

6

Bangladesh – The Case of Dhaka

This chapter reviews the state of municipal finance in Bangladesh. The chapter focuses in particular on the practices of municipal infrastructure financing in Dhaka. It first sets out the country's macro-economic context, before outlining the framework for decentralisation and local government finances. The chapter ends by reviewing in detail the municipal finances and approach to infrastructure finance in Dhaka.

Macro-economic context

Bangladesh, located in Southern Asia, has a population of 144.3 million and covers a land area of 147,000 square kilometres. It is one of the most densely populated and rapidly urbanising countries in the world. As of 2007, about 30 million people or around 25 per cent of the population live in urban areas. The current rate of urban growth is 3.5 per cent, twice the rural growth rate. The growth of a high natural urban population, expansion of urban boundaries and the rising migration from rural to urban towns are dominant causes of the rapid urbanisation.

The four largest metropolitan areas – Dhaka, Chittagong, Khulna and Rajshani – together contain over 56 per cent of the total urban population of the country. The contribution of the urban economy to the GDP is increasing, and is currently at 50 per cent of GDP. At the same time, the contribution of the agricultural sector is less than 20 per cent of GDP.¹

Decentralisation framework

Decentralisation has been on the government's agenda since the 1980s, when plans to give greater responsibility to local governments were developed.² However, as yet, implementation has lagged behind. The government has presented plans to create effective local governments and strengthen local government institutions. Nonetheless, local governments remain dependent on the central government and the overall administrative system of the country.³

Local government legislation and organisation structure

Bangladesh has six administrative divisions, each of which is divided into districts (*zilas*). In total, there are 64 districts, with an average population of 1.9 million.

Districts act as the focal points of the administrative system. Local governments have two streams: urban and rural. Urban local governments are composed of six city corporations, 271 *pourashavas* (municipalities) and about a dozen urban centres under military cantonment boards. Small urban centres are administered as non-municipal rural entities under the parishad system.⁴

Functional and fiscal devolution of powers

Table 6.1 shows the set of responsibilities assigned to the local government levels of cities and urban municipalities. In terms of the assigned responsibilities, city corporations and urban municipalities are very similar.

A large part of municipal infrastructure responsibilities, from solid waste to upgrading of informal settlements, have been assigned to local governments. Some of the functions of urban local governments have, over time, been taken over by parastatal bodies. In the case of Dhaka City Corporation (DCC) and Chittagong City Corporation, water supply and sewerage planning and development responsibilities are given to special authorities – Water and Sanitation Authorities (WASAs). These

Table 6.1. Bangladesh, assigned local government functions and expenditure responsibilities

<i>Level of government</i>	<i>Local government activity</i>	<i>Sources of financing</i>
City corporation	<ul style="list-style-type: none"> • Solid waste disposal • Road building and maintenance • Street lighting • Parks and greenery • Upgrading of informal settlements 	<ul style="list-style-type: none"> • Property taxes • Conservancy • Fees • Rental income • Government grants • Donor funds
Urban municipality (<i>pourashava</i>)	<ul style="list-style-type: none"> • Sanitation • Solid waste disposal • Road building and maintenance • Street lighting • Parks, greenery • Upgrading of informal settlements • Poverty alleviation • Planning 	<ul style="list-style-type: none"> • Property taxes • Conservancy • Fees • Rental income • Government grants • Donor funds
Water and Sanitation Authorities (WASAs) at Dhaka and Chittagong cities	<ul style="list-style-type: none"> • Drinking water supply and sewerage 	<ul style="list-style-type: none"> • Water tariffs • Loans • Grants from government and donors
Specialised authorities: PWC, NHA, DPHE, LGED	<ul style="list-style-type: none"> • Civil works, housing, physical development 	<ul style="list-style-type: none"> • Government budget • Donor funds
Development authorities: RAJUK, CDA, KDA, RDA	<ul style="list-style-type: none"> • Planning and development of physical infrastructure 	<ul style="list-style-type: none"> • From sale of lands and government grants

Source: Chowdhury (2004)

responsibilities remain with urban municipalities. Co-ordination between city corporations and parastatal bodies in large metropolitan cities is a crucial problem.⁵

Overall, the decentralisation of political decision-making and administration is in an uncertain state in Bangladesh. Although urban local governments are elected through a democratic process, they do not enjoy significant political, administrative and financial autonomy. At the moment, fiscal decentralisation is limited. All local government financial decisions, including the annual budget, need central government approval.⁶

Overview of the provision of municipal services

This section provides an overview of local government services. The shortage of development expenditures has constrained the delivery of infrastructure services at the local government level. At present, most of the larger new municipal infrastructure development is financed by foreign aid and government grants. Few urban government units are capable of generating sufficient resources to meet their capital and recurrent costs. Overall municipal services are considered inadequate, as summarised in the indicative overview provided below:

- Between 30–50 per cent of the urban population live in marginal *informal settlements* and the environmental conditions in most of the urban areas are very poor.⁷
- *Water services*: in the cities, WASAs have been constituted to provide domestic water supply and sewerage. In other urban areas, water supply remains the responsibility of municipal authorities. Piped water supply is still low in Bangladesh, with only 26 per cent of households having access to tap water. The proportion of urban households possessing latrines is 70 per cent.⁸ The revenues of the WASAs comprise water and sewerage charges. Whilst the revenue collection rate is fairly high, there are large system losses, leading to financial non-viability.
- *Sanitation services*: Dhaka is the only city with a waterborne sewerage system, but this only serves about 15 per cent of the population, while another 30 per cent are served with septic tanks.⁹
- *Solid waste*: the city corporations are able to collect over 52 per cent of waste, while urban municipalities collect only 39 per cent.
- *Roads* are additional expenditure allocations. Overall, unfunded mandates of delegated responsibilities towards road maintenance and construction remain an outstanding issue.¹⁰

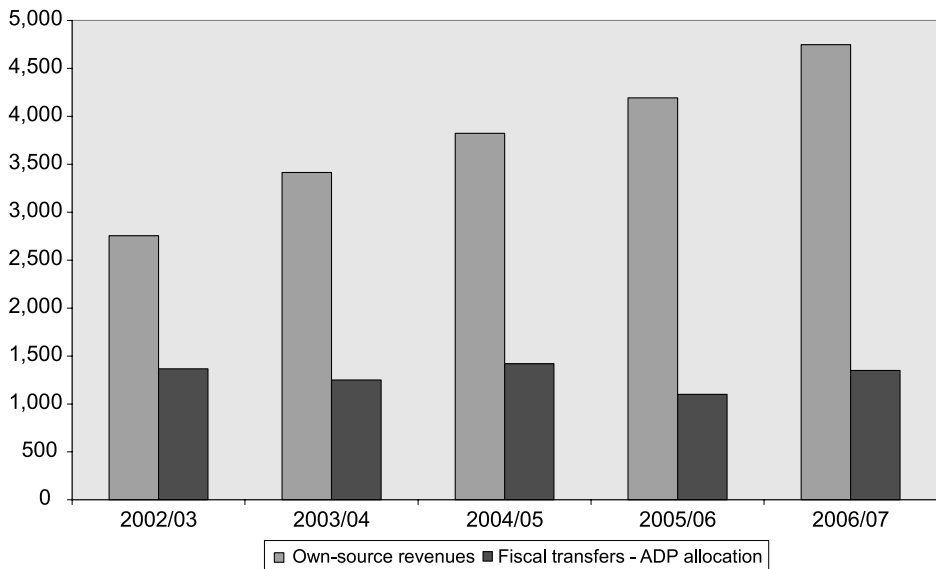


Figure 6.1. City corporations, local government revenues 2002–2007, in million taka (Tk)
Source: Government of Bangladesh, Local Government Division

Local government revenues

Figure 6.1 sets out the total revenue of the six city corporations in Bangladesh.¹¹ These include own-source revenues and transfers from the federal government in the form of ADP allocations. As shown in the figure, the own-source revenues of the six city corporations are, on average, three times the annual development grants (ADP allocations). Dhaka City Corporation accounts for the vast majority of these revenues, with Chittagong a distant second.

ADP allocations are formula-based block grants provided to urban and rural local governments based on the population, physical area and extent of backwardness of the local area. In addition, for the urban municipalities, the grant formula includes their level of annual own revenue collection for the past three consecutive years.¹² The ADP is mostly financed by the surplus of the federal revenue budget and domestic and external loans and aid. In recent years, the relative share of ADP grants is declining and grants are mostly financed from domestic sources. The Ministry of Finance decides the total ADP grant amounts across the local governments, and the Ministry of Local Government, Rural Development and Co-operatives (MLGRDC) is responsible for specific allocations to each urban and rural local body.¹³

In addition to the above revenue sources, the city corporations receive donor project aid channelled through the Government of Bangladesh to fund its development

Table 6.2. City corporations, local government revenues 2004–2007, in Tk million

<i>Transfers</i>	2004/05	2005/06	2006/07
Project aid from Government of Bangladesh	5,195	3,902	4,845
Grants-in-aid (including other revenue grants)	50	50	1,220
Other revenue sources	5,244	5,293	6,098
Total revenues	10,489	9,245	12,163

Source: Government of Bangladesh, Finance Division

expenditure, and grants-in-aid to fund revenue expenditure. These are set out in table 6.2, below, for the years 2004–2007. Grants-in-aid typically finance the city corporation’s revenue/establishment expenditure. In special cases, they may be provided to fund maintenance costs or for payment of electricity.

Grants in lieu of octroi were introduced in 1982, but these revenues are now minimal having declined progressively. Salary subventions (allowances for members and staff for elected officials) are provided for lower levels of local government, but are not provided for city corporations.

The Government of Bangladesh has set up a Local Government Commission to analyse, among other things, the finances of the local governments and to suggest measures for financial strengthening. One of the areas that requires revenue enhancement is property tax, as several properties are either unassessed or underassessed. There is an ongoing exercise to map all the wards in the DCC through a Geographic Information System database, in order to ensure the full enumeration of tax-liable units. Furthermore, there are proposals to levy conservancy taxes based on the use of property, i.e. for commercial, industrial and residential use. At the time of writing, all three were levied the same percentage of taxes.¹⁴ It is pertinent to mention that the Local Government Commission that was established during caretaker set up was abolished in 2009.

Local government borrowing

The Bangladesh Municipal Development Fund (BMDF) started operations in 2002 as a government-owned company to provide financial support to urban local governments for infrastructure development projects. It commenced operations with a line of credit of US\$78 million funded by the World Bank and the government.¹⁵

All types of urban infrastructure projects are eligible for BMDF financing, and co-financing by the local government for the project cost is expected. The lending rate is set at 9 per cent and no municipality is eligible to apply for funds unless it fulfils a set of conditions relating to municipal financial management, stakeholder involvement and revenue enforcement.¹⁶ Table 6.3 presents details of the BMDF’s lending policy and loan structure.

Table 6.3. Bangladesh Municipal Development Fund (BMDF), lending policy

<i>Lending policy</i>	<i>Eligibility criteria</i>
Eligible projects	Water supply and sanitation, roads, drainage, solid waste disposal, bus terminals, parks, community centres, street lighting, office buildings etc.
Loan/grant conditions	<ul style="list-style-type: none"> • For revenue-generating projects, at least 50 per cent of the financing is loan-based from the BMDF – the remainder grant. It is expected that at least 10 per cent of the project cost will be co-funded by the local government. • For non-income generating projects, about 85 per cent of financing will be a grant, with at least 10 per cent of the cost co-funded by the local government. • As for private sector participation, loan financing may be used to finance the municipal share of a joint venture investment. Such financing must not exceed 50 per cent of the joint venture. • The borrower's total annual debt servicing does not exceed 15 per cent of the borrower's total budget. • Municipalities are requested to open an escrow account.
Repayment period	Five years, with a grace period up to 20 years

Source: BMDF

By June 2006, 204 urban local bodies (ULBs) had applied for 13,420 million Bangladesh taka (Tk) in loans from the BMDF. Out of these, the BMDF has made agreements with 113 ULBs at a cost of Tk4,370 million. Table 6.4 below provides a selection of the projects where construction is underway with BMDF financing.¹⁷ A majority of projects are for building roads and drainage, water supply and sanitation, street lights and markets.

Table 6.4. BMDF projects (commenced civil works)

<i>Name of Component</i>	<i>Quantity</i>	<i>Number of ULBs</i>
Road	803km	97
Drain	165km	68
Kitchen market	185	41
Public toilet	65	25
Water supply pipeline	141km	18
Production tube well and water treatment plant	19	13
Street light	9,318	8
Bus/truck terminal	7	7
Community centre	7	7
Slaughter house	6	6
Office complex	3	3

Source: BMDF

Municipalities, whose loan applications were approved, deposited the equivalent co-funding (10–12 per cent) of the total cost. As a result, it has been observed that most of the urban municipalities that applied for funds raised their collection capacity and efficiency, as well as improved their asset management system and accounting procedures.

At the time of writing, the BMDF was soliciting additional funding to meet the potential demand of the approved and potential ULBs. Furthermore, initiatives are being undertaken to make the BMDF a sustainable and self-sufficient organisation.

The case of Dhaka

This section studies the municipal finances and service delivery in Dhaka. It sets out the city context and describes the administrative framework guiding municipal finances in the city. It goes on to discuss the sources and uses of municipal finances, along with private sector participation in the city’s service provision. The final section looks at the current state and potential of market finance.

City context

With a population in 2007 of 11–13 million, the Dhaka metropolitan area has become a megacity and continues to grow. The district of Dhaka is 90 per cent urban. The city comprises 38 per cent of the country’s urban population, as shown in table 6.5. Its population has been growing at a rapid rate with 300,000 to 400,000 new migrants annually and is characterised by large informal settlements. The stable growth rate of the past decade is anticipated to continue, with Dhaka’s population expected to grow to about 20 million people by the year 2020.

Table 6.5. Population of Dhaka in the national urban context

<i>Year</i>	<i>Population (millions)</i>	<i>Percentage of the national urban population</i>
1974	1.77	28.2
1981	3.45	26.0
1991	6.84	30.5
2001	10.71	37.4
2005	12.0	37.5

Source: Islam (2006)

Dhaka has a disproportionately large concentration of industrial and various public sector investments, despite the government’s declared policy of decentralisation. While some commercial activity is located in the second city, Chittagong, Dhaka hosts the country’s main economic activities in trade and finance.¹⁸

City administration

Dhaka City Corporation (DCC) is functioning on the basis of ‘Dhaka Municipal Corporation Ordinance XL 1983’. The administrative structure that relates to service delivery is complex. Though the DCC is autonomous and commissioners are elected by direct votes, its power is controlled by the Ministry of Local Government, Rural Development and Co-operatives (MLGRDC). DCC is responsible for a wide range of services, as listed in table 6.6, below.¹⁹

DCC is headed by a chief executive officer (CEO), who is an appointee of the central government. The CEO is supported by a board, represented by all ward commissioners. The board has 16 standing committees for various sectors and services. However, the CEO and the board have limited decentralised authority and require the mayor’s approval for all major investments or expenditure exceeding Tk50,000.²⁰

For the purposes of administration, the city is divided into 10 zones, with 90 directly elected ward commissioners who are members of the DCC having both policy-making and input monitoring roles.²¹

Table 6.6. Functions of the Dhaka City Corporation

Public health	<ul style="list-style-type: none">• Sanitation• Hospitals and dispensaries• Health, infectious diseases and maternity centres• Waste disposal
Water supply and drainage	<ul style="list-style-type: none">• Water supply and drainage schemes
Urban planning	<ul style="list-style-type: none">• Master plan and regulation of building control
Streets	<ul style="list-style-type: none">• Roads• Street lighting• Public transport
Education	<ul style="list-style-type: none">• Education
Development	<ul style="list-style-type: none">• Development plans• Community and health development projects• Commercial schemes• Slum development
Other responsibilities	<ul style="list-style-type: none">• Social welfare• Public and private markets• Parks and greenery• Culture• Public safety

Municipal revenue structure

Table 6.7 presents the DCC revenues for the period 2003–06 and the budget for 2006/07. The key points to note are:²²

- Own-source revenues account for over 70 per cent of the DCC revenues. The remaining 30 per cent is funded by transfers from central government.
- Property tax is the main revenue income for the corporation, and comprises nearly 35 per cent of own-source revenues. Property tax is charged at 12 per cent on the annual value of the property.²³ This includes 7 per cent holding tax, 2 per cent conservancy tax (for cleaning, solid waste management, sewerage etc.) and 3 per cent lighting charges.
- Other income includes market fees, charges for trading licences, advertisement fees, road digging charges, property transfer fees etc. Market fees are levied on the construction of any new market or community centre. Charges for trading licences are levied annually.
- The intergovernmental transfers primarily consist of ADP lump-sum allocations and other special grants. As in the case of other municipalities, the compensation in lieu of octroi charges (abolished in 1982) is minimal.

Table 6.7. Dhaka City Corporation revenues, 2003–2006, in Tk (millions)

Revenues	2003/04	%	2004/05	%	2005/06	%	2006/07	%
Own-source revenues, of which	2,323	72.4	2,523	71.5	2,950	78.9	4,664	64.9
Property tax	1,150	35.9	1,170	33.1	1,309	35.0	2,300	32.0
Property transfer fee	237	7.4	265	7.5	372	9.9	400	5.6
Other fees	287	9.0	321	9.1	354	9.5	475	6.6
Rent and property income	226	7.0	306	8.7	310	8.3	446	6.2
Trade licence fee	221	6.9	222	6.3	255	6.8	320	4.5
Market fees	96	3.0	141	4.0	204	5.4	450	6.3
Other own-source revenues	96	3.0	78	2.2	147	3.9	224	3.1
Capital revenues	10	0.3	19	0.5	0.0	0.0	50	0.7
Intergovernmental transfers	884	27.6	1,006	28.5	790	21.1	2,525	35.1
Special grant from government	450	14.0	364	10.3	250	6.7	1,500	20.9
ADP allocation	409	12.8	617	17.5	515	13.8	1,000	13.9
Octroi compensation	25	0.8	25	0.7	25	0.7	25	0.3
Total revenues	3,207		3,529		3,740		7,189	
Project aid*	2,944		4,531		2,478		7,740	

Source: Dhaka City Corporation, Accounting Department

* Included in the official budgets. Project aid includes private investment and donor-funded projects.

In addition to intergovernmental transfers, the DCC receives project aid from the Government of Bangladesh to finance specific project capital expenditure. Project aid varies by year, depending on the nature of donor projects and level of disbursements. It amounted to about Tk2.5 million in 2005/06, and is estimated to be as high as Tk7.7 million in 2006/07.

Borrowing

DCC is legally allowed to borrow, with the approval of the MLGRDC. It did not have any loans on its books at the time of writing. However, it has borrowed from commercial banks in the past for projects such as the construction of new markets and of its office building. The key constraint in bank borrowing is the high rate of interest that is charged.

Dhaka had not borrowed or obtained grant financing at the time of writing from the BMDF. However, it has recently submitted a funding application to the BMDF.

Municipal expenditures

Table 6.8 below provides an overview of DCC's expenditure over the period 2003/04 to 2005/06. The key observations are:

- Recurrent and development expenditure account for approximately equal shares of the corporation's expenses.
- Salary, pension and allowances are the majority of the recurrent expenditure, followed by electricity and supplier costs.
- Roads and drains comprise over 50 per cent of development expenditure. Given the flooding that Bangladesh (and Dhaka city) is prone to, it has been suggested that a significant part of development expenses go towards maintenance and rehabilitation of roads and storm water drains. There has not been much investment in the construction of new infrastructure, although these are being planned, with donor project support.
- The other category of development expenditure is for the creation and maintenance of markets. The need for municipal markets was recognised when Dhaka became a provincial metropolis in 1905. By 2007 there were about 104 markets of varying sizes in the city, owned by the DCC. These markets may be wholesale or retail, and house shopping complexes.²⁴

Table 6.8. DCC expenditures, 2003–2006, in Tk (millions)

<i>Expenditures</i>	2003/04	%	2004/05	%	2005/06	%
Recurrent expenditure, of which	1,310	45.8	1,569	50.9	1,684	43.6
Salary and allowances	679	23.8	667	21.6	810	21.0
Electricity, fuel and water	212	7.4	380	12.3	387	10.0
Supply goods	185	6.5	185	6.0	182	4.7
Mosquito control (Monitoring)	99	3.5	149	4.8	135	3.5
Repair and maintenance	35	1.2	79	2.6	64	1.6
Other recurrent expenses	49	1.7	62	2.0	53	1.4
Private waste management	44	1.5	35	1.1	42	1.1
Rent, rates and taxes	8	0.3	12	0.4	12	0.3
Development expenditure, of which	1,390	48.7	1,331	43.2	1,952	50.5
Roads and drainage	1,056	37.0	824	26.7	1,051	27.2
Market development and maintenance	78	2.7	119	3.8	208	5.4
Community centre	43	1.5	72	2.3	131	3.4
Special projects	90	3.1	85	2.8	128	3.3
Other capital expenditures	123	4.3	231	7.5	434	11.2
Loan repayments	157	5.5	182	5.9	226	5.8
Total expenditure	2,857		3,083		3,862	

Source: Dhaka City Corporation, Accounting Department

Financial management²⁵

DCC maintains its accounts based on the double entry principle. However, it still partly follows cash accounting and partly accrual-based accounting. The DCC accounts are reviewed by the central government auditor periodically. The Revenue Department is responsible for collections of taxes and charges, and the Accounting Department is responsible for the budget, annual accounts and internal audit. While the accounts are computerised, there is no systematic database or management information system (MIS) to assist in financial decision-making.

Municipal service provision and local PSP activities

Overall, the private sector capacity in Bangladesh is quite weak, with limited willingness to invest in infrastructure projects. Given the uncertain political environment and the caretaker government, foreign investors are not coming forward to finance projects in Dhaka.

Most PSP activity has been in the power sector (thermal and renewable energy projects), land ports (connecting Bangladesh to India and Myanmar) and mobile telecoms. In addition, the government is considering PSP options for:

- An additional 2,238MW power generation capacity on a ‘build, own and operate’ (BOO) basis,

- Two inland container terminals (ICTs) on a BOO or build, operate and transfer (BOT) basis,
- Operation and maintenance concession contracts for the repair and maintenance of the extensive road network, and
- Water distribution projects in selected municipalities (these are at feasibility study stage at the time of writing).

The Infrastructure Investment Facilitation Centre (IIFC) was established in March 1999, to promote private sector participation and financing for infrastructure projects in Bangladesh. It assists the government in facilitating the above transactions and also develops PPP guidelines and policies to enable faster implementation of projects.

*PSP at sub-national level*²⁶

The DCC has the authority to sign contracts with and outsource services to the private sector (on approval of the MLGRDC). There have been some limited experiments in attracting PSP in municipal services or projects, the details of which are provided below:

- *Solid waste management*: The DCC is divided into ten zones, of which two zones (Uttara and Gulshan zones) have outsourced waste collection and management to the private sector. Four companies have been awarded contracts to provide this service, and are compensated by the DCC. These two zones are expected to be ‘pilot’ areas, and the services are to be outsourced in other zones if considered successful.
- *Bus terminals and markets*: Some of the bus terminals and operation of markets have also been let on one-year private contracts. Three bus terminals have been let by the DCC to private operators on three-year contracts. The operators are expected to develop the infrastructure and facilities in the terminals and manage them. They charge the bus companies for their services and share the accruing revenue with the DCC, after deducting their share of fees to cover their costs. The contracts for these services were developed under a World Bank-funded project.
- *Primary healthcare*: The public-private partnership model is being implemented under the auspices of an ADB-sponsored project to improve the services of urban primary healthcare across the six city corporations and urban municipalities. The first phase of the ADB project covered the city corporations with the Project Management Unit, hosted by the Dhaka City Corporation. On its success, the second phase of the project commenced in 2005 and will run until 2011. As part of the project, 24 ‘partnership areas’ have been created based on population size, of which 10 are within the DCC remit. Within each partnership area, a comprehensive reproductive healthcare centre is

being established by the government and is tendered out to the NGO and private sectors for operation and maintenance. It is expected that the healthcare centres will provide free services to 30 per cent of patients (i.e. those who are below the poverty line) and charge nominal fees (below market rates) for the others. The first phase of the project demonstrated a significantly higher quality of service in these centres, compared to central government health centres.

- *Street cleaning, conservancy and the dumping of waste:* These services have been outsourced to a private operator in nine wards of a zone in DCC. The private operator has had a three-year contract until 2007/08 and is paid by the DCC, based on the weight of waste dumped. There are clear performance requirements in the contract and a conservancy inspector from the DCC assigns performance grades to the operators. A minimum number of 'A' grades are required for extension of contract.

In addition to the above, two new projects are being planned by the DCC to attract private sector funding and participation. These are:

- *Jatrabari – Gulistan flyover:* This is being planned to reduce traffic congestion and improve the economic viability of Dhaka City. The flyover would be seven kilometres long and will cover a vast area.²⁷ Urbanisation opportunities and residential uses surrounding 50 kilometres of the city would be increased, which is expected to reduce the pressure on the city's utility services. The flyover will be constructed through a 'build, own, operate and transfer' (BOOT) system, with construction costs estimated at about Tk67 million. Construction will take three years to complete. The construction and maintenance cost is to be recovered through the toll collection from the users of the flyover.
- *Multi-storey car parking in the city centre:* Due to lack of car parking facilities in the buildings of the Central Business District of Bangladesh, (Motijheel-Dilkusha areas), steps have been taken to build multi-storey car parking at the centre of the area. If built, this will have a nine-storey car park, able to host 500 cars at a time and 1,500 cars daily. As a result, it is expected that traffic congestion will be reduced. A 'city centre' containing modern facilities such as restaurants, commercial offices, international-standard conference facilities etc. is being planned in the district. The proposed building is scheduled to be finalised in two-and-a-half years.

Alternative sources of municipal financing

One of the objectives of the World Bank's Municipal Services project was to improve resource mobilisation and fiscal discipline by creating the Bangladesh Municipal Development Fund to facilitate urban infrastructure investment. It was

envisaged that the BMDF would ultimately help municipalities make the transition to commercial financing. However, municipalities continue to rely on grants and have weak financial capacity.

DCC has not accessed any alternate source of financing to date (nor have any of the other ULBs). The local governments are generally discouraged from borrowing, given their weak financial position.

*Financial markets*²⁸

The financial system of Bangladesh consists of the Bangladesh Bank (BB) as the central bank, four nationalised commercial banks (NCB), five government-owned specialised banks, 30 domestic private banks, 10 foreign banks and 28 non-bank financial institutions. The financial system also embraces insurance companies, stock exchanges and co-operative banks. As of the time of writing, there has not been any significant lending from the credit or capital market systems in Bangladesh for infrastructure projects. As in other developing countries, the deposit portfolio of banks and the financial regulations do not allow them to lend for long maturities for infrastructure projects. As described in the case study on Bangladesh and Dhaka, there is no or negligible market lending for sub-national infrastructure projects. Furthermore, the overall financial system is still nascent and requires substantial reform and instilling of market discipline in its operations.

While Bangladesh has embarked on reforming its financial system, most prominently by privatising its government-owned banks, a sustainable long-term expansion of the financial system requires a more substantial change in the role of government. The growth of the banking sector is impeded by the government directly competing for deposit mobilisation through its National Savings Schemes (NSSs).

Other segments of the financial system, such as the insurance sector and the stock markets, are substantially less developed than in comparable countries. The insurance sector is small and inefficient, and the penetration of both life and non-life insurance is very low. There are few private pension funds and mutual funds whose development is most likely prevented by competition from the NSS. The pension and mutual fund industry is dominated by public pension schemes by the Investment Company of Bangladesh (ICB). With respect to the stock markets, Bangladesh's stock market capitalisation and trading relative to economic activity is miniscule. The shares of financial institutions – mandated by law to list – dominate the Dhaka stock exchange. In November 2005, they constituted 56 per cent of market capitalisation and 62 per cent of trading. There were only two Initial Public Offerings (IPOs) of non-financial companies in 2005 and none in 2004.

Summary

Bangladesh is among the world's most densely populated countries and is rapidly urbanising. Dhaka, with a population of more than 11 million, is the commercial, political and administrative centre. A large part of municipal infrastructure responsibilities have been assigned to local governments, but decentralisation of political decision-making and administration remains uncertain. Dhaka City Corporation (DCC) enjoys little autonomy and is severely constrained in its planning and expenditure policy by the federal government.

To finance its budget, DCC relies largely on own-source revenues (70 per cent), of which property taxes constitute almost a third. However, most of these revenues go towards meeting recurrent expenditure such as salaries and establishment expenses. Reforms of property tax assessment and collection are expected in the coming years. The intergovernmental transfer base is rather narrow and largely conditional. For financing of capital expenditures, funding through donor projects is accounted for separately and is almost equal to the entire DCC budget. Overall, municipal infrastructure services remain inadequate due to a shortage of development expenditures.

The private sector capacity and willingness to engage in infrastructure projects, particularly at the sub-national level, remains weak. PSP activities in the city are largely limited to contracting out of services such as solid waste management. Future projects to attract the private sector are being planned, such as a BOT contract to build a city flyover.

As for alternate sources of financing, DCC is legally entitled to borrow for its capital investments, but has only done so largely for working capital purposes. In this context, the government-owned Bangladesh Municipal Development Fund (BMDF) was set up under a World Bank credit to provide financial support for municipal infrastructure projects. Funding provided by the BMDF includes a significant grant component. The local financial markets are nascent, which constrains accessing market finance for infrastructure projects. Moreover, the creditworthiness of the municipal borrowing entities is not considered strong enough to tap private debt and ensure its timely servicing.

Notes

1. Chowdhury (2004).
2. The main legislation on local government are the Local Government Ordinance 1983, the Upazila Parishad Act 1998, the Zila Parishad Act 2000, the Hill District Local Government Parishad Act 1989, the Pourashava Ordinance 1977 and the City Corporation Ordinances/Acts (issued for various city corporations at various times).
3. Commonwealth Local Government Forum (2007d).

4. Islam (2006); UNDP (2003). Rural local governments have four tiers: *zila parishad* (district council), *upazila parishad* (sub-district council), union *parishad* (union council) and *gram sarkar* (village government).
5. UNDP (2003).
6. Islam (2006).
7. Chowdhury (2004).
8. Bangladesh Census 2001.
9. World Bank (1997).
10. Ahmad et al. (2006).
11. These are Dhaka, Chittagong, Khulna, Rajshahi, Barisal and Sylhet.
12. UNDP (2003). For example, Tk6 million +: A Category *Pourashava*, Tk2.5–6 million: B Category, and Tk1–2.5 million: C Category.
13. Meeting with the Local Government Division, MLGRDC, Bangladesh.
14. Meetings with the DCC, Local Government Division, MLGRDC, Government of Bangladesh.
15. The BMDF was set up in 1998 with a seed fund of US\$70 million from the World Bank. The Bangladesh government also promised to contribute US\$8 million to this fund.
16. The specific criteria is as follows: (1) holding tax collection is more than 50 per cent of the estimated revenue; (2) accounting system is converted to double entry system; (3) prepare budget to a realistic stage; (4) prepare an asset register; (5) track tax defaulters; (6) computerise accounts and office management and train staff; and (7) stakeholders are allowed to participate in projects.
17. Chowdhury (2004); BMDF (2007).
18. Islam (2006).
19. Profile of Dhaka City Corporation.
20. Meeting with the CEO, DCC.
21. World Bank (2007b).
22. Based on meeting with the chief accounts officer, DCC.
23. Annual value is typically equivalent to 10 months rent.
24. Profile of Dhaka City Corporation.
25. Based on meeting with the chief accounts officer, DCC.
26. Meetings with the Local Government Division, Ministry of Local Government and Rural Development, Government of Bangladesh, and the Asian Development Bank, Bangladesh, and the chief town planner, DCC.
27. This is expected to include parts of Chittagong-Narayangonj-Mawa highways, Demra, Gulistan, DIT Avenue, Sayedabad Bus terminal, Dayagonj, 2nd Buriganga Bridge and Motijheet-Tikatuly Road. The improved road communication system would be developed with the adjoining 30 districts of Dhaka City.
28. See <http://www.bangladesh-bank.org/fnansys/fnansys.html>; Beck and Rahman (2006).