decisions on issues such as service delivery and project identification. The MPs also serve as advisors to the Upazila Development Coordination Committee and chair the committee when they are present, roles that further confuse who is responsible for service delivery.

Essentially all subnational government staff are employees of the Ministry of Establishments and ultimately report to their respective central government agencies rather than to the local government where they are working (or at least they report to both places). LGD approval is required to add any new staff, and the approval is generally very difficult to obtain. Several layers of the subnational governments are deconcentrated national offices (Zila and Upazila) and the staff are also appointed at the national level. Essentially none of the potential benefits of devolved government structures can be expected from these units. Even the more politically devolved lower level local governments rely on senior managers who are posted by the Ministry of Establishments and may have disjointed loyalty and accountability to local political officials and their constituencies.

The key local government question is whether greater devolution of government would offer significant advantages to Bangladesh by enhancing the quality of local public service delivery, encouraging local resource mobilization, allowing for greater local voice in public service decisions, and generally increasing satisfaction with government. Significant reorganization of the government structure would be necessary to create a more devolved system that operates with incentives for efficient behavior. Greater local control would be necessary on expenditure choices and staffing and greater ability to raise own source revenues would be necessary. The intergovernmental revenue structure would need to be re-examined and altered to create incentives for efficient behavior that are consistent with the different expectations from local government, with the likelihood that more transfers are necessary. Further, major reforms would be required in a number of national government institutions, such as the LGD and LGED. These organizations would need to serve as consultants and monitors rather than being highly integrated into local government functions, as they are today.

Complex and Changing Structure: The Bangladesh local government structure is unduly complex. Five levels of government operate in rural areas including the national government, Administrative Divisions, Zila Parishads, Upazila Parishads, and Union Parishads. Urban areas have the national government, Administrative Divisions, Zila Parishads, City Corporations and Pourashavas, though not all categories apply to each area. There are two or three intermediate levels of government, though these are deconcentrated regional offices of the national government rather than devolved intermediate authorities. There are no devolved intermediate governments in Bangladesh. The number of local government tiers (including the deconcentrated governments) is high on international standards, though there are other countries, such as Rwanda (although it recently reduced the number of local governments), which also have large numbers of intermediate governments. The Bangladesh arrangement is complicated by the parallel nature of deconcentrated central government structures, such as the Administrative Divisions, Zila Parishads, and Upazila Parishads, and political structures such as the Union Parishads and Pourashavas.

Administrative and operational costs are likely to rise with the number of layers of government, meaning the subnational sector, though small, is overly bureaucratic and less productive than

would occur with a more efficient government structure. Government is likely to be less accountable because constituents find it more difficult to determine which level is responsible for delivering specific services.

The Union Parishads and some Pourashavas have existed for many years, and people should be very familiar with these governments. However, the overall system is confused by the frequent changes in the structure and names of local governments during the past several decades. Local government cannot be a set of transparent, accountable bodies about which people can establish expectations unless a consistent system is allowed to operate for a sustained time. For example, the Upazilas were called Thani for a period of time. Gram Sarkars were formed at the ward level in 2004 but these were very quickly eliminated based on the complaint that they were simply another opportunity for political patronage. Pourashavas that are inconsistent with the guidelines for their creation have been established for political gain, even though their size and economic structure may not be viable and their adoption can make surrounding Union Parishads less viable as well. Several committees have been formed during the past 25 years to recommend changes in the local government structure. Some of the recommendations have been adopted, such as creation of Upazilas and Gram Sarkars. The 2007 report recommended elimination of the irregular Pourashavas.

Low Accountability: The mechanisms for holding subnational governments accountable are very weak. Elections of Council members and Chairmen for both Union Parishads and Pourashavas are the most positive means of achieving accountability to local populations. However, the inability of the politically elected officials to appoint and control their staff lessens the accountability and responsiveness to local demands. The appointed officials have weaker linkages to local populations and should be less responsive and accountable than if staff were locally controlled. The separation between civil service officials and local political leaders allows each to blame the other for service delivery failures, making it difficult for populations to know whom to hold accountable. Many public services are only delivered in one geographic area of a local government, though the taxes are levied across the entire local government. This can erode the often tenuous linkage between payment of taxes and fees and receipt of services. Further, the electorate has very limited information about the resources available to local governments or how the resources are being used, further weakening the accountability relationships.

Expenditure Assignments: The expenditure assignments that have been made to politically elected local governments are relatively narrow at least by comparison with the responsibilities held by local governments in many parts of the world. Bangladesh's local governments have little responsibility for primary and secondary education, fire protection, primary health care, and others. The service responsibilities are much broader for the deconcentrated governments at the Zila and Upazila level. But, line ministry staff that are housed in these offices, rather than local government officials, deliver these services.⁷ Despite their limited functions, local governments fail to deliver many of the services for which they are responsible. Instead, they appear to pick and choose the services they will deliver within the set of assigned responsibilities and to deliver the services to parts but not all of their geographic area. The decisions being made could be consistent with local priorities and thereby reflect efficient decision making, but there is no information available on the extent to which this is true.

Very low resource levels and very limited institutional capacity for service delivery hamper local government service delivery. Local governments do not have the ability to hire and fire

⁷ Lower level local governments often provide some financing to enhance service levels (such as with local education) where the responsibility lies with national government institutions.

employees, which significantly inhibits their ability to set service levels and make decisions. The staffing at local levels is very thin and the competency levels are generally low. Very little human resource development occurs in local government units, and this failure can be seen in the low skill levels in many places. But, local governments face low incentives for providing high quality services. The management systems also appear to be very weak.

The focus in local governments appears to be on infrastructure and small projects rather than on ongoing service delivery and the outcome of government activities. The project orientation may exist because of the political desire to have some new activity in each ward each year. Nonetheless, the result is low service delivery efficiency and disjointed and spread out infrastructure expansions.

Water and roads are prime examples where the infrastructure investments are undertaken nationally but operations and maintenance are local responsibilities. There is likely to be little operation and maintenance because local governments have the incentive to wait for the national government to rehabilitate infrastructure rather than undertake the maintenance themselves. The delineation between the relative national and local government roles is unclear in these cases of shared responsibility and the incentives to perform the functions well are very weak for local governments.

Own Source Local Revenues: Local governments, particularly in rural areas, generate very little own source revenue. Bangladesh, like many countries, reserves the most productive revenue sources, such as the value added tax, for the national government and local governments are mostly left with weak instruments. Local governments have little control over their tax and fee rates, which makes it difficult to significantly alter their revenues. But local governments in Bangladesh have low collection efficiency for the revenues they are assigned. Local explanations tend to be that people cannot afford to pay taxes, but this may be evidence of low political will and excuses for poor management.

The administrative framework for local collection of own source revenue is poorly structured for success. The collection process is potentially heavily politicized with political leaders rather than tax professionals collecting taxes or making decisions on tax liabilities and appeals. Indeed, Union Parishads have no professional tax administrators and rely on political leaders or outsourcing to collect revenues. The political leaders appoint tax collectors in Pourashavas but the collectors often report to seconded central government employees, thereby resulting in inconsistent lines of authority and responsibility. Incentives to collect revenues locally are lessened since the receipts cannot be readily used to enhance service delivery because local governments cannot employ at will and must obtain approval for many decisions.

User fees are imposed infrequently with the exception of leasing of stores and other facilities. Some revenues are earmarked for individual services, such as with some water revenue, but the lack of metering results in a very loose relationship between service consumption and payment. Part of the property tax revenue is nominally earmarked for specific services, but there is no relationship between paying the tax and receiving the services. Wider imposition of user fees offers the potential to generate more revenues and enhance accountability.

Intergovernmental Transfers: The intergovernmental transfer system is a relatively low share of the economy by comparison with other countries. Transfers are also small relative to total national revenues though they are a significant component of revenues at all levels of local government (providing about two-thirds of revenues).

The incentives that the intergovernmental transfer system creates for local behavior are generally relatively benign or positive. However, local governments have little control over use of the resources and do not know when the national government will provide the money. The total annual amount of transfers is determined by ad hoc decisions within the Ministry of Finance, and is not determined relative to tax collections or another measure of economic activity. This could reduce the predictability of transfers, but the amounts received by various local governments do not appear to have been highly volatile. Still, linking the vertical transfer to total tax collections would provide local governments with a more reliable revenue source.

In addition to their low levels, the major weakness of the transfer system is the lack of control over use of the resources to meet local priorities. Most transfers are for development projects. Union Parishads are able to use transfers to pay part of their salary expenditures (but have no control over the number of staff), but urban governments generally cannot use transfers for recurrent costs (except that tax sharing of land transfer taxes could be used for recurrent purposes).

The general transfers appear to be fixed by type of local government and are not subject to negotiation. This limits disincentive effects that can arise from negotiated or ad hoc grants. However, the grants are not closely tied to the capacity to generate own source revenues or to the need for public services so the grant structure is not very effective for targeting specific problems. The formula that is used for some grants is based on old data and is unresponsive to changing local needs. Further, the grants are not provided consistently during the fiscal year, likely leading to inefficient use of the resources. A formula based grant that relies on current data and is provided in a timely manner could help overcome some of these weaknesses and the LGSP seeks to rectify some weaknesses in the existing general grant structure. Specifically, the project provides general transfers directly to Union Parishads. The amount distributed is based on population and is provided in two tranches. Further, local expenditure of the funds must be based on a process that enhances accountability to the local population. Each of these structural characteristics improves the incentives generated by the transfer system.

Many of the other grants are determined through annual negotiated, ad hoc decisions. These grants could be used to offset specific problems not accounted for by the general grants. However, political negotiation and influence appear to be important determinants of the recipient governments. The result is that development projects may take place where it is politically expedient rather than where the most effective use of resources would occur.

The overall transfer system is unlikely to discourage local resource mobilization, and may encourage it. The performance-based grants appear to be positively related with raising own source local revenues. Other grants may substitute to some extent for own source revenues, but the limited expenditure flexibility given to local governments means that they cannot use transfers to increase local hiring. Thus, transfers can only replace development activity that local governments might otherwise finance from own sources. Further, rural local governments generally raise so little revenue that it seems unlikely that grants have been a major deterrent to resource mobilization (though Union Parishads may raise little revenue believing that grants are a better resource). Limited flexibility in the use of own source revenues may, however, be a major factor in discouraging local resource mobilization.

Monitoring: The LGD and other institutions heavily manage local governments and give them little flexibility. But, the management is structured around controlling the inputs available to local governments – their staffing and finances. Much less attention is focused on whether local governments are delivering quality services and on the ability of local governments to adequately

handle their responsibilities. Of course, it is much easier to monitor inputs, but enhanced oversight of the output side of government could bring greater efficiency to the sector. Greater attention to training of local staff rather than counting the number of workers would also be appropriate.

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