

Major features of Municipal Finance in Bangladesh: A Case Study Based Investigation

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Abstract

The rapid increase in the urban population has put pressure on local governments to provide a range of services from water and sewer infrastructure to social services and housing. The extent to which a municipality is able to deliver services efficiently depends on its level and nature of finance. To cope with rapid urbanization and provide basic services, municipalities need to adopt efficient financial management system. This paper addresses the major features of municipal finance (revenue and expenditure) of Taherpur and Noahata Municipalities and proposes some guidelines to enhance their financial management system. Data on municipal revenue and expenditure were collected from annual budgets of the Taherpur and Noahata Municipality. The study findings state that, Municipalities, for their revenue are largely dependent on government grant, local and foreign fund for development sector; whereas general establishment and infrastructural development are prime expenditure items. The paper also proposes some guidelines to enhance financial management system of the Municipalities.

Introduction

Interest in cities around the world is on the rise, in large part, because more and more people are living in cities in both developed and less developed countries. The rapid increase in the urban population has put pressure on local governments to provide a range of services from water and sewer infrastructure to social services and housing. To meet the rising demands of urbanization, municipalities need adequate revenue tools to pay for services and infrastructure (UN-Habitat, 2009). Bangladesh has experienced a rapid rate of urbanisation during its post-independence period and local government is struggling to keep up. More and more people are choosing to live in urban areas. Successive governments have constituted a number of new municipalities (Paurashavas) and city corporations over the past four decades. As of October 2013, 321 municipalities and 10 city corporations that are mandated to provide various public services – in areas such as organisation, production, income generation, employment, public health, sanitation, water, infrastructure and welfare – serve the growing urban population in Bangladesh. The extent to which a municipality is able to deliver services efficiently depends on the level and nature of finance. Although reform initiatives regarding the nomenclature of tiers of local government have been taken from time to time, effective

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financing of local governments such as municipalities remains a major challenge in the country. Municipalities in general continue to perform poorly in terms of mobilising local financial resources. Since they mobilise low per capita revenue in the form of municipal taxes, they remain dependent on government grants. Often, their revenues and central grants together fail to underwrite basic services to local communities. Municipalities thus limit their services mainly to road construction and maintenance, garbage collection, street lighting and water supply; however, the standard of delivery has always remained questionable. It is deemed that improvement in service quality will require better financial management by the municipalities (Bhattacharya, Monem and Rezbana, 2013). In these circumstances this paper deals with the major features of municipal finance of Taherpur and Noahata Municipalities and proposes some guidelines to enhance their financial management.

Objectives and Methodology

The objectives of this paper are to analyze income and expenditure patterns, find out major challenges of municipal finance and propose some guidelines for better financial management of the Paurashavas. This paper is predominantly based on secondary documents i.e. Paurashava at a Glance, Annual Budget, Bangladesh Bureau of Statistics (BBS) Report etc. Moreover Key Informants Interview also has been conducted of the concerned Paurashava's focal persons to identify major features and challenges of Municipal finance. Taherpur and Noahata Paurashava of Rajshahi have been selected as study area for their homogeneity in terms of category (both are "A" Category Paurashava), locality and regional importance (BBS, 2013 and Taherpur & Noahata Paurashava, 2014b).

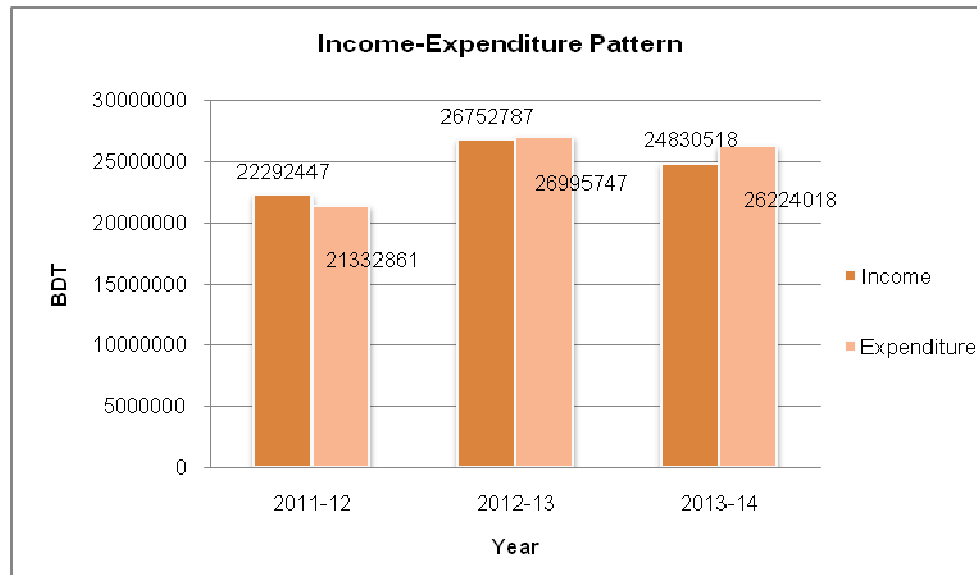
Municipal Finance Scenario

Municipal finance is about the revenue and expenditure decisions of municipal governments. It covers the sources of revenue that are used by municipal governments – taxes (property, income, sales, excise taxes), user fees and intergovernmental transfers. It includes ways of financing infrastructure through the use of operating revenues and borrowing as well as charges on developers and public-private partnerships. Municipal finance also addresses issues around expenditures at the local level and the accountability for expenditure and revenue decisions, including the municipal budgetary process and financial management (UN-HABITAT, 2009).

Income-Expenditure of Taherpur and Noahata Paurashavas

Income and expenditure pattern is a key indicator of municipal development. Taherpur Paurashava possesses surplus budget in the financial year 2011-12. But in the budget of financial year 2012-13 & 2013-14 the expenditure exceeds the income of the Paurashava.

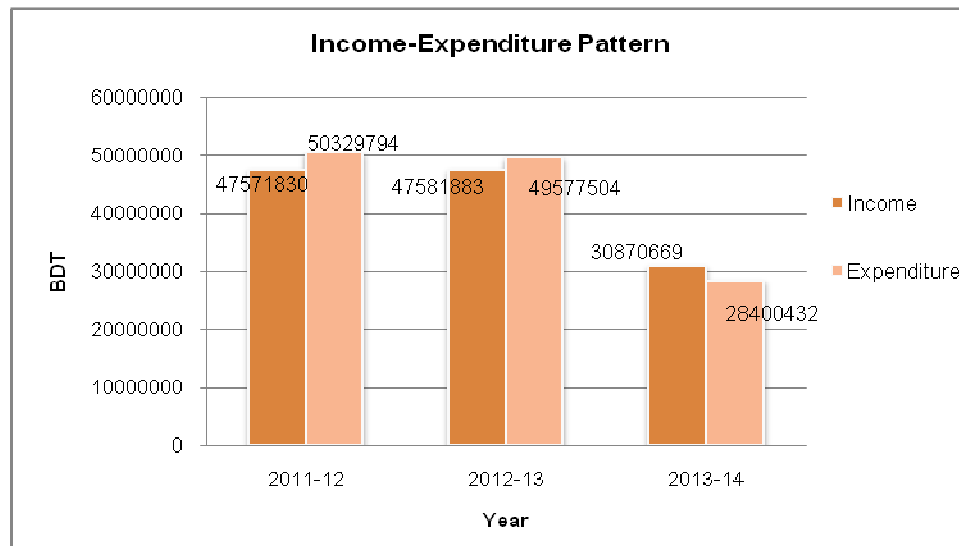
It is observed that, the income level of the financial year 2013-14 has increased. The income of Noahata Paurashava largely depends on fund for different development projects sponsored by BMDF and Important Urban Development Project. As incomes from these sources have decreased sharply in financial year 2013-14; the overall income of the Paurashava has also turned down.



Source: Annual Budget of Taherpur Paurashava, 2012-13 & 2013-14.

Fig. 1: Income-expenditure of Taherpur Paurashava

Noahata Paurashava possesses deficit budget in the financial year 2011-12 and 2012-13.



Source: Annual Budget of Noahata Paurashava, 2013-14 & 2014-15.

Fig. 2: Income-expenditure of Noahata Paurashava

Major Sources of Income of Taherpur Paurashava

Local governments rely very much on their own source revenues, especially taxes and user charges and fees. They are also heavily dependent on transfers from central government (grant) and/or donor contributions (Dirie, 2008).

Major sources of income in 3 financial years of Taherpur Paurashava are shown below in the Table 2.

Table 2: Major Sources of Income in 3 Financial Years of Taherpur Paurashava

Sources of Income	2011-2012		2012-2013		2013-2014	
	Income (BDT)	%	Income (BDT)	%	Income (BDT)	%
Taxes	1071870	4.80	1222936	4.56	1066939	4.30
License (Tender) Fee	238745	1.07	96600	0.36	144475	0.58
License (Others) Fee	855249	3.83	32590	0.12	0	0
Lease of Hat Bazar	7597101	34.04	7621101	28.44	8021101	32.30
Lease of Bus Stand	601000	2.69	801000	2.99	821000	3.31
Issuance of Different Certificates/Schedules	1627655	7.29	723590	2.70	554432	2.23
Government Grant (except development sector)	206800	0.93	216200	0.81	222571	0.90
Government Grant for Development Sector	9000000	40.33	14600000	54.4	7000000	28.19
Fund for Important Urban development sector	0	0	0	0	7000000	28.19
Capital Income	1094027	4.90	1438770	5.37	0	0
Total	22292447	100%	26752787	100%	24830518	100%

Source: Annual Budget, Taherpur Paurashava, 2011-12, 2012-13 & 2013-14

The above table notifies that, government grant (56.38%) and lease money from hat-bazar (32.30%) are two major income sources of Taherpur Paurashava (FY 2013-14). It is also evident that, income from hat-bazar has increased from BDT 75,97,101 (FY 2011-12) to BDT 80,21,101 (FY 2013-14) because of better communication. Due to unwillingness of citizen to pay taxes, Taherpur Paurashava receives marginal amount from this source.

Expenditure Pattern of Noahata Paurashava

The fields of expenditure of Noahata Paurasha in three financial years are given below in Table 5.

Table 5: Major Expenditure Sectors in 3 Financial Years

Fields of Expenditure	2011-2012		2012-2013		2013-2014	
	Expenditure (BDT)	%	Expenditure (BDT)	%	Expenditure (BDT)	%
General Establishment	6504352	12.92	7993641	16.12	9957011	35.06
Health & Sanitation	1274260	2.53	1097363	2.21	1275000	4.49
Expense for Tax Collection	5761	0.01	69640	0.14	176000	0.62

Fields of Expenditure	2011-2012		2012-2013		2013-2014	
	Expenditure (BDT)	%	Expenditure (BDT)	%	Expenditure (BDT)	%
Grants for Social and Religious Institutions	222900	0.44	349610	0.7	310000	1.09
Land Development Tax	0	0	0	0	1485019	5.23
Freedom Fighter Tax	0	0	0	0	375387	1.32
VAT	0	0	54615	0.11	108413	0.38
Income Tax	0	0	0	0	175318	0.62
Audit and Budget	31880	0.06	20428	0.04	40000	0.14
Land Acquisition for Municipal Markets	40244	0.08	0	0	0	0
Celebration of National Day	138370	0.27	126900	0.25	125000	0.44
Sports & Cultural Program	121061	0.24	101840	0.2	200000	0.7
Emergency Relief	0	0	60084	0.12	7915	0.03
Surplus Revenue	2608580	5.18	3593273	7.25	2810977	9.9
Tubewell supply and Maintenance	823252	1.63	934257	1.88	587892	2.07
Purchase of Vehicles and MACHENARIES	78600	0.16	104695	0.21	50000	0.18
Repayment of Loan	1046300	2.08	6500	0.01	1328105	4.68
Water Supply	251180	0.5	328177	0.66	913962	3.22
Infrastructural Development	36748849	73.02	34246233	69.07	8256089	29.06
Others	434205	0.86	490248	0.99	218344	0.77
Total	50329794	100	49577504	100	28400432	100

Source: Annual Budget, Noahata Paurashava, 2013-14 & 2014-15

Features of Municipal Finance

Municipal Income

- Major income sources of Taherpur Paurashava are lease of hat bazar, government grant for development sector and fund for different development projects, which contributes about 32.30%, 28.19% and 28.19% of the Paurashava's total income respectively in the fiscal year of 2013-14.
- It is observed that Taherpur Paurashava has no income from rents (i.e. market, road roller, mixer machine), lease other than hat bazar and bus stand, fine and loan collection, bank interest and water supply sector, whereas Noahata Paurashava has significant income from these sectors. As Noahata Paurashava has no recognized bus stand, so it has no income from lease of bus stand.
- The tax collection performance of Noahata Paurashava is far better than Taherpur Paurashava. Though regular tax assessment and computerized tax data base already exist in Taherpur Paurashava; poor tax collection efficiency, lack of skilled

manpower and citizens' unwillingness to pay tax are resulted in unsatisfactory tax collection in this Paurashava.

- In Taherpur Paurashava, tax collection increased in the fiscal year of 2012-13 from 2011-12 but again decreased in 2013-14. Citizen's unwillingness to pay tax and reluctance of Municipal Authority results poor revenue from taxes. On the other hand, in Noahata Paurashava, tax collection increased from the fiscal year of 2011-12 to 2013-14. But the amount is not considerable enough though the percentage of this income in respect to the total income of this municipality increased to a significant amount.

Municipal Expenditure

- Main sector of expenditure of Taherpur Paurashava are infrastructural development and general establishment, which contributes about 53.29% and 42.16% of the total expenditure of this Paurashava respectively in the fiscal year of 2013-14. On the other hand, in 2013-14 fiscal year, the main expenditure sectors of Noahata Paurashava are general establishment and infrastructural development, which contributes of about 35.06%, and 29.06% of the total expenditure of this Paurashava respectively.
- The tax collection efficiency of Taherpur Paurashava is not satisfactory. In addition, no expense for tax collection makes this situation more acute.
- It is observed that expense for health and sanitation sector in Noahata Paurashava (4.49%) is more than Taherpur Paurashava (0.13%) according to the information of the fiscal year of 2013-14.
- Both the Paurashavas expense marginal amount for emergency relief, celebration of national days, grants for social and religious institutions and sports and culture sector.

Recommendations

- There is a mismatch between revenue and expenditure. Municipal budget should be formulated in more realistic way rather than ambitious one. Municipalities should try to increase their internal incomes by collecting taxes and fees properly and deduct less important expenditures.
- Local governments need to make citizens understand that user fees are not a tax grab but rather an important way to gauge the quantity of services that people want and are willing to pay for.
- Tax assessment should be conducted regularly (at 5 years interval) and search for new source of tax collection. Special attention should be made on arrear tax collection.
- Financial incentives (i.e. tax rebate, special award) should be offered for those who pay taxes regularly.
- External and internal audit should be arranged at regular interval.
- To accomplish transparency and accountability of financial management of municipalities; different standing committees (i.e. Establishment & Finance, Taxation & Levy, Accounts & Audit), Town Level Coordination Committee (TLCC) and Ward Level Coordination Committee (WLCC) should be more active. Effective participation of the citizens should be ensured.

- Adequate training and education programs should be arranged to enhance the skill of Municipal staffs.
- Where services provide benefits of a collective nature to the local community (i.e. local roads, policing, and fire protection), a case can be made for property taxes or other local taxes borne by local residents. Municipalities have to set their own tax rates. Unless municipalities are given the autonomy to set their own tax rates, truly accountable and responsive municipal government will never be a reality.
- Municipalities could share their own experiences of income generation and execution of planned expenditure with other municipalities. This may assist the municipalities that are not well off in income generating activities and not able to follow planned expenditure properly.

Conclusion

A solid financial structure is essential to the success of municipalities in meeting the challenges of urbanization, decentralization, and globalization. The financial structure affects the quantity and quality of services, the efficiency with which those services are provided. The study reveals that, municipalities of Bangladesh are exceedingly dependent on government grant for their revenue and their major expenditure sectors are general establishment and infrastructural development. Unplanned expenditure, limited sources of revenue, poor tax collection efficiency and citizen's unwillingness to pay tax are very common features of the municipalities. More realistic budget formulation & implementation, ensuring the quality of services to be delivered, enhancing tax collection efficiency, citizens' awareness & active participation, ensuring financial transparency & accountability and financial incentive are crucial to provide a solid financial basis of the municipalities.

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