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Public Finance and Urban Development in Bangladesh

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Contents

	Page
I. INTRODUCTION	1
II. PUBLIC EXPENDITURE PATTERN IN BANGLADESH	2
III. RURAL DEVELOPMENT AND INSTITUTION (RDI)	3
3.1 Disaggregation of ADP	4
IV. LOCAL GOVERNMENT FINANCES	5
V. REVENUE AND EXPENDITURES OF CITY CORPORATIONS	7
VI. SPECIAL FUNDS FOR URBAN CENTERS	10
VII. RESOURCE MOBILIZATION BY THE URBAN CENTERS	11
VIII. CHALLENGES AND LESSONS	12
8.1 Emerging Challenges for Urban Services	12
8.2 Lessons so far Learnt	14
IX. THE WAY FORWARD	16
REFERENCES	18
TABLES	
1 Urbanization in Bangladesh 1951 – 2001	1
2 Categories of <i>Pourashavas</i>	2
3 Public Expenditure in Bangladesh 2005/06-2010/11 (in Million Taka)	3
4 Programme of LGED for Infrastructure Development	4
5 Disaggregated ADP Allocation for Rural Development and Institution 1995/96 – 2007/08	4
6 Sources of Municipal Revenue	5
7 Pourashava Revenues (‘000 Tk.)	6
8 Pourashova’s Expenditure Pattern (‘000 Tk.)	7
9 City Corporations Revenues (‘000 Tk.)	8
10 City Corporation’s Expenditure Pattern (‘000 Tk.)	8
11 Development and Non-development Expenditures by Local Governments	10
12 Expenditure Incurred by Municipal Services Project	11
13 Resource Mobilization by the Urban Local Government Units (% of total exp.)	12
14 Per capita (own revenues) of Urban local governments	12

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I. Introduction

1. The urban population of Bangladesh has grown at a yearly average rate of six per cent since independence, at a time when the national population growth was 2.2 per cent. As a result, urban population has grown six-fold, compared with a 70 per cent increase in rural population. As per recent estimate, about 40 million people (25% of total population) currently live in urban areas, which is projected to cross 80 million by the year 2030. Urban growth in Bangladesh is considerably higher than its South Asian neighbors- India and Pakistan have grown at about 3 per cent annually. Urbanization has been more concentrated in the largest cities. More than half of the urban population lives in the four largest cities.

2. One significant feature of urbanization in Bangladesh is that urban population is increasing at different rates in different urban centers. A considerable proportion of urban population lives in district towns and Pourashava areas. According to population census report of 2001, there were 332 urban centers with population below 25,000. Populations of many towns were more or less stable and there were depopulation in 15 districts during the decade 1991 and 2001 (Table 1). So there is ample scope for the development of new small satellite towns and expansion of small existing intermediate towns or urban centers around the big cities or in prospective regions to reduce excessive urbanization pressure on large cities. There are 9 City Corporations and 309 *Pourashvas* in the country. *Pourashvas* or Municipalities are classified according to financial strength as shown in Table 2. In addition, there are also some urban centers that are under Cantonment Boards.

Table 1: Urbanization in Bangladesh 1951 - 2001

Size class	Number of Urban Centers					
	Census Year					
	1951	1961	1974	1981	1991	2001
500,000 and over	..	1	2	3	4	7
100,000 – 499,9992	2	3	4	10	14	26
50,000 – 99,999	2	5	14	23	26	50
25,000 – 49,999	14	16	23	45	76	116
Under 25,000	45	53	65	411	402	332
Total	63	78	108	492	522	531
Level of urbanization	4.33	5.19	8.78	15.54	20.15	23.1

Source: Source: Bangladesh Bureau of Statistics.

Table 2: Categories of *Pourashavas*

Category	Criterion (Own revenue resources per annum)	Number
A (including special Tongi)	At least Tk. 8 million	102
B	Between Tk. 4 million & Tk. 8 million	99
C	Between Tk. 2 million & Tk. 4 million	108
Total		309

Source: Mott MacDonald, 2011

3. In the case of Bangladesh the rural to urban migration has contributed to more than 40 percent of the change in urban population. The lure of employment opportunities existing in these cities is another reason for urban migration. Most of the industrial establishments and businesses as well as business services are concentrated in the largest cities. Dhaka alone accounts for 80 percent of the garments industry-the mainstay of manufacturing in Bangladesh. The domination of business services, particularly finance and real estate services is considerably higher in the four major cities relative to the rest of the country.

4. The *Pourshavas* (municipalities) and City Corporations constitute the two types of urban local governments in Bangladesh. Their functions are basically similar with some distinction being made for compulsory and optional functions. They are supposed to provide a wide range of local public goods (LPG) and services including garbage collection, maintenance of streets and street lighting, water supply and drainage, traffic management, maintenance of educational institutions, public libraries, and parks and gardens. As in other South Asian countries, however, acute shortage of funds is a hindrance for urban local bodies in Bangladesh. Thus, their key LPG functions are mainly restricted to garbage collection, street lighting, water supply and parks and gardens. An additional function that *Pourshavas* and City Corporations have been carrying out (either through own funds as in Dhaka or through external funding) is slum improvement.

5. Urban local bodies (ULBs) in Bangladesh large and small, are subject to strong control from higher levels of government, specially the central government. For instance, the size and boundaries of ULBs and their power to make regulations and conduct their affairs are all subject to central government approval. This control is particularly pernicious when it comes to urban finances. In general, the political, administrative and fiscal autonomy of municipalities and corporations in Bangladesh leaves much to be desired

6. At the local Level, Pourashava is the basic planning and development authority. Through the Pourashava Bill 2009, the Pourashava authorities were empowered to prepare Master Plan, implement development schemes and exercise building control. A Pourashava consists of a Mayor, Councilors whose number is fixed by the government and women Councilors of reserved seats. The Chairman and Councilors of a Pourashava are elected by direct election on the basis of adult franchise. The Pourashava (Municipal) Act, 2009 has given the *Pourashava*-wide responsibilities, but the administrative, financial and technical capabilities of the Pourashava are not adequate to meet the challenges associated with rapid urbanization in the country.

II. Public Expenditure Pattern in Bangladesh

7. The rapid rise in government spending, particularly in the areas of infrastructure development, health and education, acted as a major force behind the progress made in the Bangladesh economy (the total public expenditure, which includes revenue expenditure as well as the ADP expenditure, has been in between 13.25 and 15.02percents of the country's GDP at current market prices in the period of 2005/06- 2009/10 (Table 3).

Table 3: Public Expenditure in Bangladesh 2005/06-2010/11 (in Million Taka)

Year	2005/06	2006/07	2007/08	2008/09	2009/2010
Development Expenditure	194729	172063	184190	197008	259174
Revenue Expenditure	380700	454120	579220	676030	781370
GDP at Current Market Prices	4157300	4724800	5458200	6167900	6923800
Dev. Expenditure as % GDP at current Market Prices	4.68	3.64	3.37	3.19	3.74
Rev. Expenditure as % GDP at current Market Prices	9.16	9.61	10.61	10.96	11.28
Public Exp. As % of GDP	13.84	13.25	13.97	14.15	15.02
Mid-year Population (mill)	138.8	140.6	142.4	144.2	146.1
Per capita total Expenditure					
- at constant prices (tk.)					
- at current prices (tk.)	29955	33607	38330	42628	47405

Source: Government of Bangladesh. 2010. Economic Review 2010. Dhaka.

III. Rural Development and Institution (RDI)

8. The major portion of the Rural Development and Institutions (RDI) sector allocation of the ADP is allocated to the Local Government Engineering Department (LGED). The LGED has been involved in constructing rural and urban road infrastructure and networks throughout the country (as shown in Table 4, the tasks implemented by the LGED). Over the last decade, other recipient agencies of the RDI, ADP have been the Bangladesh Rural Development Board (BRDB), Chittagong Hill Tracts Development Board (CHTDB), Local Government Division (LGD), Rural Development Academy, Bogra (RDA, Bogra) and others. While the overall objective is rural development, the recipient departments differ in terms of assignments and objectives. The transport sector has expanded rapidly over the last decade in government allocations (PER 2003). As documented by the PER, the LGED itself received 0.47, 0.52, 0.64 and 0.78 per cent of the respective GDPs of the years 1997-98, 1998-99, 1999-2000 and 2000-01. Around 90 per cent of the total funds received by the LGED are allocated for construction, upgrading and rehabilitation and the remaining fund is allocated for maintenance (PER 2003), this implies that the major portion is allocated for construction and upgrading, and a small portion is for maintenance.

Table 4: Programme of LGED for Infrastructure Development

Activities	Cumulative June 2002/03	2003 /2004	2004 /2005	2005 /2006	2006 /2007	2007 /2008	2008 /2009	2009 /2010	Cumulative up to June, 2009
Unpaved Road (Km)	45784	6252	6040	6573	42	-	-	-	64691
Paved Road (Km)	38554	4804	5237	5872	5086	3769	3277	4023	70622
Bridge/culvert (m)	699787	49405	60908	39728	40067	29600	33800	29363	982658

Source: Government of Bangladesh. 2010. Economic Review 2010. Dhaka.

3.1 Disaggregation of ADP

9. The extent of disaggregation found in the RDI, ADP was higher than most other sectors reported in the ADP documents. Table 5 depicts the year wise disaggregation found in the published ADP data. The table shows that the level of disaggregation in the fiscal year 1995/96 was about 40 per cent that increased to about 48 per cent for the year 2000/01. For the year 2004/05; however, it declined to 27 per cent. The average district wise disaggregation is about 35 per cent of the total RDI ADP allocation (Table 5).

Table 5: Disaggregated ADP Allocation for Rural Development and Institution 1995/96 – 2007/08

ADP Year	Total ADP in RDI (Lakh Tk.)	Total Amount of ADP Disaggregated in Greater District (in Lakh Taka)	% of Sectoral ADP as disaggregated
1995/96	83224	32574	39.14
1996/97	96793	40267	41.60
1997/98	93894	36864	39.26
1998/99	106179	49479	46.60
1999/00	155952	73744	47.29
2000/01	177350	84753	47.79
2001/02	161212	63611	39.46
2002/03	165906	59436	35.83
2003/04	188741	57767	30.61
2004/05	224289	60382	26.92
2005/06	286129	83115	29.05
2006/07	295280	99543	33.71
2007/08	341306	85431	25.03
Total	2376255	826966	34.80

Source: Center for Policy Dialogue. CPD Occasional Paper Series 71. Dhaka.

IV. Local Government Finances

10. Greater decentralization of government functions has to be accompanied by concomitant fiscal devolution as well as increasing capacity of local governments to raise revenues on their own. Indeed, one of the guiding principles of decentralization requires the devolution of financial powers to follow functional devolution. In other words, the extent of autonomy depends on the extent to which local bodies can raise revenues independently and also allocate their resources for expenditure. Table 6 depicts a picture of various source of municipal revenues in South Asia. From a fiscal perspective, Bangladesh is a highly centralized state. Bangladesh lags behinds most countries of its size (e.g. Indonesia and South Africa.) in terms of local government expenditures which yet to cross three percent of GDP. Further, the extent of fiscal powers accorded to various tiers of local governments is also very limited.

11. Though the size of the Government in Bangladesh and the share of expenditure on the social and physical infrastructure has been increasing in recent years. In fact, the aggregate allocation of resources, which have either a direct or indirect bearing, has gone up substantially since the early 80s. Despite such upward trend of public spending, the Local bodies in Bangladesh are in constant shortage of funds. The sources of their income are generally taxes, rates, fees and charges levied by the local body as well as rents and profits accruing from properties of the local body and sums received through its services. Contribution from individuals and institutions, government grants, profits from investments, receipts accruing from the trusts placed with the local bodies, loans raised by the local body and proceeds from such services are another source of income governments may direct to be placed at the disposal of a local body. Holding taxes is the most important source of own income of local bodies. Loans and voluntary contributions are rare. Non-tax revenues are of two kinds: fees and tolls and rents and profits on properties of the local bodies. Urban local bodies rise between 55-75 per cent of the revenue from their own source while a significant proportion comes from government grants. Nowadays, foreign or international project funds also contribute a significant share of a corporation's budget. The Bangladesh Municipal Development Fund (BMDF) was created to finance the city and *Pourashava* capital investment demands through using governments fund and international agencies and also through accessing capital markets.

Table 6: Sources of Municipal Revenue

Source	Sub-components
Property tax	Property tax on annual value of buildings and lands
	Conservancy rate
	Water rate (except Dhaka and Chittagong)
	Lighting rate
Shared property tax	Surcharge on the transfer of property ownership
Other taxes	Tax on professions, trade and callings
	Tax on vehicles and animals
	Tax on cinema, dramatic and entertainment
	Tolls and minor taxes (on advertisement, marriage etc.)
Non-tax source	Fees and fines
	Rents and profits from property
	Other sources

Loans	Internal, from banks, etc.
	International agencies
National Funds and Projects	Bangladesh Municipal Development Fund (BMDF), and Municipal Services Project (MSP)
Government grants	Salary compensation grants
	Octroi compensation grants
	Normal development grants
	Extra ordinary grants

Source: Adapted from: Gupta & Rayadurgam, 2008.

12. The tax management of Municipalities in Bangladesh is weak, resulting in poor collection. There are many reasons for this, including a poor assessment system, lack of efficient manpower and legal issues (e.g. more than 50 per cent of property assessments are appealed with proceedings taking time and judgment generally going against the Municipalities). Corruption is another major reason for low collection of taxes. Municipal expenditures are mainly geared towards physical infrastructure (equaling 30 to 40 per cent of total expenditures). Public Health in turn accounts for 15 to 20 per cent and administrative expenditure average between 7 to 16 per cent. Expenditures on social sectors are negligible (Chowdhury 1997 p. 42).

13. Quality data on local Government finances are inadequate in Bangladesh. Pourashavas depend largely on project specific funding followed by general block grants. Per capita *Pourashova* total revenue was much higher than for the *Union Parishads* in 2006/07. According to survey conducted in 30 Pourashavas in 2008 Andrew Young School of Georgia State University estimated that the total per capita revenue was Tk. 1220 in 2006/2007 of which Tk.405 came from own sources, and a little over Tk.1930 in 2007/08 of which about Tk. 580 came from own source (Table 7). It also showed a notable 58 per cent jump of total revenues between the two years.

Table 7: Pourashava Revenues ('000 Tk.)

Source	2006/07	%	2007/08	%	Nominal Growth
Own Source					
Taxes	108,658,161	9.42	148728435	7.96	34.12
Leases	59,853,986	5.19	86610600	4.73	44.70
Rates	138,528,709	12.00	137448459	7.51	-0.78
Fees	33,679,721	2.92	48864000	2.67	45.08
Rentals	11079353	0.96	31850000	1.74	187.47
Sales	9660370	0.84	13851500	0.76	43.38
Other	21642342	1.88	85824000	4.69	296.56
Total Own Source	383102642	33.20	550176994	30.07	43.61
Transfers					
Other than Development	6688077	0.58	8282000	0.45	23.83

General Government Grants	250317000	21.69	287015000	15.68	14.66
Specific Projects	510353058	44.22	975495169	53.31	91.14
Non-Governmental	3560000	0.31	8950000	0.49	151.40
Total Transfers	770918135	66.80	1279742169	69.93	66.00
Total Revenue	1154020777	100.00	1829919163	100.00	58.57

Source: Fox and Menon. 2008, Survey of 30 Pourashavas. p.16.

14. In terms of expenditure of the Pourashavas, the total expenditure exhibits growth of 60 per cent between years of 2006/07 to 2007/08. However, the share of current expenditure has fallen short significantly in 2007/08 (Table 8).

Table 8: Pourashova's Expenditure Pattern ('000 Tk.)

Source	2006/07	%	2007/08	%	Nominal Growth
Current: General					
Wages	145394833	12.50	173607998	9.38	19.40
other	186054462	15.99	177743553	9.61	-4.47
Tax Collection	2521850	0.22	2826000	0.15	12.06
Sanitation and Health	27309793	2.35	27284320	1.47	-0.09
Education	4341539	0.37	4015000	0.22	-7.52
Tree Plantation	2627300	0.23	2010000	0.11	-23.50
Other Current	43076401	3.70	70717902	3.82	64.17
Total Current	411326178	35.36	458204773	24.77	11.40
Development					
General	295458259	39.24	704605524	38.09	54.37
Specific Projects	456435654	25.40	687186651	37.15	132.58
Total Development	751893913	64.64	1391792175	75.23	85.10
Total Expenditure	1163220091	100.00	1849996948	100.00	59.04

Source: Fox and Menon. 2008, Survey of 30 Pourashavas.

V. Revenue and Expenditures of City Corporations

15. Though the city corporations have much higher local revenue potential than other urban local government bodies, it was estimated that only a third of their revenues came from own sources meaning that the pattern of the revenue collection is same. The largest share of revenue of City Corporations come from donor-supported projects, followed by financing from the block grants and support of government projects constituting between 50 to 60 per cent in 2006/07 and 2007/08 (Table 9). Also interesting is the small decline in total revenues. There is widespread feeling that the revenue levels own source revenue do not accurately reflect the potential of the CCs.

Table 9: City Corporations Revenues ('000 Tk.)

Source	2006/07	%	2007/08	%	Nominal Growth
Own Source					
Taxes	2925029468	13.26	3674218881	16.86	25.61
Leases	76700000	0.35	133700000	0.01	74.22
Rates	982070067	4.45	955352036	4.38	-2.72
Fees	1243737000	5.64	1119715000	5.14	-9.97
Rentals	875457505	3.97	634585000	2.91	-27.51
Sales	188060000	0.85	121000000	0.56	-35.66
Other	1252598700	5.68	1176652000	5.40	-6.06
Total Own Source	7543652740	34.20	7815222917	35.86	3.60
Transfers					
Other than Development	295600000	1.34	293300000	1.35	-0.78
General Government Grants	1532300000	6.95	1150000000	5.28	-24.95
Specific Govt's Projects	4040079000	18.32	4618520000	21.19	14.32
Specific Donor's Projects	8645400000	39.20	6778800000	31.11	-21.59
Non-Governmental			1135000000	5.21	
Total Transfers	14513379000	65.80	13975820000	64.14	-3.71
Total Revenue	22057031740	100.00	21790842917	100.00	-1.21

Source: Fox and Menon. 2008, Survey of 6 City Corporations (CCs).

16. Development expenditures are at least 732 per cent of City Corporations disbursements in each year. Foreign aid finances the largest share of development expenditures, followed by transfers from the Government. But, nearly one-fourth of development expenditures are financed from own sources. Non-wage expenditures are the largest component of current expenditures (Table 10).

Table 10: City Corporation's Expenditure Pattern ('000 Tk.)

Source	2006/07	%	2007/08	%	Nominal Growth
Current: General					
Wages	1745043218	7.95	1762412830	8.17	1.00
other	2282128248	10.40	3540917000	16.42	55.16
Loan Repayment etc.	541600000	2.47	634500000	2.94	17.15
Total Current	4568771466	20.81	5937829830	27.53	29.97

Development Expenditures					
Own source financed	4068233000	18.53	3797825000	17.61	-6.65
Government	4290099000	19.54	4533520000	21.02	5.67
Foreign Aided	9025718274	41.11	7301300000	33.85	-19.11
Total Development	17384050274	79.19	15632645000	72.47	-10.07
Total Expenditure	21952821740	100.00	21570474830	100.00	-1.74

Source: Fox and Menon. 2008, Survey of 6 City Corporations (CCs).

17. The urban local governments-Pourashavas and city corporations- that represent only 28 per cent of the total population accounted for nearly 59 per cent of the total local government expenditures.

18. Data on tax assessed, tax collected, budget and block grants of all the city corporations and *Pourashavas* (municipalities) are not available, so it is difficult to calculate comparable statistical indices like percentage, ratio to have a comparative picture. But the following features can be observed from the limited data available:

- i. CCs dominate in holding tax collection and getting block grants. The budgets of CCs are high compared to the *Pourashavas* (even combining figures of all *Pourashavas*, the total budget of all CCs dominate).
- ii. There are wide variations among various categories of *Pourashavas* (A, B, C). This is obvious because categorization is done on the basis of the size and revenue they generate. Category A is better than B, and so on.
- iii. Many of the CCs and *Pourashavas* could not make assessment of holding taxes, which shows lack of proper capacity and seriousness on their part. It is interesting to note that many entities collect taxes even if no total assessments have been made by these entities.
- iv. Budgets of almost all entities show that there is resource gap after considering tax collection and block grants from the central government. This gap also indicates that there are ambitious goals of the entities whereas capacity to mobilize resources are limited. This calls for more pragmatic and scientific approach to plan expenditure and revenue collection of CCs and *Pourashavas*.

19. It is pertinent to look into the overall expenditures for different types of local governments. Table 11 shows the expenditures.

Table11: Development and Non-development Expenditures by Local Governments

Entities	Percentage of total estimated budget 2006-07 (financial year: FY)	2007-208 (FY)
City Corporations	41.77	28.56
Pourashavas	16.92	19.11
Zilla Parishad	10.32	12.16
Upazilla Parishad	7.91	11.74
Union Parishad	16.84	23.80
Gram Sarkar	6.25	4.63
Total	100	100

Source: Fox and Menon 2008. Presently there is no Gram Sarker, it has been abolished.

20. City Corporations which represent a small percentage of total population accounted for 41.77% and 28.56% of total government expenditures in 2006-07 and 2007-2008 respectively. Urban local governments i.e. City Corporations and Pourashavas which represented about 28% of total population (in those years) accounted for 58.69% and 47.67% of total government expenditures in 2006-07 and 2007-08 respectively. In contrast, Union Parishads accounted for only 16.84% and 23.80%.

VI. Special Funds for Urban Centers

21. Following the experiences of different countries efforts have been made in Bangladesh to create special funds to provide finance to the development of urban centers. Such initiatives include the Municipal Services Project (MSP) and the Bangladesh Municipal Development Fund (BMDF). The MSP was successfully absorbing relatively large amounts in urban infrastructure on a demand driven basis as shown in Table 12. However, the investment made by the MSP was not linked to *Pourashova's* performance and the proposals submitted for funding were not prioritized. As depicted in the table the expenditure trends shows the demand for special projects are much higher than the main projects. However, the MSP has been able to generate interest among the *Pourashova's* as the expenditure patterns are upward trend. On the other hand, the BMDF has been able to disburse total amount of Tk. 3904 million to 129 Pourashavas from July 2004 to December 2011 of which 3318.4 million taka as grant and 585.6 million as loan. The BMDF has not attracted the support of GoB or of other funding agencies.

Table 12: Expenditure Incurred by Municipal Services Project

Year	Main Projects		Special Projects		Total	
	No. of Pourashova covered	Amount (million Taka)	No. of Pourashova covered	Amount (million Taka)	No. of Pourashova covered	Amount (million Taka)
1998	-	-	147	900.679	147	900.679
2000	-	-	19	348.266	19	348.266
2004	-	-	119	1534.009	119	1534.009
2007	-	-	65	2282.533	65	2282.533
Total	19	1611.936	207	5065.487	207	6677.423

Note: Total 207 indicates that some Pourashavas have repeated coverage in various years and in both types of projects.

Source: MSP Office Data.

VII. Resource Mobilization by the Urban Centers

22. It was argued by Moore, 2004 that where governments depend on taxes paid by the citizens, rather than on natural resource revenues or international aid, they will be more accountable to their citizens. This has been one of the strengths of the model developed by UNCDF in a number of countries, including Bangladesh, since 2000. There are some theoretical and practical arguments for local taxation, although some serious caveats. Where appropriate local tax instruments are available, there are good arguments for ensuring that those are properly administered to generate a reasonable contribution of local resources for the local government budget. Our investigation from the survey results of 30 *Pourshovas* and 6 City Corporations again proved the above arguments. It was shown that though the taxes as revenue decreases for the Pourashavas but for City Corporations it largely contribute to meet up total expenditure ranges from 13 to 17 percent during the 2006/07 and 2007/08 fiscal year. Government grants is a most important source for Pourashavas. However, *Pourashoovas* finance are allocated through the Government block grant administered by Ministry of Finance through annual Development Plan grants based on the category of municipal government. While the CCs/Pourashova has increased significantly as shown in Table 13 over the last 6/7 years, the total grant to urban local government has remained more or less constant. At the same time, special projects from both government and donor agencies played important role to meet up the total expenditure (around 52 percent covered during 2007/08). However, City Corporations are seen to be more advantageous position to collect local taxes than Pourashavas.

Table 13: Resource Mobilization by the Urban Local Government Units (% of total exp.)

Source	2006/07	2007/08
Pourashavas		
Taxes	9.34	8.04
Other own sources (excluding Taxes)	23.59	21.70
Government Grants	21.52	15.51
Special Projects	43.87	52.72
Taxes as % of Govt. Grants	43.40	51.82
City Corporations		
Taxes	13.32	16.86
Other own sources (excluding Taxes)	21.04	19.00
Government Grants	6.98	5.28
Special Projects	67.76	52.30
Taxes as % of Govt. Grants	190.89	319.50

Source; Author's own calculation.

23. Table 14 shows the extent of local resource mobilization by the urban local government units.

Table 14: Per capita (own revenues) of Urban local governments

Local body	year	US \$ (Purchasing Power Parity)
Dhaka	2011-12	7.72
Chittagong	2005-06	2.62
Category "A" Pourashava (average)	2010-11	3.31
Category "B" Pourashava (average)	2010-11	0.96
Category "C" Pourashava (average)	2010-11	0.79
Category "A" to "C"- highest	2010-11	7.29
Category "A" to "C"- lowest	2010-11	0.39

Source: Mott MacDonald, 2011

24. Table 14 above shows that there are variations across the City Corporations and Pourashavas across Bangladesh. One thing is evident here that the portion of own resources of local governments is quite low in comparison to other countries. The lowest in Africa was 15(1993), in Asia it was 245 (1993) and in industrialized countries it was 2763 in 1993. (Mott Macdonald, 2011).

VIII. Challenges and Lessons

8.1 Emerging Challenges for Urban Services

25. Drastic changes in the physical, economic and social structure in the urban areas resulting from rapid urbanization has been posing serious challenges for sustainable urban development in Bangladesh. Urban areas are now afflicted with innumerable problems ranging

from law and order situation to deteriorating environmental conditions. Although majority of the urban centers face such challenges, severity of the problems vary depending on the size of the centers. The environmental problems of urban areas have direct and immediate implications for human health and safety, especially for the poor, and for business productivity. Urban environmental problems are of central concern for policy makers since adverse environmental conditions resulting from inadequate waste management, poor drainage, air pollution, lack of access to safe water and sanitation, exposure to excessive noise level, traffic congestion as well as inadequate health services exact a heavy toll on the quality of life.

26. The impact of urbanization is felt more intensely in major cities of the country. In Dhaka, for example, the quantity of solid waste generated at present varies between 3000 to 3500 tons per day. DCC is capable of collecting only 50% of this waste, leaving the remaining half unattended. A part of this waste either remains in the streets or on nearly open ground. Some of the waste flows to the open drains and blocks the normal drainage flow. As a result, water logging sometimes disrupts the normal city life for days during monsoon. The serious health hazard posed by this situation is of major concern. The situation with respect to water supply is also quite unsatisfactory. The Dhaka Water and Sewerage Authority (DWASA) was capable of supplying only 1500 million liters of water in 2004 (75% of demand) per day for the population of about 13 million while the demand of the consumers was 2000 million liters per day. Only a limited segment of the population is enjoying adequate supply of water while for the rest of the population the water supply is quite inadequate. The situation in low income communities is much worse. The supply of piped water at the Pourashava level is also extremely unsatisfactory. Only about 35% of the Pourashavas have some facility for supply of piped water and that is also in a very limited area in each of these Pourashavas. In 2005 only 28.8% of the households in urban areas had connection to piped water supply.

27. Extreme traffic congestion on urban roads is a major challenge for big as well as intermediate urban centers in Bangladesh. Rapid urbanization in Bangladesh during the last few decades increased transport demand quite significantly leading to manifold increase in the number of motorized and non-motorized vehicles on the streets. The increase in the number of vehicles without concomitant expansion of road facilities has led to severe congestion on roads and deterioration in urban environment.

28. The situation further deteriorated due to insufficient public transport facilities and weak management of traffic. Non-existence of transport planning and inefficient traffic engineering result in low quality traffic management. Mass transit facilities are poorly organized and dominated by slower forms of vehicles such as rickshaws. Buses are in short supply and there is inadequate metro or rail system to handle day-to-day commuter traffic in big cities. One of the major problems that the urban residents are facing is the lack of access to serviced land which is posing as an obstacle to their meaningful participation in the urban economy. The urban land market which directly affects the urban environment and quality of urban life suffers from many distortions due to lack of proper land development and management policies including lack of

planning and slow provision of infrastructure and services, thus leading to unplanned or ribbon development of land in the urban periphery.

29. Ever increasing land price has also contributed to the deterioration of housing situation in urban areas. Housing deficit in urban areas was estimated to be about 0.95 million units in 1991 which increased to about 1.13 million units estimated in 2001. The dismal housing scenario has also been a major factor contributing to significant homelessness in urban areas.

30. Apart from the existing huge shortage in housing stock, the majority of the dwelling units is structurally very poor, lack services and utilities, and built without proper planning. According to BBS (2007) only 24.24 percent of the houses in urban areas in 2005 were made of brick/cement compared to 71.68 percent houses made of corrugated iron sheet/wood and 4.08 percent made of straw/hay/bamboo etc. Rapid growth of urban population and consequent demand for land and housing has made the situation even worse, particularly in big cities. Very few households have access to land and credit facilities. The situation is particularly worse for the lower income group and the poor who live on marginal settlements built by small land developers or by the occupants themselves without any security of tenure. Due to lack of tenure, the poor cannot meet the need for guarantees of loan repayment. This puts most conventional sources of credit for housing construction out of the reach of the poor resulting in lower level of housing investment. This led to overcrowding, lower quality of housing units and the proliferation of slums and squatter settlements.

8.2 Lessons so far Learnt

31. In Bangladesh, unlike India and Pakistan, local government reform has focused on rural governments. Also, in terms of services provided by different tiers of urban local governments (and in terms of sources of finance), there is hardly any difference between City Corporations (CCs) and Pourashavas. Thus, sanitation, solid waste disposal, roads, streetlights, traffic maintenance, urban poverty and slum improvement are in the jurisdiction of CCs and the Pourashavas. For the major cities of Dhaka and Chittagong, however, a parastatal agency the Water and Sewerage Authority (WASA) manages water supply and waste collection. There is the Capital Development Authority (RAJUK in Bangla) in Dhaka and the Chittagong Development Authority (CDA) in Chittagong. Major development projects in these cities are undertaken by these parastatal like Delhi Development Agency (DDA) in Delhi. Property taxes, user charges for public utilities, fees, fines, rental income, government grants and funds are the sources of revenue. An interesting feature vis-à-vis urban local finance in Bangladesh is the important role of international donors due to poor cost recovery of user charges at the municipal level. Donor funds are only channeled through the governments. According to the budget of the Dhaka City Council for the 2001-02 the main sources of revenue are taxes (48%) and rent (21%). With regard to expenditure for the same period, salaries constituted a massive 44% of total expenses (World Bank, 2005).

32. There is a mismatch between revenue and expenditure. This mismatch has been exacerbated by the increased responsibility and functions that urban local bodies in are being asked to shoulder like many other South Asian Cities. There is considerable scope for

implementing conventional solutions such as increasing the efficiency of tax administration especially of property taxes, cost recovery of services and improving the quality of expenditure.

33. Municipalities in Bangladesh have witnessed nearly two decades of urban infrastructure initiatives with STIDP-I and II, MSP and the on-going UGIIP-1 since 2003. The MSP and its successor institution, Bangladesh Municipal Development Fund, presented a model of supporting decentralization especially by opening up access to infrastructure funding based on objective financial and institutional criteria outside the government 'sinter governmental fiscal transfer frame. UGIIP-1 made a radical departure from earlier initiatives in linking performance of Municipalities in achieving action based governance improvements to access infrastructure funding in phases.

34. Focusing on governance improvements and a performance based approach urban infrastructure improvements have proved very successful; (i) it addresses a wide range of areas simultaneously from improved participation of various stakeholder groups in service delivery to increased financial accountability and improved administrative procedures; (ii) local governments feel full ownership in improving governance reforms, considering these reforms as an opportunity to improve their financial and administrative shortcomings. They have been able to adapt to the new governance practices within a short period of time. The following lessons learned: (i) The performance of the Municipalities has been particularly good in areas where the identified governance indicators are concise and output oriented; (ii) municipalities took greater ownership and interests in areas where their legitimacy and performance in the local public eye improved immediately and turned out to be credible; (iii) adopting governance improvements require substantive and timely capacity building inputs.

35. Based on an extensive review of previous projects focusing on governance improvement and a performance based approach, the following opportunities for improving this approach have been identified; (i) ensure that mechanisms are in place to deepen participatory planning ensuring prioritization of the needs of the poor; (ii) refine the governance improvement action plan to include more qualitative achievements and ensure that the achievements will sustain beyond project implementation; (iii) inculcating the practice of responsible financial decisions and discipline through financing and repayment mechanisms; (iv) strengthening citizen's interface and accountability of the municipalities; (v) greater focus on capacity building of institutions at the municipality level in particular and (vi) improvements in O&Mmanagement.

36. One of the most significant lessons is the criticality of national level support to municipalities in terms of sector wide policy support, legislative and executive actions to enable more effective functioning of municipalities and supportive measures to improve their finance and financial management. In this regard the parliament has recently passed the Pourashava Bill2009 and City Corporations Bill 2009.

37. The urban local governments face what we call "fiscal gap"- the gap between the needs for service and financial resources to provide them (Bahl& Finn, 1992). This can be reduced by a) reducing responsibilities that require local public expenditure; b) increasing local revenue

mobilization; c) increasing the amount of revenues transferred from the central government; d) involving public-private partnership in providing urban services.

38. The 'fiscal gap' can be attributed, among other factors, to demand for large number of high quality services which are beyond the financing capacity of an urban local government. A careful assessment of the resource constraints of an urban government and a realistic formulation of the services to be provided by an urban local government unit are necessary to address the issue.

39. The central policy makers in Bangladesh have to solve the fiscal problems of the urban local government units instead of resorting to the stance of resisting the need for strengthening local governments (LGs).

IX. The Way Forward

40. The dependence of local government bodies including urban ones on central government, for finance must be reduced. The present ad-hoc and discretionary practices of central government in allocating resources should be abandoned to achieve fiscal decentralization. The best way to achieve fiscal decentralization in the true spirit of overall decentralization is to set a permanent Local Government Finance Commission (LGFC) in Bangladesh. In India State Finance Commission (SFC) consisting of experts in public finance and public administration is formed by each state government at regular intervals of 5 years under an article of the Indian Constitution to assess and revise the financial positions of Panchayat raj and urban local governments. In India the state governments enjoy substantial administrative and financial autonomy, and so SFCs are formed at regular intervals. But in Bangladesh a highly centralized unitary government exists, therefore a permanent LGFC will be more effective than one set up at regular intervals.

41. The Local Government Finance Commission in Bangladesh may be entrusted with the following responsibilities:

- Formulate appropriate principles and procedures for resource mobilization by different tiers of local government bodies;
- Identify the sources of taxes, cess, toll, fee and facilitate its collection;
- Assist in assessment of properties, income and other assets for imposing taxes;
- Allocate transfers and grants in-aid from the central government to the local government bodies;
- Allocate fund from the central government budget (Revenue and Development budgets) to the local government bodies;
- Set up the targets for revenue collection for different tiers of local government and recommend for matching grants from the central government;
- Resolve any conflict in the financial matters arising between a local government unit and a unit of the central government;

- Financial supervision and monitoring of local government expenditures and receipts;
- Frame financial rules for the local government bodies.
- The commission members (including the Chairman) should be selected carefully and the commission should be given full “autonomy” and should not be under any ministry and should only be answerable to the national parliament.

42. A question may arise; does financial decentralization jeopardize macroeconomic stability? There is little evidence of an incompatibility of decentralization and successful macro-stabilization policy (e.g. Canada, Germany, Switzerland, USA, European countries). Roy Bahl (1999) recognized the importance of tying both political and fiscal decentralization together. Bahl (1999) notes that in order to capture the efficiency gains of local government, it would be necessary for the local government to have “a significant set of expenditure responsibilities and a significant amount of taxing powers”(p.7).

43. The local government, especially City Corporations may also consider to issue municipal bonds to raise fund. However, this is a complex process which, among other things, requires legal reforms or issuing bonds. The roles of Ministry of Finance, Bangladesh Bank, Security and Exchange Commission have to be re-examined and revised for bond. Another important aspect is that the city corporations’ performances must be improved in order to have good credit ratings of the bodies, before issuing bonds. Since Bangladesh has already received good sovereign credit ratings from Moody and S&P, the process should be initiated right now for sovereign bonds and municipal bonds. City Corporations like Dhaka and Chittagong may explore raising fund from the market for some good income/ fee raising projects. A study by Daniels and Vijayakumar (2002) has shown that during the last decade of the 20th century more than 400 local and state entities in 29 countries other than USA issued municipal bonds to the amount of \$ 270 billion.

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