

## **An analysis of fiscal autonomy of local government in Bangladesh: Challenges and potentials**

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### **Abstract**

*The term 'Local Government' is an age-old concept in Bangladesh. The function and formation of local government in this region have gone through several changes and reforms. At present, five local government tiers are functioning in urban and rural areas of Bangladesh. This study has tried to bring the comparative scenario of fiscal autonomy of two tiers of both urban and rural local government. Fiscal autonomy can be referred as financial decentralization. Fiscal autonomy means liberty in budget making, financial resource allocation and mobilization. To find out the level of financial decentralization, comparative data has been analyzed among the Zila Parishad, Upazila Parishad, and Union Parishad at rural area and Pouroshava, city corporation at urban area. This study is conducted in inductive approach with qualitative method of analysis. Random sampling is used to choose the respondents and unified structured questionnaire is used to collect the data. This study tried to focus on specific challenges of fiscal autonomy of upazila Parishad at rural area and Pouroshava at urban area. Though the term financial decentralization has been long cherished concept in our local government, conceptualization and localization of this system are yet to be addressed. That is why this study focuses on some indicators to measure the level of fiscal autonomy. Moreover, there are confusions like- scuffle of status, which may result in overlapping at budget making procedure, revenue collection etc. There are also confusions regarding population size and area, etc. This study argues that, the practice of fiscal decentralization in all the tiers is less than desirable level. In affairs of financial management, they enjoy limited authority. It also explored that though the scope of revenue generation is limited due to some legal and socio-political factors, there are still some untapped potential resources also.*

**Key words:** Autonomy, challenges, decentralization, fiscal and revenue.

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## Introduction

Now-a-days, Decentralization of government has been developed as an inevitable mean to ensure governance. In this regard, throughout the world Local government has been introduced. This study deals with the level of fiscal autonomy enjoyed by the LGIs, specially Upazila Parishad and Pouroshava. Upazila parishad (UZP) in Bangladesh has been created as an intermediate local administration in between Union Parishad and Zila parishad under the decentralization package of Government. Urban local government has two institutes- City corporation and Pouroshava.

The term fiscal autonomy is an extensive word and can be defined as financial decentralization. However, the focus of this study is on autonomy of financial management. The purpose of fiscal autonomy is to facilitate local government to execute their chores efficiently to the contentment of inhabitants, use limited resources optimally, skillfully and effectively, develop expertise and capabilities to generate and manage resources in the vicinity, increase citizen's involvement and institutionalize accountable and transparent governance (UNDP, 2001). Therefore, fiscal decentralization has a significant role in establishing effective as well as citizen oriented local government. As the effective fiscal autonomy is a key to strengthening democratic local government institutions and enhancing the capacity of service delivery as per the satisfaction of the citizen, this paper focuses on the revenue management of local government bodies.

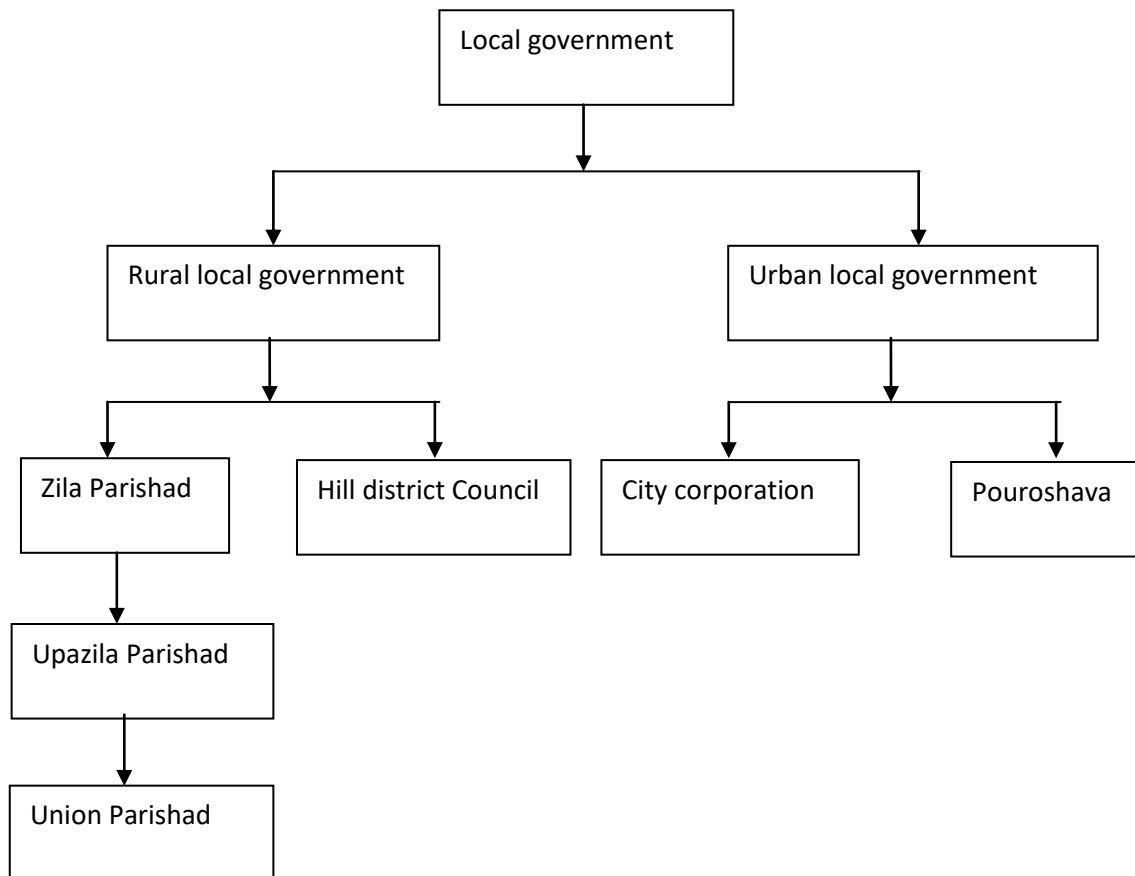
Currently, government has been focusing on strengthening local governments and fostering local development as key priorities under 7<sup>th</sup> FYP through 'vision2021' and SDG. Therefore, 6FYP has been criticized and fiscal autonomy has been given the highest priority in 7FYP. Since fiscal space in FY2017-18 is negative, there should be an even stronger justification for proposed new projects in FY2017-18 than in a scenario of "positive" fiscal space. All Ministries in the LGRD sector are expected to conduct careful fiscal space analysis and manage their project portfolios judiciously<sup>1</sup>.

The current assembly of local government in Bangladesh has been shown in figure 1.1-

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<sup>1</sup> Local government and rural development: sector strategy paper, Ministry of Planning, March 2018.

[https://plandiv.portal.gov.bd/sites/default/files/files/plandiv.portal.gov.bd/publications/0c526c77\\_bb8b\\_42fe\\_99d7\\_f6c217986e77/LGRD-SSP.pdf](https://plandiv.portal.gov.bd/sites/default/files/files/plandiv.portal.gov.bd/publications/0c526c77_bb8b_42fe_99d7_f6c217986e77/LGRD-SSP.pdf)

**Fig 1.1**

**Source:** Prepared by author, derived from current assembly of local govt. (Feruglio, 2007)

### **Research problem**

Local government in Bangladesh has gone through significant changes and has several tiers. Sometimes it causes overlapping of jurisdictions, power and function. It also limits the revenue generation of LGIs. In an Upazila jurisdiction, there can be another two local government Institutes- Pouroshava/ city corporation and Union Parishad. This study deals with the functions of LGIs specially UZP and Pouroshava. The UZP Chairman and Vice-chairman are elected by the people. But the law has barred UZP to spend revenue within the pouro area. Again, the Mayor of the Pouroshava is a member of UZP by law. A tug of war of status exists between the UZP chairman and Pouroshava Mayor which may hamper the financial management efforts.

### **Research objectives**

- To identify the present level of fiscal autonomy of local government in Bangladesh.
- To assess the issues of scuffle of status: Upazila parishad and Pouroshava

### **Research Question**

- What are the fiscal functions carried out by rural and urban LGIs?
- If there are any challenges faced by LGIs?
- Is there any issue of Scuffle of status between UZP and Pouroshava?

### **Research methodology**

To assess the level of fiscal autonomy of local government institutions, two study areas have been selected to collect data. The study area is- Nalchity Upazila of Barishal district. Nalchity pouroshava is a class-A pouroshava in the same territory. So the functions would be analyzed comparatively. This study has been conducted in Inductive approach and data will be analyzed in qualitative method. Random sampling has been utilized for choosing respondents. For secondary data annual reports and articles have been used.

**Table 1:** Respondents of the study

<b>Category</b>	<b>Description</b>	<b>Number of respondent</b>
Elected representatives	UZP Chairman	01
	Vice Chairman	02
	UP Chairman	04
	Pouro Mayor	01
Government Officials	UNO, officials	06
Citizen	Dwellers	40

### **Literature review**

A number of literatures are available on the formation and function of local government of Bangladesh. As the present study focuses on comparative fiscal management of rural LGIs, some relevant literatures are explained to find out the research gap.

Local government autonomy can be defined as ‘the freedom of the local government to recruit and manage its own staff, raise and manage its own finances, make bye-laws and policies and discharge its functions as provided by law without interference from the higher governments (Ogunna,1991:350, quoted in Okafor,2010). Financial autonomy of local government entails the freedom to impose local taxation, generate revenue within its assigned sources, allocate its financial and material resources, determine and authorize its annual budgets without external interference ( Okafor, 2010). Therefore, fiscal autonomy is the bedrock of local government autonomy.

According to a study of Nizamuddin et. al. among Five dimensions of local government system of Bangladesh, local fiscal autonomy and local financial management is the most essential pillar.

Though the present scenario is not much satisfactory...Local governments are given limited revenue discretion and they do not effectively collect the revenues assigned to them. The intra-governmental transfer system generally provides inadequate and unpredictable funding, with little or no meaningful local government discretion over finances. Inadequate funding is a major de jure and de facto constraint on the ability of LGIs to effectively perform their functions<sup>2</sup>.

### **Conceptual framework**

From literature four indicators of fiscal autonomy have been developed, which would measure the level of fiscal autonomy of rural local government in Bangladesh. The first pillar of fiscal autonomy is assignment of functions and expenditure responsibilities. Secondly, Assignment of revenue sources, thirdly, the provision of intergovernmental fiscal transfers, and lastly, the institutional frame work surrounding sub-national borrowing and debt.

According to a study of UNDP, a reform should be done on the basis of overlaps of LGIs in Bangladesh. The political economy balance between Upazilas and Pouroshavas will be an important consideration<sup>3</sup>

### ***Research findings***

Fiscal decentralization has many exponents, in precise as an approach to develop service delivery at local level. To measure the level of autonomy and challenges following indicators are explained:

#### ***Assignment of functions and expenditure responsibilities***

Assigning expenditure responsibilities refers to the distribution of functions among different government levels. Fiscal decentralization results in providing goods and services at the lowest level of government that can efficiently deliver the good or service. But some services may vary due to cultural values. Geographic and population size and diversity may affect expenditure assignment. In this study Nalchity upazila and Nalchity Pouroshava both have assigned expenditure responsibility which overlaps due to territory.

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<sup>2</sup>

<https://www.undp.org/content/dam/bangladesh/docs/Projects/UZGP/Policy%20Study.pdf>

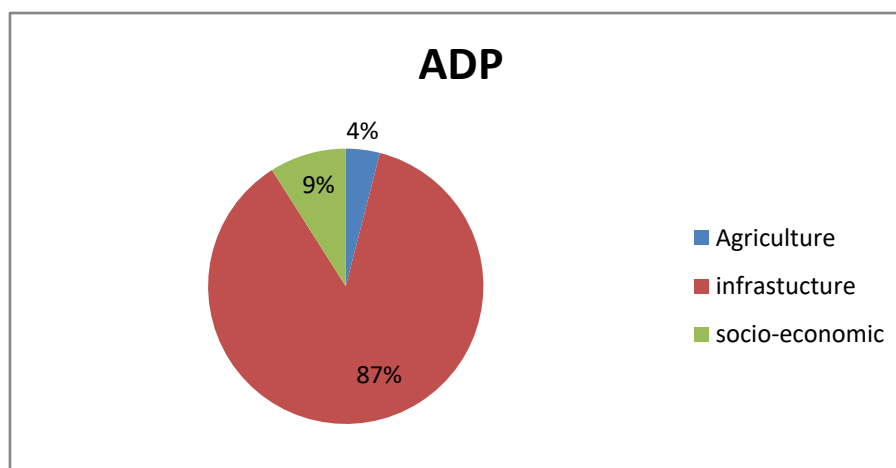
<sup>3</sup> Nicoletta Feruglio, December 2007. The chapter was prepared by the author in her capacity of Fiscal Decentralisation Advisor at the UNDP Bratislava Regional Centre

**Table 2:** The revenue expenditure of Nalchity upazila in FY2018-2019

Area of expenditure	Amount in BDT
Honorarium	10,44,00
Salary of staff	2,40,000
Conservation & maintenance of buildings	-
Vehicle repairing	50.000
Observing National day	1,00,000
Purchasing furniture	-
Purchasing electronics	-
Utility bills & tax	2,22,727
Maintenance of water pump	-
Solar panel	-
Unexpected expenditure	-
Entertainment	2,40,000
Contingency & Miscellaneous	48,000
Total	10,05,127

The above mentioned sectors of expenditure are specified in Guideline for the utilization of revenue fund-2014, whereas the guidelines for the utilization of development fund 2014 has identified several broad areas.

**Fig 1.2:** development expenditure responsibility of UZP



A huge amount is given to UZP for developing infrastructure, whereas the fiscal flow from central government is allocated in Ministry's head, not in UZP's head. 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.

The expenditure assignments for the Pourashavas are governed by the local government ordinance promulgated in 1976 and its subsequent amendments. The mayor opined that, there are no set rules for assigning expenditure responsibilities to the Pouroshavas 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. 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.

### ***Revenue assignment and revenue administration***

Local government rely upon a number of revenue sources including taxes (property tax) as well as non-tax revenues including regulatory fees (license and permits), rent on local government properties (building and equipment) and user fees( market fees and tolls on the roads and bridges owned by the local government).

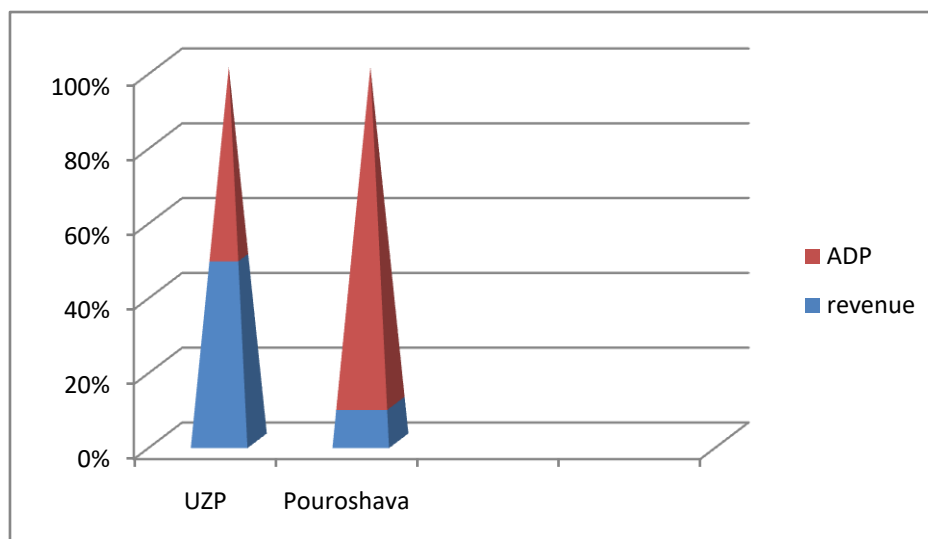
Regarding revenue assignment and revenue administration the Upazila Parishad mostly depends on revenue which they can collect from lease and rents from own property. Whereas, Pouroshava can generate revenue from tax and fees. According to Mayor of Nalchity Pouroshava, there are 26 sources of revenue collection.

**Table 3:** Revenue administrations by UZP & Pouroshava in 2017-2018

<b>Name of LGI</b>	<b>General function( in BDT)</b>	<b>Development function(in BDT)</b>
Upazila Parishad	760,000,000	910,000,000
Pouroshava	704,605,524	687,186,651

From the table, it can be said that UZP has bigger responsibility of development function than Pouroshava. But the source of development fund is less. Due to overlapping in area, Pouroshava has less responsibility than UZP. The political leaders appoint tax collectors in Pouroshava and the collectors often have to report to central government employees, thereby resulting in inconsistent lines of authority and responsibility.

**Fig 1.3:** Revenue source of UZP & Pouroshava



From the revenue sources, UZP mainly spent on salary and allowances. Pouroshava in Bangladesh which represent only 28% population accounted for nearly 59% of local government expenditure<sup>4</sup>.

#### *Intergovernmental fiscal transfers*

The intergovernmental fiscal transfer system is a relatively low share of the economy than national revenues. Upazila Parishad has a little control over the transfer.

**Table 4:** Major challenges of intergovernmental transfer

Challenges	Percentage of respondents
Unpredictable fiscal transfer	41
Lack of control	17
mostly for development projects	11
Not negotiable	8
Inconsistent allocation	11
Political influence	12
Total	100

Most of the respondents opined that, local government has no control over se of the resources and do not know when the national government will provide the money. The total annual amount of fiscal transfer is determined by ad hoc decisions within the ministry of Finance.

<sup>4</sup> International studies program, December 2008.



## **Institutional framework surrounding sub-national borrowing and debt**

Local borrowing can act as a significant source of revenue for local governments, especially in countries where own source revenues and intergovernmental transfers fall short of responding to local investment needs<sup>5</sup>.

Central control is imposed on tax rates, user charges and budget making procedure. In context of Budget making and resource allocation, UZP depends on UNO who is government official. On the other hand, Pouroshava use the budget more as an instrument for obtaining central funds rather than tools for efficiency, transparency and accountability<sup>6</sup>.

**Table 5:** Limitations of Sound Public financial management

<b>Issues of Public Management</b>	<b>UZP</b>	<b>Pouroshava</b>
Budget making	Prepared by UNO	Mostly reflect the preconceived amount based on category and previous FY
Tax collection	Limited source of tolls, fees	Most of the arrear taxes often remain uncollected
Government intervention	Revenue sources are reserved for national government.	Government grants are made projection based

Public fiscal management lacks efficiency and resource but according to the Chairman of UZP, proper knowledge and allocation of budget are the most crucial issues for both UZP and Pouroshava.

### ***Challenges of fiscal autonomy***

According to Nizamuddin et. al. before going to local fiscal discretion and public financial management system, a few general trends of LGIs can be considered-

- Inadequate policy attention to local government finance
- Local budgeting system and public financial management system is relatively weak
- Local administration system is weak
- Major misconception about the role of own source of revenue

<sup>5</sup> Social development notes: community driven development and local governance, February, 2010.

<sup>6</sup> Pouroshavas have the authority to formulate budget, but lacks capacity. Derived from Policy study on a comparative analysis of perspectives and practices, UNDP

- The role of intergovernmental fiscal transfer
- Local government grants are often non-discretionary and not well integrated

### ***UZP vs Pouroshava: scuffle of status***

Upazila parishad and Pouroshava are two overlapping local government institutions which have rivalry of status. The Mayor of Pouroshava is a member of UZP by law and supposed to be present at meetings of UZP. But in reality, they are not interested to attend those meetings. Sometimes they send their representatives on their behalf. This scuffle of status hampers the effectiveness and participatory governance.

### ***Potentials of fiscal autonomy***

In developed countries including Kerala, the Philippines and Indonesia the local government prepare, adopt and implement their own budget. Even though the local government in each of these countries have a higher degree of functional responsibility and local fiscal discretion, local governments are given a share of public financial resources through intergovernmental fiscal transfers<sup>7</sup>. Thus, they ensure effective development activity on time and it also influences administrative and political autonomy.

### **Conclusion**

Improving local budgeting, public financial management and well-defined local government institutions are necessary for ensuring fiscal autonomy. Fiscal autonomy will be only a myth, if the capacity of LGIs and political leaders are not enhanced. Lack of area specific study is a big issue for tax collection, revenue expenditure and allocation of fiscal resources. Present fiscal allocations are urban establishment based, which come in forms of short term projects. This ultimately results in imbalanced development. So, sector specific development fund may be considered and allocated in both urban and rural LGIs. Regular flow of fiscal transfer is necessary for this. On the other hand, overlapping LGIs results in rivalry in development works. In some contexts, functional administration and territorial administration according to Bhuian, creates confusion. So, jurisdiction and function should be defined clearly to avoid such confusions.

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<https://www.undp.org/content/dam/bangladesh/docs/Projects/UZGP/Policy%20Study.pdf>

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