

# III. FINANCIAL MANAGEMENT OF DHAKA CITY CORPORATION

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Dhaka City Corporation is the biggest city corporation in Bangladesh. With its present population of 9.3 million, the Dhaka metropolitan area has become a megacity. According to a United Nations report, Dhaka will be the fifth largest metropolis in the world with a population of 19.3 million by 2015.

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The high growth rate of Dhaka City dwellers since 1971 can be attributed to the sudden influx of population to the capital city of a newly independent country for employment, trade and commerce, industrial undertakings, and modern amenities of life. Dhaka's rapid growth and the resultant demand for civic services mean that DCC faces seemingly insurmountable problems.

## FUNCTIONS OF DCC

DCC is mandated to render a number of services to its residents. Considering the magnitude of the problems and to facilitate management of services, the Government has separated water, sewerage, and electricity from municipal control, but in the context of the present circumstances DCC has to perform the following functions.

- Maintain a clean and healthy environment through waste management and like activities.
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- Undertake development works through construction of new roads, markets, parks, underpasses, flyovers, bus and truck terminals, etc.
- Help improve educational and cultural activities by supporting primary schools, libraries, gymnasiums, sports and youth development clubs, and theaters.
- Deliver social services by assisting NGOs and community-based organizations (CBOs).
- Improve the living conditions of slum dwellers by facilitating donor-funded projects as well as running its own slum improvement projects.
- Provide street lighting for security and beautification purposes.
- In the health area, mosquito control, immunization, and control of infectious diseases are prominent.
- Supply drinking water mainly through hand tube-wells and undertake drainage activities.
- Inspect foods and drugs.

### **FINANCIAL POSITION OF DCC**

DCC is characterized by low collection of taxes, insufficient assessment staff, dependency on the National Government, pressure from trade unions, and weak financial monitoring and evaluation. DCC is not allowed to obtain loans without prior permission from Government. DCC's own funds have not been able to keep pace with the incremental rate of urbanization, fast-growing population, and increasing demand for its services.

Table 1 reflects a growth in the income of DCC from its own source, but there is fluctuation in income from other sources. Basically, the income from other sources is meant for development only. The last column of expenditure shows that more than 66 percent of total expenditure is incurred for development works. Some experts have doubts about

the heads of expenditure that are called development expenditure by DCC. For example, repaving old roads should not to be called development.

**Table 1: Actual Income and Expenditure of DCC**

| Year    | Source of Income<br>(Tk million) |       |         |                        | Expenditure<br>(Tk million) |         |         |                    |
|---------|----------------------------------|-------|---------|------------------------|-----------------------------|---------|---------|--------------------|
|         | Own                              | Other | Total   | Other<br>income<br>(%) | Revenue                     | Devt    | Total   | Devt<br>Exp<br>(%) |
| 1992/93 | 840.8                            | 533.4 | 1,374.2 | 38.82                  | 466.7                       | 863.6   | 1,360.3 | 64.92              |
| 1993/94 | 930.7                            | 528.4 | 1,459.1 | 36.21                  | 492.4                       | 1,052.0 | 1,544.4 | 68.12              |
| 1994/95 | 1,107.3                          | 494.7 | 1,602.0 | 30.88                  | 533.1                       | 1,070.1 | 1,603.2 | 66.75              |
| 1995/96 | 1,189.8                          | 511.7 | 1,701.5 | 30.07                  | 590.8                       | 1,089.4 | 1,680.2 | 64.84              |
| 1996/97 | 1,316.7                          | 776.7 | 2,093.4 | 37.10                  | 683.0                       | 1,473.4 | 2,156.4 | 68.33              |

Source: DCC

In theory, DCC should meet all costs (i.e., revenue expenditure as well as development expenditure) from its own sources of income. It may borrow money for development activities/long-term investment from external sources only if it is found to be feasible through cost-benefit analysis. Table 1 shows that for the last five financial years, about 35 percent of total DCC income depended on external sources. This indicates DCC continued dependency on external sources.

In Table 2, it appears that the per head development expenditure incurred by DCC for the year 1985/86 was only Tk62.61. Despite the increase of population, by 1995/96 the per capita development expenditure had increased to Tk129.55. At the same time, per capita revenue income increased from Tk111.31 in 1985/86, to Tk169.17 in 1995/96. This indicates that over the 10-year period, DCC has

been able to increase both revenue income and development expenditure on per capita basis. But the impact of inflation, and the development work actually completed have to be considered. Also many people express their dissatisfaction about the quality of DCC's various construction works such as roads, drains, and buildings.

**Table 2: DCC's Population, Revenue Income, and Development Expenditure**

| Items   | 1985/86 | 1991/92 | 1995/1996 |
|---|---------|---------|-----------|
| Population (million)                          | 4.46    | 4.67    | 7.03      |
| Revenue Income (Tk million)                   | 496.90  | 667.70  | 1,189.80  |
| Per Head Revenue Income (Tk million)          | 111.31  | 117.76  | 169.17    |
| Development Expenditure (Tk million)          | 279.50  | 513.20  | 911.10    |
| Per Head Development Expenditure (Tk million) | 62.61   | 90.51   | 129.55    |
| Source: DCC.                                  |         |         |           |

## REVENUE INCOME

DCC has as many as 19 sources of income of its own, although only four or five of them contribute around 65 percent of total earnings. Holding (property) taxes account for 55 percent of DCC revenue. Due to non-revision and non-assessment of property tax for the last 10 years, DCC has been deprived of huge revenue income.

Table 3 shows the comparative statement on budgeted and actual income from the financial years 1992/93 to 1996/97. Gaps consistently occurred between the original budget, the revised budget, and actual income. On average only about 65 percent of total budgeted revenue income has been achieved in the last five years.

| Name of Account                        | Income (Tk million) |                |                 |
|--|---------------------|----------------|-----------------|
|  | Budget              | Actual         | Achievement (%) |
| Taxes (holding, conservancy, lighting) | 4,409.0             | 2,939.9        | 66.68           |
| Trade license                          | 341.0               | 183.0          | 53.67           |
| Market salami                          | 1,438.3             | 418.4          | 29.09           |
| Market rent                            | 360.0               | 224.9          | 62.47           |
| Bus terminal                           | 129.4               | 90.1           | 69.63           |
| Cattle hat                             | 322.0               | 258.0          | 80.12           |
| Subsidies from government              | 130.7               | 102.0          | 78.04           |
| Property transfer fee                  | 165.1               | 157.1          | 95.15           |
| Advertisement                          | 24.5                | 06.7           | 27.35           |
| Children's park                        | 71.7                | 47.4           | 66.11           |
| Cinema & entertainment                 | 50.0                | 40.3           | 80.60           |
| Graveyard                              | 140.2               | 103.9          | 74.11           |
| Lease (ghat, parking, etc.)            | 38.5                | 16.5           | 42.86           |
| Lease of slaughterhouse                | 18.5                | 10.9           | 589.20          |
| Others                                 | 683.6               | 786.4          | 115.04          |
| <b>Total</b>                           | <b>8,322.5</b>      | <b>5,385.5</b> | <b>64.71</b>    |

Source: DCC Database.

## REVENUE EXPENDITURE

The heads of DCC revenue expenditure are salaries and wages, repair and maintenance, rent and rates, power, fuel and water, welfare, travel, postage and telegraph, entertainment, advertising, fees, training and subscriptions, insurance, supplies, mosquito

*Most revenue is incurred on payment of salaries and wages, leaving little for development.*

control, and miscellaneous. However, most of the revenue expenditure is incurred for salary and wages, repair and maintenance of vehicles, power and fuel, and supplies. Fifty-five percent of revenue expenditure is incurred on payment of salaries and wages, leaving little for development expenditure.

**REVENUE SURPLUS FOR DEVELOPMENT EXPENDITURE**

The surplus of revenue income and expenditure is generally utilized for the development expenditure, as shown in Table 4. DCC makes substantial development expenditure from its revenue income. However, this includes items such as repaving existing roads as development projects. Nonetheless, DCC still has to depend on external sources for a substantial portion of its actual development expenditure. This dependence on external sources (the Government or development partners) undoubtedly affects DCC’s independent character as the number one local government body of Bangladesh.

**Table 4: Revenue Surplus for Actual Development Expenditure**

| Year    | Proposed Development Budget | Actual Development Expenditure | Financed by Revenue Surplus | Financed by Government, Development Agencies, and Others | Contribution of Revenue Surplus to Actual Devt. Expenditure (%) |
|---------|-----------------------------|--------------------------------|-----------------------------|--|---|
| 1992/93 | 1,033.9                     | 639.2                          | 374.2                       | 265.0  | 59  |
| 1993/94 | 1,394.2                     | 886.3                          | 438.4                       | 447.9  | 49  |
| 1994/95 | 1,828.6                     | 919.6                          | 574.3                       | 345.3  | 62  |
| 1995/96 | 1,497.5                     | 911.1                          | 599.2                       | 311.9  | 66  |
| 1996/97 | 1,786.3                     | 1,225.5                        | 633.7                       | 591.8  | 52  |

Source: DCC database, 1997.

## **ACCOUNTING AND BUDGETARY CONTROL SYSTEM OF DCC**

Emphasizing proper accounting and auditing, a UN study observed that the control and evaluation of fiscal activities through accounting, auditing, and other devices designed to provide accurate information, must be included in management operations to achieve an improvement of existing programs and channeling of resources into new ones.

Local government institutions are supposed to use the following techniques for accounting.

- Budgetary accounting
- Cash accounting
- Accrual accounting
- Fund accounting
- Commitment accounting

It could not be ascertained whether DCC practices the above principles and techniques thoroughly. However, double-entry accounting and corporate financial reporting system (i.e., balance sheet, income statement, and related notes and explanations) are practiced by DCC in its financial accounting and reporting system.

The financial management system of DCC consists of budget and budgetary control system. The budget is prepared on the basis of the requirements of the Departments of DCC. The budget of each department at zonal/field level is prepared and then forwarded to the concerned departmental heads for consolidation. After compilation of department budget, a copy is forwarded to the Budget Section under Accounts Department to prepare a draft budget for the financial year. Then it is forwarded to the Establishment and Finance Standing Committee for examination and recommendation. It then goes to the Mayor for approval. After approval by the Mayor the budget is placed before the Special Budget

*The budgeting process entails a significant number of steps, each of which requires much time.*

Meeting of DCC. The budget is subjected to open discussion and debate. After revision it is sent to the Ministry of Local Government and Rural Development for final approval.

The budgeting process entails a significant number of steps, each of which requires much time. This time element should be brought under examination to find out whether there is any room for improvement in this procedure.

Recently, DCC declared its budget for 1998/99. The document is perhaps overly ambitious, as the expected collections and realizations are not based on realities in the field. This original budget is prepared in the beginning of the year and is revised at the end of eighth month of the current year. With insufficient revenue income from its own sources, DCC has to depend on the contribution from the Government and on other development partners to make funds available for developmental activities. Sometimes DCC has to borrow from banks. For example, DCC had to pay the salaries of its employees in early 1998 by borrowing money from the bank. The scenario of actual realization at the end of the financial year reflects the failure of achieving even the targeted revised budget.

## **FINANCIAL PROBLEMS**

DCC is faced with various financial problems. These are listed below, classified as expenditure, revenue, and general financial problems.

### ***Expenditure Problems***

1. *Audit objections.* A huge number of audit objections are presently pending in DCC. Irregular expenditures are rampant. A total of 1,450 audit objections involving over Tk4.9 billion from 1971/72 to 1994/95 are yet to be resolved.

2. *Delay in completion of jobs.* Few DCC development projects are completed on time, usually because they are not begun on schedule. The complex procedural formalities of approval at various levels and the nonobservance of contractual obligations cause delays by contractors. Also, almost all DCC development projects have cost overruns. This is because of weak project administration, delay in project approval, and untimely release of funds by the allocating agencies.
3. *Lack of monitoring system in procurement.* DCC has no proper planning and monitoring system for procurement, according to a number of ward commissioners during zonal workshop and personal interviews.

### ***Revenue Problems***

1. *No reassessment of general valuation of property/holding tax.* This most important item of DCC income has not been revised regularly, even though the law requires the tax to be reassessed at five-year intervals to keep it at par with the prevailing market rate. Even when it is revised, in many cases, assessments are not done at the prevailing market rates.
2. *Lack of transparency of assessment.* The assessment system is not transparent to a very large section of the taxpayers. Many taxpayers resent this and are reluctant to pay. They adopt various means of evading it in collusion with some of the officials concerned. Low assessment leads to low collection.
3. *Lack of rationalization/standardization of assessment.* The prevailing methods of assessment lack rationalization/standardization,

that is, the rate of taxation varies from house to house within and between areas, although houses are of same type and market rates are similar.

*It has become a practice to put budgeted demand far below the assessed demand.*

4. *Complacency.* A sense of complacency looms large among DCC tax officials, and it has become a practice to put budgeted demand far below the assessed demand. This is how huge arrears have accumulated. For example, out of total Tk1.7 billion demand on property tax in 1997/98 budget, Tk0.93 is arrears demand and only about Tk0.76 million is current demand. The dual system of collection — through the bank and through door-to-door collection — is also cumbersome. Door-to-door collection in such a large city is problematic. This may also result in collusion between the taxpayer and collector and thus promote tax evasion.
5. *Acute shortage of trained staff.* Presently, the taxation department has a shortage of 27 percent of its sanctioned staff according to the 1990 organogram. A request for 200 additional staff has been made to management. At present, DCC has 158,000 holdings and 99 markets. The present ratio of staff employed in the revenue department to DCC staff is 1:1,550. This is a serious drawback for revenue collection. The assessing and collecting personnel of DCC lack sufficient training, initiative, and ingenuity to generate enhanced income for the City Corporation.
6. *Lack of enforcement.* Recovery of arrears and dues by seizure and remand of moveable properties as provided by law cannot be enforced because of the influence of pressure groups and big private commercial houses and industries. Although DCC's 1983 Ordinance

provides for auction sale of property belonging to defaulters, this has never been practiced.

7. *Nonpayment by government agencies.* Another important factor is the non-payment of municipal taxes by Government and semi-Government agencies and departments.
8. *Appeals bogged in red tape.* The process of appeal to the Review Board and Appellate Authority and the time taken to obtain a hearing/decision by these bodies hinder collection of taxes. Also, decisions made by the Tax Review Board are not always above question. Members of this board succumb to various kinds of pressure, depriving DCC of its due income.
9. *Lack of sophisticated information systems.* Quick identification of defaulters is an acute problem in DCC due to poor record management and lack of actual area mapping, GIS, and MIS systems.
10. *Improper costing.* Costing of services is not properly done. Taxes imposed for some services are not correctly assessed. This deprives DCC of huge revenue.
11. *Illegal use of DCC land.* DCC has hundreds of hectares of valuable land scattered all over the city, large chunks of which are under unauthorized occupation. The squatters are generating income in various ways while DCC is deprived of its lawful income. In many cases DCC has failed to regain possession of its own land. Similarly, DCC fails to take care of its own assets and therefore incurs huge losses in maintenance of its property.

### **General Problems**

1. *Constant budget revision.* Despite revising its budget each year, DCC has failed to achieve even the revised target. In practice, DCC usually prepares its original budget on the basis of a 10 percent increase over the previous year. They do not take actual income and expenditure patterns into account while projecting the budget. They do not even consider using average method for projecting future income and expenditure, though this is a widely used statistical tool.
2. *Untimely submission of budgets.* DCC is reluctant to submit its budget to the Ministry on time. Similarly, the Ministry is less than serious about examining the budget and taking appropriate action on time. Part of the problem is that DCC's financial system is complex in nature because responsibilities are shared between central and local governments for various public sector functions.

### **FUTURE NEEDS**

DCC needs to take certain measures to achieve its goals of delivering required services to city dwellers. These measures can be categorized as short-term, medium-term, and long-term actions.

#### **Short-term Actions**

*DCC should immediately launch a special drive to realize all its arrears and outstanding dues.*

1. DCC should immediately launch a special drive under a crash program to realize all its arrears and outstanding dues. Before the start of the drive, wide publicity should be given in the print and electronic media. A series of public contact meetings within the concerned areas should be held under the leadership of local

ward commissioners and these should continue until the operation is over. Additional manpower required for this special task may be borrowed from other allied organizations through the Ministry of Local Government and Rural Development. DCC could also assign part of this special task to NGOs on commission basis. The collection drive should be undertaken simultaneously within the whole city area and completed within a structured time frame.

2. Holding/property tax assessment, should be revised. Similarly, rent of markets, buildings, and terminal fees should be revised and put at par with the present market value. This will have substantive impact on the revenue income of DCC.

Any NGO may be assigned to undertake an in-depth house-to-house survey in a selected ward in each zone for the assessment of household taxes. After their assessment, a verification test could be conducted jointly by DCC staff and the NGO, selecting a few samples to establish that the assessment was correct. This correct assessment roll should be treated as a model and followed for all wards with a certain percentage of flexibility on the basis of exigency of the situation in each area.

3. A computerized Management Information System should be introduced and a central database at DCC headquarters should be established for networking with field offices.
4. Job analysis, especially organization and method study, should be performed in order to assess the actual staff requirement for DCC. A revised organogram should be considered after completion of the analysis.

5. At the supervisory level of the Departments of Revenue, Accounts, Budgeting, and Audit, 20-25 percent officials with professional background (MBA/CA/CMA/MCom in Finance with sufficient experience) should be recruited immediately. The new organogram should have provision for lateral entry to these positions. The newly created National Institute of Local Government should give new personnel a brief orientation on DCC Management.
6. The existing tax assessors and collectors and their immediate supervisors should be given orientation on modern tax management.
7. A system of reward or commission for collectors upon fulfilling the targeted demand and punishment for poor performers should be introduced.
8. Provision of an appropriate number of vehicles will facilitate mobility of tax officials. Vehicles such as bicycles, motorcycles, and small cars should be allotted to tax officials and staff according to their entitlement. This will augment supervision and income.
9. The percentage of regular taxpayers enjoying rebates is 25-30 percent. Another 25-35 percent pays their tax by persuasion, and the rest (30-35 percent) usually evade payment. The situation may be improved by increasing the rebate rate further. For the second category, the surcharge should be higher than the bank interest rate (20-25 percent) and for the third category action described under Section 72 (3) of DCC's Ordinance of 1983 may be taken by selling off some of their immovable property. At the same time the system of seizure of moveable properties should be intensified.

10. The estimated 250,000 unauthorized rickshaws should be brought under taxation. An income at the rate of Tk180/rickshaw annually will fetch Tk45 million. In the present socioeconomic and political conditions, not to mention the absence of suitable alternative transport, it may be impossible to withdraw these rickshaws.
11. All temporary roadside box shops should be brought under taxation. These small entrepreneurs have been occupying DCC land without paying taxes.
12. Many well-to-do persons with televisions, VCRs, dish antennae, and cable TV lines are living in various slums within DCC. These people enjoy the civic amenities and they have the ability to pay taxes. This group should be brought under the umbrella of taxation.
13. Conservancy, sanitation, and waste disposal services should be contracted. In some areas, local groups are doing these services voluntarily on a small scale. They are performing this work satisfactorily. They have shown interest in doing the work fully if given on contract. Such contracting out is likely to save funds and improve the quality of services.

*Many people who enjoy civic amenities have the ability to pay taxes, but they do not do so.*

### ***Medium-and Long-term Actions***

1. DCC should have GIS capability for area mapping, and provisions should be made for continual updating of the mapping process. This will revolutionize the assessment and collection system of taxes, rents, and fees, and in so doing enhance income and help improve overall administration of the Corporation.

2. At the entry level new officials with financial backgrounds should be recruited to fill any vacant posts. These new recruits should be given intensive training to acquaint them with the laws, rules, and regulations regarding financial management. These people in turn will educate the taxpayers regarding assessment and collection of taxes, thus making the system much more transparent and encouraging both taxpayers and collectors. These entry-level officials will be monitored and controlled by mid-level professional personnel.
3. As a means of diversifying its source of income, DCC should invest in parking lots and charge fees for parking on its roads and other designated areas.
4. Messages concerning development programs and projects should be disseminated to the citizens through the media in order to develop awareness and a positive attitude toward the role and services of DCC. This will help broaden tax payment culture.
5. A system of feedback concerning services and development works in city areas should be introduced. Opinions of the citizens of the project areas in question should be invited to express their opinions. The ward commissioners of each project area should call for meetings with the leading citizens of the area for discussions about development activities.
6. Monitoring and supervision on assessment and collection work should be decentralized and introduced at the zone and ward level. Regular review meetings on progress of targeted collection should be held at zone and ward level under the leadership of the zonal executive

officers and ward commissioners. Progress and decisions of the Ward Review Committee should be communicated to the residents of the area in order to establish transparency and free flow of information. As a result community pressure will be brought to bear on tax defaulters.

7. On a trial basis, one ward from each zone should be assigned to a private organization for holding/property tax collection on commission basis.
8. Vacant roadside spaces should be leased for nursery, flower, and plant cultivation. DCC land suitable for such purposes is now under unauthorized occupation. This may be a good source of income for DCC. At the same time it will help improve environmental conditions in the city.
9. DCC should start practicing auction sale of property belonging to big tax defaulters as per Section 72 (3) of DCC's 1983 Ordinance.

*Progress and decisions should be communicated to the residents to establish transparency and bring community pressure to bear on tax defaulters.*