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Original Article

Strengthening Local Government In Bangladesh Through Effective Own-Source Revenue Mobilization: A Conceptual Analysis

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ABSTRACT

Local government institutions (LGIs) are widely recognized as the cornerstone of democratic governance and sustainable local development. In Bangladesh, Union Parishads, Municipalities (Pourashavas), Upazila Parishads, Zila Parishads, and City Corporations play a vital role in delivering public services, promoting participatory governance, and fostering socio-economic development. Despite significant progress in decentralization, the financial autonomy of local governments remains limited due to excessive dependence on central government transfers and grants. The inadequate mobilization of own-source revenue (OSR) restricts the capacity of LGIs to finance infrastructure, maintain essential public services, and respond effectively to local development needs. This conceptual paper examines the relationship between strengthening local government institutions and improving own-source revenue mobilization in Bangladesh. Drawing upon theories of fiscal decentralization, public financial management, and good governance, the paper argues that sustainable local development requires financially autonomous local governments capable of generating, managing, and utilizing local revenues efficiently and transparently. The study identifies key institutional, legal, administrative, technological, and political constraints affecting local revenue collection while proposing policy options to enhance fiscal capacity. The paper further emphasizes that digital transformation, improved tax administration, citizen participation, institutional accountability, and fiscal transparency can significantly strengthen local revenue systems. Effective utilization of locally generated revenue not only improves service delivery but also reinforces public trust and democratic accountability. The findings contribute to the growing literature on decentralization and local public finance by providing a conceptual framework for strengthening local government finance in Bangladesh.

Keywords: Local Government, Own-Source Revenue, Fiscal Decentralization, Bangladesh, Local Public Finance, Good Governance, Financial Autonomy, Sustainable Development.

INTRODUCTION

Local governments constitute the closest level of government to citizens and serve as the primary institutions responsible for delivering essential public services. Effective local governance promotes democratic participation, strengthens accountability, encourages community engagement, and improves the quality of public service delivery. Across both developed and developing countries, decentralization has increasingly been recognized as an important strategy for achieving inclusive economic growth, reducing regional disparities, and enhancing administrative efficiency.

In Bangladesh, the local government system comprises Union Parishads, Municipalities (Pourashavas), Upazila Parishads, Zila Parishads, and City Corporations. These institutions are entrusted with responsibilities including rural infrastructure development, sanitation, water supply, waste management, local road maintenance, public health, primary education support, disaster risk management, social safety-net implementation, and local economic development. The Constitution of Bangladesh recognizes local government as an essential component of democratic governance and encourages decentralization to improve citizen participation and service delivery.

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Despite constitutional recognition and numerous policy reforms, local governments continue to face substantial financial challenges. Most LGIs remain heavily dependent on fiscal transfers from the central government, while their own-source revenue contributes only a limited proportion of total local expenditures. This dependence reduces financial flexibility, delays development projects, and weakens institutional accountability.

Own-source revenue generally includes holding taxes, trade licenses, market fees, business permits, land-related charges, user fees, rents from local government properties, parking fees, and various service charges. These locally generated revenues provide governments with financial independence, allowing them to determine local priorities without excessive reliance on external funding. However, the revenue potential of many Bangladeshi local governments remains largely untapped because of weak tax administration, outdated property valuation systems, inadequate digital infrastructure, political interference, insufficient institutional capacity, and low taxpayer compliance.

Strengthening local governments therefore requires more than increasing intergovernmental transfers; it demands a comprehensive strategy for improving local revenue generation and ensuring efficient expenditure management. Financially autonomous local governments are generally better positioned to invest in local infrastructure, maintain public facilities, respond to emergencies, and promote sustainable local development.

As Bangladesh progresses toward becoming an upper-middle-income economy and pursues the Sustainable Development Goals (SDGs), the importance of financially resilient local governments is expected to increase. Enhancing own-source revenue mobilization can reduce fiscal dependence, improve governance, and strengthen local accountability while supporting long-term national development objectives.

2. Problem Statement

Although Bangladesh has adopted decentralization policies over several decades, fiscal decentralization remains relatively weak. Local government institutions continue to depend primarily on grants allocated by the national government rather than locally generated resources. This financial dependence often limits institutional autonomy, delays project implementation, and constrains the ability of LGIs to address local priorities effectively.

Many local governments experience persistent challenges in identifying taxable properties, updating tax records, enforcing revenue collection, reducing arrears, and ensuring transparent financial management. Administrative inefficiencies, limited technical capacity, political influence, inadequate public awareness, and insufficient digital systems further reduce revenue performance. Consequently, available financial resources frequently fall short of the growing demand for quality public services.

These challenges highlight the need for a comprehensive conceptual understanding of how effective own-source revenue mobilization can strengthen local government institutions and improve local governance outcomes in Bangladesh.

3. Objectives of the Study

The primary objective of this conceptual study is to examine how effective own-source revenue mobilization can strengthen local government institutions in Bangladesh.

The specific objectives are:

1. To examine the concept and significance of own-source revenue in local government finance.
2. To identify major institutional and administrative barriers affecting local revenue mobilization.
3. To analyze the relationship between fiscal autonomy, accountability, and service delivery.
4. To explore policy strategies for improving local revenue generation and financial management.
5. To propose recommendations for strengthening local government institutions through sustainable revenue systems.

4. Research Methodology

This study adopts a **conceptual analysis** approach based on an extensive review of academic literature, government policy documents, international development reports, and theoretical studies on decentralization, fiscal federalism, public financial management, and local governance. Rather than collecting primary survey data, the paper synthesizes existing knowledge to develop an integrated conceptual framework explaining how enhanced own-source revenue mobilization can contribute to stronger local government institutions.

Relevant literature from peer-reviewed journals, publications of the Government of Bangladesh, the Local Government Division, the World Bank, the Asian Development Bank (ADB), the United Nations Development Programme (UNDP), and other international organizations has been critically examined to identify emerging themes, policy gaps, and practical recommendations.

5. Literature Review

The relationship between decentralization and local government performance has attracted considerable scholarly attention. Fiscal decentralization theory suggests that local governments deliver public services more efficiently when they possess sufficient financial autonomy and decision-making authority (Oates, 1972). Locally generated revenue not only enhances fiscal sustainability but also strengthens accountability because taxpayers expect greater transparency and improved service delivery in return for their contributions.

Shah (2006) argues that effective decentralization requires a balanced assignment of expenditure responsibilities, revenue authority, and institutional accountability. Without adequate revenue-raising capacity, local governments remain administratively dependent on central transfers, limiting their responsiveness to local needs.

Studies focusing on developing countries indicate that own-source revenue improves local governance by increasing financial flexibility, reducing delays associated with intergovernmental transfers, and encouraging citizen participation in local budgeting (Bird & Vaillancourt, 1998). However, weak administrative capacity, poor property valuation systems, limited enforcement mechanisms, and political interference continue to constrain local revenue performance.

In the context of Bangladesh, previous research has consistently identified insufficient fiscal autonomy as one of the major obstacles to effective local governance. Scholars have observed that although decentralization policies have expanded the functional responsibilities of local governments, corresponding revenue authority has not increased proportionately. Consequently, many local governments struggle to finance infrastructure maintenance, public services, and local development initiatives.

The existing literature therefore highlights the importance of strengthening institutional capacity, improving revenue administration, modernizing tax systems, promoting digital financial management, and enhancing transparency to build financially sustainable local governments capable of supporting inclusive and resilient development.

Strengthening Local Government in Bangladesh through Effective Own-Source Revenue Mobilization: A Conceptual Analysis

Part II: Conceptual Framework, Theoretical Perspectives, Current Status, Sources of Revenue, and Challenges

6. Conceptual Framework of Local Government Finance

Local government finance refers to the system through which local government institutions (LGIs) generate, receive, allocate, manage, and utilize financial resources to deliver public services and promote local development. A financially sound local government possesses sufficient fiscal autonomy to mobilize local resources, determine expenditure priorities, and respond efficiently to community needs while remaining accountable to citizens.

Own-source revenue (OSR) constitutes the most important indicator of fiscal autonomy because it represents revenues generated directly by local governments rather than transfers from the central government. Typical sources include property taxes, holding taxes, business licenses, market fees, building permits, land-related charges, parking fees, user charges, rents from public assets, and other locally authorized service fees.

The conceptual relationship among fiscal autonomy, accountability, transparency, and service delivery can be illustrated as follows:

Fiscal Autonomy → Improved Revenue Mobilization → Better Public Services → Increased Citizen Trust → Higher Tax Compliance → Sustainable Local Development

This cycle demonstrates that effective revenue generation strengthens institutional capacity, while improved service delivery encourages greater public willingness to contribute to local taxes and fees.

7. Theoretical Perspectives

7.1 Fiscal Decentralization Theory

Fiscal Decentralization Theory, pioneered by Oates (1972), argues that public services should be delivered by the level of government closest to citizens whenever possible. Local governments generally possess better knowledge of local preferences and can therefore allocate resources more efficiently than highly centralized administrations.

According to this theory, successful decentralization requires three essential components:

- Adequate expenditure responsibilities;
- Independent revenue-raising authority; and
- Administrative and financial accountability.

Without sufficient own-source revenue, decentralization remains incomplete because local governments become dependent on higher levels of government for financial resources.

In Bangladesh, although local governments have been assigned numerous service delivery responsibilities, their fiscal authority remains comparatively limited. Consequently, financial dependence often reduces local innovation and responsiveness.

7.2 Good Governance Theory

Good governance emphasizes transparency, accountability, participation, efficiency, responsiveness, and the rule of law. Financial management plays a central role in achieving these principles.

Effective local revenue systems encourage accountability because taxpayers expect visible improvements in public services. Transparent budgeting, participatory planning, independent auditing, and public disclosure of financial information strengthen trust between citizens and local government institutions.

Good governance therefore requires not only effective revenue collection but also responsible expenditure management and strong institutional oversight.

7.3 Public Choice Theory

Public Choice Theory views government officials as rational decision-makers whose actions may be influenced by incentives, political interests, and institutional constraints.

Within local government finance, this theory suggests that greater citizen participation, electoral accountability, and fiscal transparency reduce opportunities for inefficient spending and rent-seeking behavior.

When citizens directly observe how locally collected revenue is spent, they become more willing to comply with tax obligations while demanding improved governance.

8. Current Status of Local Government Finance in Bangladesh

Bangladesh has implemented several decentralization reforms over recent decades, yet local government finance continues to rely heavily on intergovernmental fiscal transfers.

Major categories of local government institutions include:

- Union Parishads
- Pourashavas (Municipalities)

- Upazila Parishads
- Zila Parishads
- City Corporations

Although these institutions possess legal authority to collect various local taxes and fees, the proportion of locally generated revenue remains relatively low compared with expenditure responsibilities.

Many development projects continue to depend upon:

- Annual Development Programme (ADP) allocations;
- Government block grants;
- Special development grants;
- Project-based donor assistance; and
- Conditional transfers from central ministries.

This dependence reduces financial flexibility and limits the capacity of local governments to respond quickly to community priorities.

Moreover, disparities exist among local governments. Large urban city corporations generally possess stronger revenue bases than rural Union Parishads due to higher property values, commercial activity, and population density.

9. Major Sources of Own-Source Revenue

Strengthening local government finance requires maximizing the efficiency of existing revenue sources while exploring new opportunities.

9.1 Holding Tax

Holding tax constitutes one of the largest potential revenue sources for urban local governments. However, outdated property valuation, incomplete taxpayer databases, and weak enforcement significantly reduce collection efficiency.

9.2 Trade Licenses

Business registration and annual trade license renewals provide important local revenue. Simplified digital licensing systems could substantially increase compliance.

9.3 Market Fees

Revenue generated from public markets, livestock markets, bus terminals, and commercial facilities contributes significantly to many local governments.

9.4 Building Construction Fees

Construction permits, land development approvals, and building plan approvals generate additional income while supporting planned urban development.

9.5 User Charges

Water supply, sanitation, waste collection, drainage maintenance, street lighting, parking services, and recreational facilities can generate sustainable service-based revenue when pricing is transparent and affordable.

9.6 Lease Income

Local governments often own markets, ponds, community centers, agricultural land, shops, and other public assets that may generate rental income through transparent leasing arrangements.

9.7 Service Charges

Birth registration, death registration, marriage registration, citizenship certificates, land-related certificates, and various administrative services also contribute to own-source revenue.

10. Challenges to Effective Revenue Mobilization

Despite possessing multiple legal revenue sources, local governments in Bangladesh continue to face significant institutional and operational barriers.

10.1 Weak Tax Administration

Many LGIs still rely on manual record-keeping, outdated taxpayer lists, and limited enforcement capacity. These weaknesses reduce revenue collection efficiency.

10.2 Outdated Property Valuation

Property assessments are often revised infrequently, resulting in tax bases that do not reflect current market values.

10.3 Political Interference

Local political pressures occasionally discourage tax enforcement or the revision of tax rates, reducing revenue potential.

10.4 Limited Institutional Capacity

Many local governments lack adequately trained financial officers, modern accounting systems, GIS-based property databases, and digital revenue management tools.

10.5 Low Taxpayer Awareness

Citizens may resist paying local taxes when they perceive limited improvements in service delivery or lack confidence in financial transparency.

10.6 Corruption and Weak Accountability

Insufficient monitoring, limited internal controls, and weak audit mechanisms can undermine public confidence and reduce revenue performance.

10.7 Inadequate Digital Infrastructure

Although Bangladesh has made significant progress in digital governance, many local governments continue to operate without integrated e-governance systems for billing, payment, accounting, and financial reporting.

11. Conceptual Discussion

The conceptual literature indicates that strengthening local government requires simultaneous improvements in both **revenue generation** and **financial governance**.

Increasing tax rates alone is unlikely to improve fiscal sustainability unless accompanied by:

- Transparent financial management;
- Digital revenue administration;
- Citizen participation in budgeting;
- Performance-based expenditure management;
- Strong internal auditing;
- Effective anti-corruption measures; and
- Institutional capacity development.

Therefore, sustainable local government finance should be viewed as an integrated governance system rather than merely a taxation issue. Financial autonomy, institutional accountability, and public trust reinforce one another and collectively determine the effectiveness of local governments in promoting inclusive and sustainable development.

Strengthening Local Government in Bangladesh through Effective Own-Source Revenue Mobilization: A Conceptual Analysis

Part III: International Best Practices, Policy Recommendations, Conclusion, and Future Research

12. International Best Practices

Many countries have strengthened local governments by expanding fiscal autonomy, improving revenue administration, and adopting digital governance systems. Bangladesh can draw valuable lessons from these experiences.

12.1 Japan: Fiscal Discipline and Local Tax Administration

Japan maintains a decentralized fiscal system in which local governments generate a significant proportion of their revenues through local taxation while receiving equalization transfers from the central government. Comprehensive property databases, digital tax administration, and strict financial accountability ensure efficient revenue collection and service delivery.

12.2 South Korea: Smart Local Governance

South Korea has integrated information technology into local public finance through e-governance, digital payment platforms, Geographic Information Systems (GIS), and electronic tax administration. These innovations have increased revenue efficiency, reduced administrative costs, and improved transparency.

12.3 India: Digital Property Tax Reforms

Several Indian states have modernized municipal finance by introducing GIS-based property valuation, online tax payment systems, digital citizen services, and performance-based grants. These reforms have significantly improved property tax collection and financial accountability.

12.4 Rwanda: Performance-Based Local Government

Rwanda has strengthened local government performance through measurable service delivery indicators, citizen scorecards, performance contracts (*Imihigo*), and digital monitoring systems. Linking financial transfers to institutional performance has enhanced accountability and encouraged better financial management.

12.5 Sweden: Fiscal Autonomy and Citizen Trust

Swedish municipalities enjoy considerable fiscal independence, enabling them to finance education, healthcare, social welfare, and local infrastructure through locally collected taxes. High transparency, independent auditing, and active citizen participation have contributed to one of the world's most effective systems of local governance.

These international experiences demonstrate that sustainable local government finance depends not only on increasing revenue but also on strengthening institutions, improving governance, and embracing digital transformation.

13. Digital Revenue Management for Bangladesh

Digitalization offers unprecedented opportunities to improve own-source revenue mobilization and public financial management.

Key initiatives include:

- Establishing a unified digital revenue management system for all LGIs.
- Developing GIS-based property mapping and valuation databases.
- Introducing online payment gateways for holding taxes, trade licenses, market fees, and service charges.
- Integrating mobile financial services and internet banking into local tax collection.
- Implementing electronic budgeting, accounting, procurement, and financial reporting systems.
- Creating real-time revenue dashboards for monitoring collection performance.
- Utilizing data analytics and artificial intelligence to identify revenue gaps, detect tax evasion, and improve forecasting.
- Publishing annual financial statements and budget performance reports through open-data portals.

Digital financial management would reduce leakages, enhance transparency, improve taxpayer convenience, and strengthen public confidence in local institutions.

14. Policy Recommendations

Based on the conceptual analysis, the following policy recommendations are proposed to strengthen local government finance in Bangladesh.

14.1 Strengthen the Legal Framework

The Government should modernize local government legislation by clearly defining revenue authority, financial responsibilities, accountability mechanisms, and expenditure assignments for different tiers of local government.

14.2 Expand Fiscal Decentralization

Greater fiscal autonomy should be provided by allowing LGIs to revise tax rates within legally prescribed limits, diversify revenue sources, and retain a larger share of locally generated income.

14.3 Modernize Property Tax Administration

Property taxation should be strengthened through:

- GIS-based property mapping;
- Regular market-value reassessment;
- Digital taxpayer registration;
- Automated billing systems; and
- Electronic payment facilities.

14.4 Strengthen Institutional Capacity

Continuous professional training should be provided in:

- Public financial management;
- Revenue administration;
- Digital accounting systems;
- Internal auditing;
- Procurement management; and
- Data-driven decision-making.

Universities and training institutes should introduce specialized programs in local government finance and fiscal decentralization.

14.5 Improve Financial Transparency

Every local government should publish:

- Annual budgets;
- Quarterly financial reports;
- Audit findings;
- Revenue collection statistics; and
- Development project expenditures.

Open financial information enhances accountability and encourages voluntary tax compliance.

14.6 Promote Citizen Participation

Participatory budgeting, public hearings, community monitoring committees, and social audits should become regular components of local governance. Citizen involvement improves expenditure priorities and strengthens public trust.

14.7 Strengthen Anti-Corruption Measures

Robust internal controls, independent auditing, digital procurement, whistleblower protection, and transparent procurement systems should be institutionalized to reduce financial irregularities.

14.8 Encourage Performance-Based Grants

Intergovernmental transfers should incorporate performance indicators such as:

- Revenue collection efficiency;
- Financial transparency;
- Service delivery quality;
- Citizen satisfaction; and
- Project implementation performance.

Performance-based incentives encourage innovation and continuous institutional improvement.

15. Future Research Directions

Although this study provides a conceptual framework, several areas require further empirical investigation.

Future researchers may examine:

- Comparative financial performance of Union Parishads, Municipalities, and City Corporations.
- Determinants of property tax compliance in Bangladesh.
- The impact of digital revenue systems on local financial performance.
- Citizen perceptions of local taxation and public service delivery.
- Political economy factors affecting fiscal decentralization.
- The relationship between fiscal autonomy and Sustainable Development Goal (SDG) achievement.
- Comparative studies between Bangladesh and other South Asian countries.

These research areas would contribute to evidence-based policymaking and strengthen the literature on local public finance.

CONCLUSION

Strong local governments are indispensable for achieving inclusive development, democratic governance, and sustainable economic growth. However, effective decentralization cannot be achieved without adequate fiscal autonomy. The conceptual analysis presented in this study demonstrates that strengthening own-source revenue mobilization is fundamental to improving the institutional capacity, financial sustainability, and service delivery performance of local government institutions in Bangladesh.

Despite constitutional recognition and successive decentralization reforms, most local governments remain heavily dependent on central government transfers. Weak tax administration, outdated property valuation systems, insufficient digital infrastructure, limited institutional capacity, and governance challenges continue to constrain local revenue generation.

International experience demonstrates that successful local governments combine fiscal decentralization with transparent financial management, digital governance, professional administration, and active citizen participation. Bangladesh possesses significant opportunities to strengthen its local government system through comprehensive legal reform, modern revenue administration, technological innovation, and institutional capacity building.

Ultimately, strengthening own-source revenue is not merely a financial objective; it is a governance reform that empowers local institutions, improves accountability, enhances public trust, and enables communities to determine and finance their own development priorities. As Bangladesh advances toward its national development goals and the Sustainable Development Goals (SDGs), financially resilient local governments will play an increasingly important role in ensuring equitable, responsive, and sustainable public service delivery.

PRACTICAL IMPLICATIONS

The findings of this conceptual analysis have important implications for policymakers, local government practitioners, development partners, and researchers. By adopting modern revenue management systems, strengthening fiscal decentralization, and improving institutional accountability, Bangladesh can create financially empowered local governments capable of delivering high-quality public services and promoting sustainable local development.

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