

ANALYSIS OF MUNICIPALITIES FINANCING PATTERN
CASE SAMPLE: MASHHAD METROPOLIS

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ABSTRACT: Today; considering the expansion of metropolis, urban demand for all types of goods and urban services has increased and meeting such needs requires that one should be availed of sufficient and sustainable funds for urban. Such that these revenues, in addition to having assurance and continuity, would not also disturb the trend of urban sustainable development. IN our country a considerable part of revenue of the municipalities of the country is dependent upon charges received and collected for land and construction. For the same reason often, the smallest change and transformation in land and housing prices shall severely overshadow the revenues of the municipality. The method of financing is not only highly unstable but also in the course of passage of time shall entail adverse economic, social and framework consequences and on the other hand, shall also hinder the efficient urban management. The main objective of this study is: evaluation the stability or instability financing patterns of Mashhad Municipality in 1993 – 2012. So, in this research by using descriptive, analytical and comparative methods, attempt has been made to survey and study unstableness trend in municipality revenues of Mashhad in a 20 year period (1993-2012) and a comparison be made between the level of nominal and real revenues during these years. The research results show that inactiveness of major revenue codes of Mashhad municipality has played a notable role in occurrence of unstableness in revenues and the level of real revenues of Mashhad municipality contrary to nominal revenues have decreased. Meanwhile, the factor of inflammatory oscillations has had a salient role in continuous increase and decrease of municipality revenues during the recent 20 years. Equally the share of discontinuous revenues of municipality has been over 3 times the continuous revenues and this has led to the fact that making decisions and fulfillment of planning by urban managers are encountered with many ups and downs and fluctuations.

KEYWORDS: Sustainable Urban Revenue, Municipality, Urban Economy Of Mashhad, Inflation Uncertainty.

INTRODUCTION

In Iran from the outset of formation of municipalities the subject of financing of this public institution was never defined and explained within the context of mass economic system of the country but since 1983 upon putting forth the project of self-sufficiency of municipalities within the framework of annual budget and also emphasis laid upon this subject within the context of law of first plan of development of Islamic Republic of Iran the trend of unstableness of revenue resources of the municipality was aggravated and the focus was laid on such unstable revenues as selling accumulation as a reaction of urban management against decrease of resources and credits. One of the most important items of unstable revenue of municipalities of the metropolises of the country including the metropolis of Mashhad is the revenues emanating from construction. Some of these revenues apart from unstableness are also termed as unhealthy revenues or revenues, too ([Akbarpour and Mirzajani, 2010](#)). it should be said that sale of

accumulation as a source and factor of acquiring revenue during the past decades results from connivance or negligence as well as creation of new sustainable resources of revenue for the municipalities and this negligence has been brought about from the source that the concept of revenue generation is looked at in the same manner as with sustainable revenue generation. While sustainable revenue generation refers to the fact that it could not be possible to gain revenue from any source for the urban. rather, sustainable revenue generation means that it should enjoy the following characteristics: continuity with stability and it should not suffer harsh fluctuations at least in short term not giving rise to damaging environmental structures, framework, social and economic structures and aspects of the urban (metropolis). Flexibility: A revenue base should grow during course of time and increase in line with expansion of expenditures in order to be far from fiscal constraint ([Hadi Zonouz, 2009](#)). Considering stated points, the present research with the aim of recognition and explanation of the

trend of unstableness in revenues in metropolis regions of Iran (case of Mashhad) and analysis of revenues of Mashhad municipality follows a very unstable trend. And in order to test it, initially by performing library studies and documentations as well as reports connected with subject of research it was identified and a more precise description on the issue under research was presented. Then, by collecting statistics and data needed, the composition of the shares of Mashhad municipality revenues was extracted and items of revenue of Mashhad municipality were analyzed. This explains the research main question is: Mashhad municipal financing pattern is sustainable or unsustainable?

LITERATURE REVIEW

Theoretical framework of research, obtaining sustainable urban revenues is a central and axial sector in economic development of the urban and a strategic section in supplying needs of citizens in the growing urban. The importance of this issue is to the extent that in urban developmental programs and plans a particular stance has been allocated to it. Meanwhile the index of inflation may affect the trend of continuity and stability of urban revenues level. Because inflation is a factor that plays a considerable role in increase of uncertainty an incertitude in urban economy giving rise to shortening of time horizon of decision making, renewed distribution of revenue in favor of property owners, wage loss and stipendiary's and salary receivers and paid personnel, increase of Transaction costs, investment decrease or fall in producing activities and as a result, decrease in urban economic growth ([Pirayee and Dadvar, 2011](#)). Such situation is described as fluctuations or incertitude of inflation. Thus, increase in and subsequent changes in inflation rate are referred to as inflationary fluctuations or uncertainties which leads economic situation to uncertain and unpredictable conditions ([Goudarzi et al., 2012](#)). This was first put forth in 1971 by Okun. Through statistical analyses he found out that countries with higher inflation rates usually own higher inflationary changes. Therefore, Okun considered higher changes as an indicator or index for uncertainty. He believed that higher change is accompanied with inflationary incertitude. In his view, uncertainty regarding inflation will result in deviation in decisions of consumers and producers in the field of savings, consumption and investment ([Pirayee and Dadvar, 2011](#)). These deviations will leave behind unfavorable effects on efficiency of allocation of resources and level of real activity of economy. For the same purpose, in order to analyze inflation's uncertainties in revenues of Mashhad municipality we will use the

concept of nominal revenues and real revenues. Because always and in the course of time prices index undergo changes and increase based on inflation rate. Thus, economists and statisticians, by employing diverse and different techniques change several economic indices such as revenue into real figures based on amount of adjustment inflation and nominal figures into real figures. For instance, if the amount of inflation goes beyond nominal revenues, real revenue level of individuals will be obtained. Real or true revenue will be given prime importance and served as reference in policies and policy making and in presentation of economic analyses. As based on changes in prices level, sometimes the nominal revenue displays a high figure however upon deduction of inflation from it, it is observed that real revenue or revenue has not increased so much. Finally it should be kept in mind that since sustainable or stable revenues are dependent on and subject to sustainable development in economy and as sustainable development in economy are dependent on manner of use of possibilities and environmental services and preservation and protection of these resources such as use of weather and climate, water, green area or landscape, as well as the entire possibilities and urban spaces, these sustainable revenues should enjoy two characteristics that is continuity and qualitative preservation of urban atmosphere which will be reliable in the course of time and one could make necessary plans and provisions in order to have access to it. Therefore, all revenue items of municipalities which by any reason are subject to and influenced by inflationary shocks, crises, or change in laws and regulations and economic fluctuations are not trustworthy and lack in first characteristic of durability ([Aliabadi and Masoum, 2001](#)). Attention should be paid to the fact that today due to vastness of duties and realm of performance of municipalities it seems that a mixture of different fiscal resources, are the principal source for financial provision of municipalities though it is possible that the share of one base in the finance of public sector may exceed other bases, but definitely a mixture of these resources is seen in the revenue system of various municipalities of the world. For the same reason, the framework of research of present essay, too, considers employing an optimal, favorable mixture of local taxes and contribution of government to the municipality as axial elements in fiscal urban financing as a theoretical basis of the present research. Also, in explaining occurrence of instability and subsequent fluctuations of urban finance, we will use the term inflationary uncertainty.

METHODOLOGY

Considering stated points, the present research with the aim of recognition and explanation of the trend of unstableness in revenues in metropolis regions of Iran (case of Mashhad) and analysis of revenues of Mashhad municipality follows a very unstable trend. And in order to test it, initially by performing library studies and documentations as well as reports connected with subject of research it was identified and a more precise description on the issue under research was presented. Then, by using SPSS software, collecting statistics and data needed, the composition of the shares of Mashhad municipality revenues was extracted and items of revenue of Mashhad municipality were analyzed.

RESULTS AND DISCUSSION

Considering the new developments in urban management which terms planning as the principal and main indicator of urban decision making, survey of structure and revenue trends of

municipalities is considered as an urgent task for carrying out more precise planning and decision making. For this purpose, the time span of 20 years (1993-2012) has been considered for perusal of the trend of Mashhad municipality revenues. According to following tables, the figure of nominal revenue in Mashhad municipality has made considerable growth from 1993 to 2012 and has reached to 32,875,2150 million Rials from 51,267 million Rials and real revenue has reached from 410,140 million Rials to in 1993 to 9,446,901 million Rials in 2012. As observed, from 1993 to 2002 nominal and real revenues have taken a monotonous course and trend but, from 2003 have begun a hike such that in 2011 has reached the top of the figure. In this year, nominal revenue or revenue has been equal to 42,058,371 and real revenue as 150183527 million Rials. But again, these revenues have assumed a decreasing trend from 2012.

Table 1: study of the trend of nominal, real revenues of Mashhad municipality during the years 1993-2012

year	Nominal revenue	Nominal revenue growth	Inflation index	Real revenue	Real revenue growth	Real revenue growth rate
1993	51267	-	0.125	410140	-	-
1994	73245	43	0.169	433400	6	-
1995	36501	-50	0.252	144845	-67	-1,274
1996	113725	212	0.31	366855	153	-330
1997	220605	94	0.364	606058	65	-57
1998	240000	9	0.43	558140	-8	-112
1999	248400	3	0.516	481395	-14	74
2000	364551	47	0.582	626377	30	-319
2001	476400	31	0.648	735185	17	-42
2002	601927	26	0.75	802569	9	-47
2003	1038892	73	0.867	1198261	49	438
2004	2300000	121	1	2300000	92	86
2005	2500120	9	1.1	2272836	-1	-101
2006	4629322	85	1.23	3763676	66	-5654
2007	4013192	-13	1.46	2748762	-27	-141
2008	10749895	168	1.83	5874260	114	-522
2009	11274462	5	2.03	5553922	-5	-105
2010	31758774	182	2.28	13929287	151	-2865
2011	42058371	32	2.77	15183527	9	-94
2012	32875215	-22	3.48	9446901	-38	-520

Source: Mashhad municipality and calculations of writer ([Anonymous, 2011](#))

But, as seen in the table, growth rate of nominal and real revenues during the past 20 years has always witnessed subsequent, incessant decreases and increases. Diagram 1 shows that the highest and most growth rate relates to the year 1996 where nominal revenue of the growth is 212 and real revenue of growth has experienced 153 units and this diagram itself bears witness to severe instability of revenues of Mashhad municipality. Because, as a fact, the growth trend should normally have experienced mild falls and ups and hikes and that a rather fixed current should be observable.

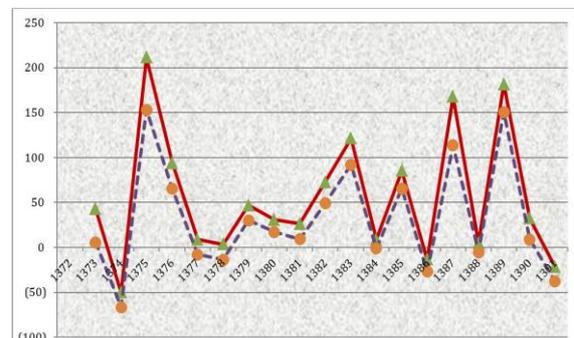


Diagram 1: comparison of growth rate of nominal, real revenues of Mashhad municipality during the years 1993-2012

In diagram 2, which shows the growth of the growth rate of real revenues we can talk with more Decisiveness about instability of Mashhad municipality revenues as real revenues have been purified and netted from inflation scale and study of the trend of growth of growth rates depict and present a more precise picture of real amount of municipality revenues and its stability ratio. This scale which has been expressed and pointed out in previous table on figures related to that calculation has been shown as a diagram in pursuit and following parts.



Diagram 2: the trend of the growth of growth rates of real revenue of Mashhad municipality during the years 1993-2012

As observed, this growth, too, has assumed a quite unstable stance. In more clear terms, it has been inflicted with and suffered continuous decreases and increases. It is while if the Mashhad municipality had enjoyed stability and durability in its revenues, the above diagram would have assumed a mild slope of hiking trend. The above diagram should have taken a mounting trend with a mild slope. Another case that denotes the instability of revenues of Mashhad municipality during 1993-2012 is the determination of extent and amount and share of continuous and non-continuous revenues during the staid period. In the following table continuous and non-continuous revenues have been separately stated. As it is observed, the total continuous revenues during these years is equal to 38564161 million Rials with the share of 24, 93 per cent. In return, the total non-continuous revenues are 116138090 million Rials with a share equal to 75.07 per cent. That is, the share of instable or non-continuous revenues is over 3 times the stable revenues. This table shows well that the structure of revenue of Mashhad municipality follows an instable trend.

Table 2: separation of amount and share of municipality revenues to continuous and non-continuous revenues in total years of 1993-2012

Revenue description	Amount-million	Per cent share
charges collected by other institutes	452355	0.29
Charges on business and sale licenses	8990535	5.81
Charges collected by municipality and other institutes	16457741	10.64
Renovation charges	129019	0.08
Charges on immovable transactions	2784620	1.80
Charges on communications and transportation	6555114	4.24
Revenue resulting from sale and collection of garbage	830954	0.54
Revenue emanating from preparation services	2363821	1.53
Total continuous revenues	13856416	24.93
Charges on buildings and lands	1025597	0.66
Property owned by municipality accidentally or by virtue of law	23445139	15.16
Assistance granted by government and state organizations	2784479	1.80
Quota from collected centralized charges	22009689	14.23
Revenue accruing from municipality services price	42556710	27.51
Municipality installations revenue	546919	0.35
Revenue accruing from municipality assets & properties	724301	0.47
Contributions and grants of individuals	14628639	9.46
Loans collected from ministry of the interior	2671505	1.73
Municipality assets and properties sales	4613669	2.98
Other resources	1131443	0.73
Non-continuous revenues total	116138090	75.07
Total revenue	154702250	100

Source: calculations of writers based on Mashhad municipality statistical data ([Anonymous, 2011](#))

CONCLUSION

The main objective of this study was to assess the stability or instability financing patterns of Mashhad Municipality in 1993 – 2012. This Studies show, in Mashhad municipality during the past 20 years (1993-2012) the share of unsustainable revenues has nearly been a times more than that of sustainable revenues and during the whole period the trend of growth of Mashhad

municipality revenues has experienced subsequent, incessant increase and decreases. Equally, the study of level of nominal revenues of the municipality of Mashhad bear witness to the fact that what has caused the increase in the level of municipality's nominal revenues during 1993-2012 has been the inflation factor and practically the level of real revenues of the municipality during these years has subsided. The research

studies denote that in the manner of financing of Mashhad municipality there is a noticeable contradiction. Meaning that from one side in line with the last theoretical viewpoints of urban management, different revenue rows have been considered for the municipality, but in return, the share of instable revenues is considerably more than stable revenues. One of the main reasons of this fact originates from inactivity of major part of revenue codes of Mashhad municipality such that one row of revenue has been mentioned as sustainable revenue below the list of Mashhad municipality revenues. However it does not own necessary capacity for generation of revenue. This fact in addition to giving rise to severe fluctuations in revenue for the municipality, causes and leads to deviation in decisions by urban managers in the field of supplying services and manner of investment and equally has left behind unfit , unsuitable effects on efficiency in allocating of resources and the level economy activities of the city of Mashhad. For this reason, it seems that along with accessibility to stability trend of municipality revenues, survey and evaluation of the revenues and revision in definitions and bases of calculations and fault finding and capacity perusal AND assessment of inactive revenues codes and composition of similar revenue codes , decrease of their numbers and finally definition of charges and price of new services are among exigent measures made towards removal of defects and shortcomings of methods of securing the finance or financing of Mashhad municipality.

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