

## LOCAL GOVERNMENT FINANCE IN TURKEY<sup>1</sup>

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### **Introduction**

The ever existing problems of urban areas gained a fresh momentum particularly after the post-war period, during which suburbanization in developed countries and squatting in developing countries exacerbated the social investments and expenses on urban infrastructure. At this period local government spendings augmented thanks to the Keynesian policies which -as a part of the new macro economic project- aimed at tackling with the social, economic and physical problems of cities. Therefore, urban development policies of the central governments resulted in the direction of massive amounts of financial resources into urban areas. As Hampton puts it, "an examination of local government expenditure shows a steady increase over the years. It now forms a significant part of the country's output... Great Britain is not alone in witnessing a growth in local government expenditure. By 1975 local expenditure represented over 20 per cent of GNP in Scandinavian countries and had been increasing substantially in other parts of Europe" Hampton (1991: 95). Foster et al. calculate the increase in total local expenditure in Great Britain as from 3 per cent of annual GNP in 1870 to about 18 per cent in 1975 (Foster et al. 1980:78). Burns et. al. comment on the same line by arguing that in the USA "State and local governments have been the fastest-growing part of government for the past 25 years" (1993:257). Findings from 25 developing and 18 developed countries show that the ratio of the expenditures of local governments in total public expenditures increased during the years of 1960 and 1973 (World Bank, 1976: Table 7). More recent data confirm the continuation of the similar trend (Bennett and Krebs, 1992; Türk Belediyecilik Derneği, 1996). Data from a sample of 23 cities in developing countries indicates that "real per capita expenditures increased in many of the cities in this sample...The ability of some local governments to raise per capita expenditures, despite rapid increases in population, limited resource bases, inflation, and constraints placed upon them by higher government authorities, is a remarkable achievement" (Bahl and Linn, 1992:16). The situation is not very different in Turkey; total municipal revenues' ratio to GNP grew from 0.9 per cent to 2.17 per cent between the years 1980 and 1995.

In recent years, the position changed starting from the second half of the seventies, since then there has been an increasing fiscal stress both at the national and the local levels. Downturns in profit rates that resulted in slow down of the capital accumulation showed no significant improvement for the last two decades. Local government expenditures declined in many countries. This change has been attributed to "some combination of the aftermath of the oil crises, a weak world economy, the debt crises, high rates of inflation, and the low buoyancy of local government revenues" (Bahl and Linn, 1992:16). The last item cited, e.g. low buoyancy, is to be taken as one of the most significant issues since various factors which determine the level and buoyancy of the local revenues are outside the control of the local governments.

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Shortfalls in total revenues led local government budgets into deficit. Many local governments reacted by diversifying their revenue sources by cutting back on services, by increased reliance on user charges, by laying off workers and by the privatization of municipal assets. Although systems of local finance differ, most of the local units are becoming more similar in requiring increased dependence on locally raised revenues. Similar "solutions" were advised by international aid and/or credit agencies universally (World Bank,1992; Savas, 1994; Temple, 1996). This is understandable since the demise of the Soviet Union and accompanying developments left the ideological arena to market oriented, conservative, neo-liberal views without any serious competition.

The latest statistics suggest, however, that the above mentioned trend seem to revert. Both the total receipts and gross outputs of local governments (See Table 1) have recovered in the last decade. In short, though simple comparisons of subnational expenditure shares among different countries vary depending on the governmental system they adopt, for most of the countries, ups and downs of the national and world economy did not seem to have prolonged adverse effects on the share of the local government expenditures.

**Table 1**

**Percentage of the Gross Outputs of "Local Governments" to "Total General Government" in Selected Countries**

<b>Country</b>	<b>1980</b>	<b>1985</b>	<b>1990</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>
United Kingdom	41.89	42.17	42.28	42.46	42.49	41.60	41.47
Japan	65.33	62.96	63.09	63.35	63.13	n.a	n.a
France	22.86	25.13	28.12	28.88	29.08	29.00	29.50
Norway	60.84	61.74	60.83	70.31	n.a	n.a	n.a
Netherlands	50.85	53.35	51.95	51.99	51.99	52.37	51.74
Italy	42.09	43.22	43.16	44.67	43.56	43.30	49.47

Source: Calculated from United Nations: National Accounts Statistics, related censi.

Due to rising expenditures local government units must cope with, the existing revenue structures or the present structures must be reorganized to meet the increasing demand. This, however, is easier to say than to implement. It is believed that this is the right time for local governments to learn from one another concerning the financial structure, sources of revenues and the ways and means of more just and efficient distribution to save their constituencies from the detrimental effects of the neo-liberal policies. Our aim in this study is to contribute to such an effort by presenting and evaluating the financial structure of the local governments in Turkey.

**Local Governments in Turkey**

Turkey has a unitary system of government in which constitutionally all power derives from the central government. Article 123 of the Constitution states that " The administration forms a

whole with regard to its structure and functions... The organization and functions of the administration are based on the principles of centralization and deconcentration". Article 127 defines the local administrations which reads " Local administrative bodies are public corporate entities established to meet the common local needs of the inhabitants of provinces, municipal districts and villages, whose decision-making organs are elected by the electorate described in law..." Within this legal framework three types of local governments can be distinguished: Provincial self-government, Municipalities and Villages. This study will limit itself to the financial issues of the municipalities that can be regarded as the basic unit of the local governments in Turkey. All settlements with population over 2000 may apply for municipality status. Therefore, as for 1997, 3215 municipalities range in size from villages of 2000 inhabitants to metropolitan cities the size of Istanbul (over 9.000.000 inhabitants) each having rather different expectations and prospects. In 1980's, in 1980's, as a panacea to this problem, two-tiered municipal governments, namely Greater City and District Municipalities were established (Law 3030) in metropolitan cities.

As mentioned above, the Turkish administrative system evinces a strong centralist structure. Although some steps are taken towards decentralization, her centuries-long tradition of centralized authority still prevails. As Heper points out, " The Ottoman- Turkish polity did not have a tradition of self-government. In the Ottoman polity the periphery was totally subdued by the center" (Heper,1989:3).

Following the foundation of the Republic in 1923, the local administration system was reorganized in tune with the French centralist system. In 1930 the Municipalities Law (1580) delineated the duties and responsibilities of the local administrations in detail. This code with its rather comprehensive content still remains the basic legislation on municipalities. Although several legal amendments are made related to local administration system in the early Republican period, tutelage relations between the center and the local governments are kept intact. Local governments were regarded as extension and agents of the central government to promulgate the new ideas, norms and the ideology of the Kemalist revolution.

The post W.W 2 era witnessed a major transformation related to the settlement pattern of the country. An influx of rural migrants to urban areas resulted in the dramatic increase in the number of people living in urban areas. The proportion of the urban (population living in province and district centers) to rural population jumped from 24.4 to 58.4 percent between the years of 1940 and 1990 (Keleş,1990: 26. See also Keleş, 1987) and raised to 65.03 percent between 1990 and 1997.

As Göymen indicated "These trends in economic development and urbanization made their impact upon the local political scene. By the 1970's, the mayors of the major cities had begun to acquire considerable power and influence and they held direct links with the major political parties. It was on this power base that new concepts of local administration began to emerge" (Göymen,1982:139). Among such new concepts were "the need for a healthy financial base with local taxation powers" and "economically productive local administrative units". Following 1980 coup d'état some significant changes were made by the military and the subsequent liberal Anavatan (Motherland) Party in the legislation concerning the local governments. Some centrally controlled powers - town planning, traffic management, etc.- have been decentralized and the local revenues increased ( For a critical view see, Ersoy, 1992). The political power of the mayors -particularly of the greater cities- which was decreased during the first half of the 1980's, resumed in the second half thanks both to the end of military rule and the ratification of the new

legislation which increased the financial sources and the power of the Greater City Municipalities. Several ex-mayors were elected as MPs and party leaders in this period.

Today about 65 % of Turkey's population (approximately 63.000.000) live in urban areas while 67 % of the municipalities have less than 5.000 inhabitants, 61 municipalities have population between 100.000-250.000, 5 cities have more than 1.000.000 inhabitants. 15 of the most populated cities are called metropolitan cities. (See Table 2).

**Table 2**

**Municipalities By Population in Turkey**

Population Group	Number of Municipalities		Percentage	
	1990	1997	1990	1997
Less Than 5.000	1804	2164	66.64	67.31
5.001-10.000	387	450	14.30	14.00
10.001-50.000	339	406	12.52	12.63
50.001-100.000	57	85	2.11	2.64
100.001-200.000	22	39	0.81	1.21
Above 200.001	98	71	3.62	2.21
Total	2707	3215	100.00	100.00
Country Municipalities	77	77	-	-
Greater City Municipalities	15	15	-	-

Source: For 1990 figures, Özhan,1995; For 1997 figures, İçişleri Bakanlığı, 1999.

**Municipal Revenues in Turkey**

Following this brief historical outlook we would like to analyze the current financial configuration of the Turkish municipalities by studying their revenue structures. Related statistical values are obtained from two sources. One is the data on final accounts of municipalities in Turkey compiled by the State Institute of Statistics (S.I.S) which is comprehensive and covers all the municipalities in the country. However, it has one significant shortcoming: almost 50 different revenue items of the final accounts are summarized in 14 items in the published material by the S.I.S. which curtails the possibility of a detailed analysis of the revenue structure nationwide. Therefore, the author has conducted a study supported by METU which aimed at comparing the comprehensive data for the revenues of 90 municipalities (over 3 percent of the total municipalities) in 1993 and 1995. A complete list of municipalities by population and different regions are enumerated from which a stratified, multi-stage random sample of 91 municipalities are selected. Hence, it is expected that this random selection will

represent the municipalities with both the various sizes and different geographical locations (List of the municipalities surveyed is given in the appendix).

The years of 1993 and 1995 have been selected purposefully. Assessment of the value of real estate tax is made every 4 years and the revenue decreases significantly in the following years due to the high inflation rate. The years of 1993 and 1995 represent the lowest and the highest real receipts collected from real estate tax, respectively. The comparison of the two years will show the detrimental effect of high inflation on this revenue item. Secondly, a new and yearly assessed tax on environmental sanitation is levied from 1994 onwards. Its positive effects are expected to be traced in 1995 municipal tax revenues. Finally, higher and lower limits of the user charges are specified by the Government decrees and the municipalities are not allowed to change the rates. The latest year of assessment is 1992. Hence, the comparison of the data for 1993 and 1995 will indicate the harmful consequences of the high rate of inflation.

Insufficient financial sources or lack of funds was one of the major issues of complaint by the local administrators during the 1970's. The new legislation on the municipal revenues and the greater city municipalities (Laws No: 2464 and 3030) resulted in the augmentation of the local government revenues. As Keleş pointed out "as a consequence of the new law, between 1980 and 1984, the budget revenues of the municipalities coming from...[national budget] increased almost threefold" (Keleş, 1986: 40). Concerning this increase in financial sources Esmer comments that " Indeed it is now generally agreed that municipal governments in Turkey have no grounds for complaining about lack of funds and one occasionally even hears arguments that perhaps too much power and resources have been granted to them" (Esmer,1989:50)

Table 3 gives the increase in revenues during the last decade and a half.

**Table 3 Change in the Municipal Revenues (1980-1995)**

Years		1980	1983	1985	1987	1989	1991	1993	1995
Urban Population (000)		25525	27474	31223	32588	34034	37912	39208	40548
Total Revenues (Current Pr.) 000000TL	Municip.	52172	150649	547428	1622107	3567517	11544344	48569090	168632823
Total Revenues(at 1987 Prod.'s Pr.) 000 000TL		500467	619324	990929	1622107	1278679	1746497	2860370	2387214
Increase in Total Revenues (1980=100)		100	123,7	198,0	324,1	255,5	248,9	571,5	477,0
Total Revenues (In 1000 US Dollars)		700668	672451	1056117	1895671	1682172	2768527	4421015	3651404
Rate of Increase In US Dollars 1980=100		100	95,9	150,7	270,5	240,1	395,1	630,9	521,1
Per Capita Total Rev. in Municip. 000 TL		2,0	5,5	17,5	49,8	104,8	304,5	1238,7	4158,8

Per Capita Rev. in 1987 Prices 000 TL	19,6	22,5	31,7	49,8	35,2	40,7	60,5	58.9
Per Cap. Rev. In US Dollars	27,4	24,5	33,8	58,2	49,4	73,0	112,7	90.05
Mun. Rev. % of GDP	0.9	1.08	1.55	2.17	1.57	1.83	2.45	2.17
Mun.Revues % of Nat. Tax Revenues	7	8	14	18	14	15	18	
% of the Cent. Gov. Payments in Total Rev.	n.a	43	53	46	53	56	49	53
% of the Local Resour. in Total Rev.		57	47	54	47	44	51	47
% of the "Municipal Taxes" in Total Rev.		13	8	12	10	8	5	10
% of the "Rev. Other than Taxes " in Total Rev.		34	32	38	31	33	43	34
% of the "Mun. Charges" in Total Rev.		10	7	4	5	3	3	3

Source: Calculated by the data given in State Institute of Statistics.

As seen from the Table municipal revenues grew by 4.77 times in real terms between the years 1980 and 1995. Increase in US Dollars is even more pronounced; 5.21 times between the same years. Per capita municipal revenues followed suit. In 1987 prices per capita revenues increased from 19.600 TL to 58.900 TL, e.g. 3 times in real terms. Again the increase in US dollars is even higher; from \$ 27.4 to \$ 90.05 (3.3 times) per capita. Higher percentage of the GDP is devoted to municipalities in the same period. Total municipal revenues which accounted for less than 1 percent of the GDP in 1980, rose to almost 2.17 percent in 1995. In other words, while the population living in urban areas increased 60 percent between 1980 and 1995, municipal revenues increased 140 percent in real terms during the same period which indicates the existence of net transfers nationwide to the benefit of urban dwellers. Similarly, revenues of municipalities as a percentage of national tax revenues increased from 7% to 18% between 1980 to 1993.

As with various countries, revenues of municipalities in Turkey stem from two sources namely, local resources and transfers from central government. We shall consider them in order.

#### *1) Local Resources*

Under this heading we have municipal taxes, fees, user charges and other sources.

## Municipal Taxes

Most of the public services in local units are provided by local taxes, structure of which varies among different countries. Anglo-Saxon countries rely primarily on property taxes, Scandinavian countries prefer taxes on income and profits, many countries impose taxes on consumption (Mills, 1987). In the Turkish system local taxes include;

- a) Real Estate Tax: It is levied on the capital value of land and improvements. 0.1 % of the declared value of residential buildings, 0.2 % of non-residential ones and 0.3 % of the urban land are collected by the municipalities as real estate tax. Assessment of the value is made in every 4 years. Despite its deficiencies until 1998 which will be discussed in later parts of the article, Real Estate Tax makes 52, 49 and 31% of the total municipal taxes in 1991, 1993 and 1995, respectively. In our sample, these values are found to be 35 and 30 percent for 1993 and 1995, respectively. Furthermore, these mean values are distributed rather unevenly among geographic regions. There seems to be a clear positive correlation between the income level of the region and the percentage of the real estate tax in municipal revenues both for 1993 and 1995 values. On the other hand, almost no relationship is found between the size of the settlement and the percentage of real estate tax in municipal revenues.

Urban property tax which is the single most important local government revenue source for most of the OECD countries, became a very unproductive and inefficient one until 1998 in Turkey since the total revenue decreased significantly following the assessment year due to high inflation rate. The share of the real estate tax in the general budget tax revenues which goes up to 9% in UK and U.S.A (Mills,1987:1191) accounted for 0.5 to 3.2 percent of total revenues of the municipalities in Turkey between 1988 and 1995. In other words, urban property tax played a rather insignificant role in financing the urban expenditures. Statistics show that in various European countries much higher percentages of the total expenditures of the municipalities are financed from property taxation. What Bahl and Linn concluded for developing countries in general is valid for the Turkish case, too. It reads: "the property tax is neither an important nor a growing component of aggregate revenue mobilization in developing countries" (Bahl and Linn, 1992:80). In Turkey, the detrimental effect of inflation made the already inefficient taxation even worse until 1998 amendments in the Law. The percentage of the real estate tax revenues to total municipal revenues was 1.5 percent in 1993, the last year of 4-year assessment period. It rose almost fivefold to 6.9 percent in 1994, the beginning year of next period. Thank to the 1998 amendment made in the Real Estate Tax assessed value of the immovables will be readjusted yearly to eliminate the detrimental effects of the inflation. Although we do not have the final account figures yet, it is certain that both its real contribution and the share in municipal taxes will be effected rather positively.

- b) Advertisement Tax: All the advertisement boards, billboards and labels are subject to tax. The rate is calculated according to the size of the billboard. Radio and TV ads are exempted from this tax. Sample findings show that the advertisement tax revenue made up, on the average, 9.5 and 5.3 percent of municipal taxes in 1993 and 1995, respectively. In 1993 it was the fourth significant income resource in municipal taxes. In 1995, however, it was ranked only sixth. Findings suggest, for understandable reasons, that the share of the advertisement tax in maniple taxes is highest in cities over 250000 inhabitants and lowest in the category of less than 5000 inhabitants.

- c) Entertainment Tax: Municipalities levy taxes on various forms of entertainment. Up to 25 percent of the ticket price or of the revenue is paid as tax to the related municipality. Its share in the total municipal tax revenues is calculated to be 2 and 2.1 percent in 1993 and 1995, respectively. It rose up to four times for the cities located in resort areas, while it is almost nil in low income regions. The ratio is lowest in small towns with less than 5000 inhabitants, while the highest ratio is realized in metropolitan cities.
- d) Communications Tax: At the end of each month 1 % of the revenue generated by PTT ( Administration of postage, telegraph and telephone) offices within the municipal boundaries are paid as local tax to municipalities. Our findings show that it was the third important source of revenue among municipal taxes with the share of 13.7 percent of total municipal taxes in 1993. Its' share shrank to 8.1 and its rank fell to fifth in 1995. Percentagewise, settlements in low income regions contribute highest, while the ratio is lowest in the highest income region of the country.
- e) Tax on Consumption of Electricity and Gas: Consumption of electricity and gas within the boundaries of the municipality are subject to taxation. 5 % of the sale price is paid to the related municipality. Tax placed on consumption of electricity and gas makes the second most significant revenue source in municipal taxes. It is calculated that 29.2 and 22.1 percent of the municipal taxes were generated from this tax in 1993 and 1995, respectively. Per capita GDP and climatical conditions of the region seem to be two most significant determinants of the level of taxation.
- f) Fire Insurance Tax: 10% of the fire insurance fee is paid to municipalities by insurance firms. Calculated shares of fire insurance tax in municipal tax revenues was 4.2 and 3.6 percent in 1993 and 1995, respectively. It is interesting that in a country like Turkey where the insurance firms are not well developed relative to their peers in the West, revenue gained by fire insurance tax is not negligible. The increase in the number of houses insured will bring significant positive effect on the municipal revenues. Data shows that the revenue from this item, percentagewise, is significantly higher in metropolitan cities and lowest in small settlements. Municipalities in the Aegean region, compared to the municipalities in other regions, gain their highest percentage of revenue from fire insurance tax. It may be due to the historical reasons; since Aegean is the region which has experienced significant fire disasters throughout history.
- g) Environmental sanitation Tax: This tax was levied in 1994 and is paid yearly by the house owners directly to the municipality for collection and disposition of solid waste. The annual rate is declared by the related municipality yearly. Hence, it is immune from the adverse effects of inflation. In 1995, it accounted for 36 percent of the total municipal taxes. Interestingly, the share of environmental sanitation tax in total municipal taxes does not vary significantly neither for regions nor for the size of the settlements. Together with real estate tax it made 2/3 of the income gained from municipal taxes.

The lower and higher limits of the rates in advolerem taxes are specified in laws. Municipalities are not allowed to change the determined limits. However, the basic problem related to local taxes derives from their vulnerability to high inflation rates which is around 70-80 % yearly. As seen in Table 3, the percentage of municipal taxes in total municipal revenues reached its peak (13 percent) in 1983. Lowest figure is 5 percent for 1993. Detrimental effects of high inflation can be traced from the same Table. As mentioned above, the years of 1993 and 1995 represent



the lowest and the highest real receipts collected from the real estate tax, respectively. Coupled with the newly introduced environmental sanitation tax their positive effect on the ratio of the municipal taxes in total revenues can easily be traced in our findings; while the wholesale price index increased 4.16 times between 1993 and 1995, in the same period, total municipal revenues and municipal tax revenues rose 3.52 and 8.45 times, respectively. In other words, while the total municipal revenues could not cope with the inflation rate, municipal tax revenues doubled in real terms.

The study shows that most of the local taxes left to the administration of the local governments are inefficient. Sometimes municipalities refrain from collecting some local taxes by claiming that the cost of administering is higher than the expected revenue.

The following can be suggested for an effective municipal taxation: a) to reduce the number of taxes and make them more efficient -as in the case of environmental sanitation tax-, b) to centralize the information data on taxpayers by means of new information technologies to prevent tax evasions and decentralize only tax collection, c) to develop methods to lower the cost of administering the taxes, and d) to reform the sanctions in the law of procedure by augmenting the fines for tax evasions. In short, rather than having a taxation model with numerous ineffective and inefficient taxes, it is wise and effective to impose a limited number of taxes and make them as significant revenue source. Such a system will also help to prevent the tax evasions, too.

#### User Charges

User charges are paid by the urban residents in exchange for the provision and use of urban public services. People who do not consume and therefore do not receive the benefits of the related services do not pay for these charges. Charges are service specific. The share of the charges in the local governments budgets varies widely from one country or city to another, "but in many places service-related charges have contributed significantly to the level and growth of revenues of urban government" (Bahl, Linn,1992:239). Wide diversity of the level of charges between countries "suggests that political reasons, not technical constraints, account for the relative importance of user charges" (Mills,1987:1185). Particularly in 1980's decrease in various revenue items have been attempted to be overcome by the local governments through users charges, hence their share in total revenues increased significantly (see Morgan and Panner, 1988; Share,1987).

As seen from the Table 3, in Turkey user charges do not constitute an important part of the municipal revenues. Furthermore, their share in total revenues decreased from 10 to 3 percent between 1983 and 1995. User charges comprises the provision and use of the following services; Occupancy of the public places (including parking places), work license on holidays (for the workplaces), bottling of spring water, brokerage charge, inspection and control of slaughtering of livestock, examination of measurement equipment, and urban development issues. Besides these services under the heading of "various charges" we have registration fee, building and construction fees, fee for newly opened workplaces, license fee and health certificate fees. As seen from the above list most of the services such as solid waste collection and disposal, telephone service, water supply, fire insurance, electricity and gas consumption etc. have been classified as the subjects of municipal taxes rather than the user charges. Our findings show that revenue generated from the "occupancy of the public places" -including autoparks- is the most significant municipal charge item which accounted for 37 and 42 percent of the total revenue of municipal charges in 1993 and 1995, respectively. Revenues gained from charges related to

construction permits (20 %) and brokerage charge (almost 10 %) occupy the second and third ranks. Those three items of municipal charges together make up 67 and 75 percent of the total revenues generated by municipal charges in 1993 and 1995, respectively. The number of inhabitants and the regions, where the randomly selected municipalities are located, seem to have no serious effect on the revenues generated from different items of the municipal charges. A similar conclusion is arrived at related to the association between the per capita municipal revenue and GDP in the studied settlements and the revenue of municipal charges.

Insignificant contribution of the charges in total municipal revenues in Turkey may partly be due to this system of classification. In addition to that municipalities are not free to set the charges as they wish. Upper and lower limits of the amount to be charged are declared by the Cabinet. The upper and lower level of the charges determined by government decree becomes obsolete in a few years due to high inflation rates. However, there is no such limitation for the fees. In other words, services similar to charges may be provided by local governments under the title of "fees" and their prices may be determined by them. In such reorganization enactment of no new law is needed except the consent of the central government. We would suggest that the ratio of municipal charges, as being a suitable tool for ensuring efficient use and equitable financing of public services, in total municipal revenues should not be permitted to be less than 10 percent level as in 1983.

#### Revenues Other Than Taxes

Under this heading revenues made from "contributions to capital investments on urban infrastructure", "revenues earned by institutions and enterprises managed by municipalities", "rents and profits accrued from the rent or sale of immobile and mobile municipal goods", "wages for different services", "fines" and "other revenues" are included.

Percentage of the revenues raised under this heading make around 1/3 of the total revenues between the years 1983-1995 with the exception of 1993. In 1993 this percentage rose to 43% of the total municipal revenues in Turkey. As mentioned above, some of the items included in this category are in fact user charges. The most prominent of them is the contribution to infrastructure investments which made 4.9 and 3.8 percent of the earnings in "revenues other than taxes" category, in 1993 and 1995 respectively. According to the Article 89 of the Law No:2464, charges from the beneficiaries of the infrastructure investment cannot exceed 2% of the real estate tax. This restriction sets an upper limit to the prospective earnings to be raised in this item.

Revenues of institutions and enterprises managed by municipalities and the rents and profits accrued from immobile and mobile municipal goods made up 30% and 49% of the total earnings in this category in 1993 and 1995, respectively. Earnings from the sale of municipal immovables made a rather significant income source; our findings show that around 15 percent of the earnings in the "revenues other than taxes" category are generated from this item.

Within the "revenues other than taxes" category, the last item, namely "other revenues" in itself includes 9 different and rather insignificant, except one sub-item; internal debts. Though they seem to be part of the local government's revenues, they in fact represent the money to be paid back with interest in the coming years. "Other revenues" which constitute 31% of the revenues in this category in 1995 was as high as 58% in 1993 which indicates the insufficiency of the municipal revenues to meet the expenses.

In sum, it may be argued that internal debts and the income raised by the sale of municipal immovables constitute not less than half of the revenues in the category of "revenues other than taxes". Our findings show that the revenue from different items of this category show no clear pattern in years. For instance, share of the profits accrued from municipalities enterprises in total revenues in this category decreased sharply from 31 percent in 1993 to 7 percent in 1995. Distribution of the revenues of different items in this category among the municipalities according to population, region and GDP per capita seem to have no significant relation either.

As would be expected, our sample shows that there is a strong positive association between the municipal revenues and GDP of the settlements (Multiple R: 0.99, R Square: 0.99). However, the share of municipal revenues per person in GDP per capita in respective localities exhibits a rather different picture. Firstly, our findings show that overall ratio of the total municipal revenues per capita to GDP per capita in sample cities was 5.97 and 4.03 percent in 1993 and 1995, respectively. The ratios diminish to 2.61 and 1.75 for respective years when transfers from the central government are excluded. In other words, within the municipal borders only - approximately- 2 percent of the per capita income earned is paid by the inhabitants for the local budget.

Second point to be emphasized is the unequal distribution of this share. The ratio of the per capita municipal revenues to per capita GDP in the lowest income regions is almost four times higher than the highest income region of the country both for the years of 1993 and 1995. Furthermore, the data shows that the people living in small settlements with less than 5000 inhabitants, pay more, relative to their income, as municipal revenue when compared with settlements in other population groups. People living in cities having more than 250000 inhabitants pay more than 5 times less relative to their income when compared with their peers in small towns. These findings contradict with Bahl and Linn's (1992) assertion that as development proceeds, municipalities tend to tax a greater share of GDP, thus permitting greater municipal spending. At least for the Turkish case, the survey data suggests that the share of income paid as municipal taxes is lowest for the people living in metropolitan cities of the most developed region of the country, compared with the rest of the urban population of the country.

## *2) Transfers From Central Government*

Grants are financed by the revenues of the general budget which is raised centrally and distributed among local governments. They include all transfers - grants-in-aid, conditional grants, grants to reimburse costs, shared taxes, loans, etc- between governmental units. "Grants now account for more than 40% of local governments' revenues in a number of countries, such as Denmark, France, the Netherlands, the UK., and Japan" (Mills, 1987:1195). Although the reliance on grants as a main source of financing local governments expenditures show great diversity among developing countries (see Bahl and Linn, 1992: 430-431), we may safely argue that in most of the developed countries (see Table 4) unless some national taxes are collected by local units, transfers from higher government units constitutes the single most important source of revenue.

The prolonged recession of the seventies and early eighties gave way to reduction in the central (or federal) government grants. In US, for instance, federal aid which greatly increased after W.W. II, "declined about 25 per cent in real dollars by 1990s" (Burns et. al. 1993:257). Similarly in G. Britain the ratio of central government grants in local authorities' current income fell from 60.1 per cent in 1973 to 55.9 in 1988, respectively. "The reduction in the proportional importance of government grants to local authorities accompanied a general attempt by

governments in the 1970s and 1980s to reduce public expenditure. The reduction was intended not only to save central government expenditure but also to put pressure on local authorities to curb their own spending" Hampton (1991: 107). However, the sharp reductions experienced in most of the countries in 1980's, recovered in 1990's. As seen in Table 4, in almost all of the countries selected, 1993 ratios of "transfers from other government subsectors" to "local governments" were higher than the data for 1970.

**Table 4**

**Percentage of "Transfers From Other Government Subsectors" to "Total Receipts" of Local Governments**

<b>Country</b>	<b>1970</b>	<b>1980</b>	<b>1985</b>	<b>1990</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>
United States	20.22	36.93	26.31	24.93	27.34	28.81	29.68	n.a
United Kingdom	48.15	52.42	53.21	66.43	77.62	79.28	79.20	78.68
Japan	40.79	43.78	39.14	38.04	37.76	39.65	n.a	41.87
Netherlands	n.a	76.08	78.36	73.67	73.56	73.88	73.33	74.69
France	43.29	43.30	35.76	36.69	37.57	37.88	37.23	37.02
Sweden	26.75	32.60	30.82	27.48	25.20	22.72	24.76	22.85
Italy	43.38	82.63	79.32	74.38	75.03	72.74	66.56	64.63
Greece	38.00	56.00	67.09	77.12	76.35	75.75	60.17	66.11

Source: United Nations: National Accounts Statistics, related censi.

Turkey is not an exception. Grants from the central government make almost half of the total municipal revenues over several years. The share of the total transfers from the central government increased steadily from 1960's onwards. While in 1962, for instance, only 30.9 percent of the total municipal revenues nationwide transferred from the central government (Gözübüyük, 1967: 67) it rose to 43 percent in 1983. As seen from Table 3 percent of the revenue sharing continued to increase from this level to over 50 percent after 1989. In other words, transfers from the central government constitutes the major single source of revenue for municipalities.

Types of intergovernmental transfers show great variety depending on the method of allocating the divisible pool among eligible units and the method of determining the total divisible pool (See Hirsch,1971 and Bahl and Linn, 1992). The current practice of transfers from central to local governments in Turkey employs almost all categories except reimbursement of costs. However, the most important single type is direct transfer from the central government which is based on a share of national tax revenues. From 1981 onwards, shared taxes on several revenue

items are pooled together and currently 6 percent of national tax revenue collections are redistributed amongst municipalities on the basis of population. Metropolitan cities additionally receive 5 % of the tax revenues collected in the province they are located. These two items made up 69 and 72 percent of the total transfers from the central government in 1990 and 1991, respectively.

Another tax revenue distributed among municipalities according to their population is Fuel Consumption Tax. Of the total amount collected (9 % of the sales value) 48.2 % is transferred to a special fund of which 6% is distributed to municipalities. Furthermore, 3 percent of the national tax revenues are deposited in Iller Bank (Bank of Provinces), an intermediary financial and technical organization serving to local governments, under the name of the Fund for Municipalities. This fund is used basically to finance the infrastructure needs of the municipalities. However, in the years of depression a significant portion of this resource is transferred to the Treasury. Finally 0.25 % of the national tax revenues are transferred to the Fund for Local Governments which is controlled by both the Ministry of Public Works and Resettlement and the Ministry of Internal Affairs.

In addition to the above mentioned grants, there exists diversity of centrally controlled specific or conditional grants transferred from several ministries. They are distributed among municipalities either on ad hoc basis or on project basis. The amount distributed via such means is rather limited and mostly allocated according to municipalities' affiliation to the political party/parties in power. Finally, municipalities are entitled to take loans at rather low interest rates on project base for capital goods from different ministries and Iller Bank.

### **Concluding Remarks**

This paper tried to provide an overview of the present structure of and the problems encountered by municipalities in Turkey. Although birth rate is diminishing nationwide, still high rates of urbanization coupled with relatively low level of development contribute to cronical 'fiscal stress' and 'fiscal strain' in urban settlements. This paper dealt with the revenue structure rather than the expenditure pattern and its development.

The study of municipal taxes and charges show that the Turkish system contains various rather inefficient taxes and charges. Data indicates that one or two efficient taxes or charges make up half to two third of the total revenues of the respective categories. The elimination of various municipal taxes and charges will not have a strong adverse effect on the total earnings in the present structure of municipal taxes and charges. However, to make these taxes and charges sensitive to inflation will ameliorate the situation great deal. Increases in the share of revenues other than taxes in local resources in recent years indicate an alarming development since the propondering items in this category have been the loans and the sale of municipalities' immovables. The municipal tax system must be reformed in the lines of simplification, effectiveness and efficiency as suggested above in the paper.

The findings of the study ascertained the uneven distribution of the citizens' already too limited contribution to the municipalities' revenues. Contrary to what is expected, people living in low income, low service-level regions pay a higher share of their personal income than their peers in high income regions. The equalization effect of the transfers from central government does not work properly. A significant amount of such transfers is distributed among municipalities solely on the basis of population.

Although the author is aware of the fact that even the best designed system of transfers from the central to local governments has advantages and disadvantages and “the academic search for an optimal grant structure is likely to be no more fruitful than the search for an optimal structure of local government” (Bahl and Linn (1992: 429) a model which is sensitive to the level of development of the settlements should be developed to alleviate the strongly uneven development amongst different cities.

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## Appendix

### Municipalities Surveyed in the Research

	Municipality	Province	District	Population (1990)	Populatio n (1997)	GDP /Per Capita 1995 ( in TL)
1	<b>Bursa</b>	Bursa	Büyük Şehir	834576	1066559	186924388,9
2	<b>Gaziantep</b>	G.Antep	Büyük Şehir	603434	712800	123065498,7
3	<b>Diyarbakır</b>	D.Bakır	Büyük Şehir	373810	511640	87659649,86
4	<b>Konya</b>	Konya	Büyük Şehir	513346	623333	176884492,4
5	<b>Samsun</b>	Samsun	Büyük Şehir	302164	338387	114807358,3
6	<b>Denizli</b>	Denizli	Merkez	206020	233651	161130715,1
7	<b>K.Maraş</b>	K.Maraş	Merkez	228129	303594	87677007,49
8	<b>Sivas</b>	Sivas	Merkez	223115	232352	85315057,16
9	<b>Van</b>	Van	Merkez	153111	226965	67367143,96
10	<b>Ş.Urfa</b>	Ş.Urfa	Merkez	266528	410762	56534395,08
11	<b>Eskişehir</b>	Eskişehir	Büyük Şehir	413082	454536	139279852,4
12	<b>Çorum</b>	Çorum	Merkez	116810	147112	139592576,9
13	<b>Balıkesir</b>	Balıkesir	Merkez	170589	189987	120123406,5
14	<b>Aksaray</b>	Aksaray	Merkez	90698	101187	78358978,43
15	<b>Trabzon</b>	Trabzon	Merkez	143941	182552	156424489,2
16	<b>Isparta</b>	Isparta	Merkez	112117	134271	140518790,5



17	<b>Burdur</b>	Burdur	Merkez	56432	60693	132768538,4
18	<b>Amasya</b>	Amasya	Merkez	57087	70172	124631182,6
19	<b>Ađrı</b>	Ađrı	Merkez	58038	69384	56079376,28
20	<b>Karaman</b>	Karaman	Merkez	76525	104154	180855777,2
21	<b>Kars</b>	Kars	Merkez	78455	93038	56144077,04
22	<b>Eređli</b>	Konya	Eređli	74283	77816	190381266,7
23	<b>Akşehir</b>	Konya	Akşehir	51746	56031	78007377,8
24	<b>Akhisar</b>	Manisa	Akhisar	73944	77380	77788944,95
25	<b>Niđde</b>	Niđde	Merkez	55035	58958	133937910,8
26	<b>Siirt</b>	Siirt	Merkez	68320	107067	70502021,92
27	<b>Bitlis</b>	Bitlis	Merkez	38130	51927	58109956,98
28	<b>Gümüřhane</b>	Gümüřhane	Merkez	26014	22775	56800539,89
29	<b>Kestel</b>	Bursa	Kestel	15239	18338	152033597,5
30	<b>Bartın</b>	Bartın	Merkez	31974	34314	51013652,97
31	<b>Edremit</b>	Balıkesir	Edremit	35486	39124	143440089,4
32	<b>Kuřadası</b>	Aydın	Kuřadası	31911	40754	281412951,2
33	<b>Artvin</b>	Artvin	Merkez	20306	21014	172324396,8
34	<b>Erdemli</b>	Içel	Erdemli	30042	32707	123584867,5
35	<b>Muđla</b>	Muđla	Merkez	35605	40586	168839757,8
36	<b>Germencik</b>	Aydın	Germencik	12285	12598	216780050,7
37	<b>Arhavi</b>	Artvin	Arhavi	10048	10678	72185139,16

38	<b>Taşova</b>	Amasya	Taşova	10197	12079	37524750,64
39	<b>Ürgüp</b>	Nevşehir	Ürgüp	11040	12465	122136345,7
40	<b>Bor</b>	Nigde	Bor	24556	26984	73890163,79
41	<b>Yenisööz</b>	Bursa	Orhangazi	2014	2094	232567533,3
42	<b>Güce</b>	Giresun	Güce	2890	2723	19586265,44
43	<b>Torul</b>	Gümüşhane	Torul	4057	3964	43250652,42
44	<b>Meekli</b>	Iğdır	Merkez	3563	3507	45001828,46
45	<b>İslamköy</b>	Isparta	Atabey	1657	1661	67552046,33
46	<b>Günyüzü</b>	Eskişehir	Günyüzü	3804	4235	38053816,65
47	<b>Hankendi</b>	Elazığ	Merkez	1543	1315	122808734,3
48	<b>Çamlıkaya</b>	Erzurum	Ispir	2007	1695	49736838,28
40	<b>Fevzipaşa</b>	Gaziantep	Islahiye	5273	5013	46076193,17
50	<b>Tirebolu</b>	Giresun	Tirebolu	13144	13641	60233628,49
51	<b>Hazro</b>	D.Bakir	Hazro	8048	9091	23517168,38
52	<b>Yatagan</b>	Mugla	Yatagan	11890	13121	241770702
53	<b>Igdir</b>	Igdir	Merkez	35858	40346	39367304,74
54	<b>Erimli</b>	Elazığ	Arıcı	2705	3028	23277263,59
55	<b>Gümüşsu</b>	Denizli	Çivril	2323	2723	103588591,1
56	<b>Tepecik</b>	Bursa	M.Kemalpaş	2423	2465	218847034,9
57	<b>Başaran</b>	Aydın	Kuyucak	1876	1932	101717185,1
58	<b>Şavşat</b>	Artvin	Şavşat	4850	4811	68020842,35

59	<b>Çıldır</b>	Ardahan	Çıldır	2119	1983	13473710,33
60	<b>Esençay</b>	Amasya	Taşova	2276	2363	42813912,09
61	<b>Hamur</b>	Ağrı	Hamur	3154	3228	21092702,35
62	<b>Samsat</b>	Adıyaman	Samsat	2458	2353	20812564,1
63	<b>Yayakent</b>	Izmir	Kınık	2427	2562	75738710,37
64	<b>Selim</b>	Kars	Selim	3957	3729	43263650,76
65	<b>Suadiye</b>	Kocaeli	Izmit	4577	4713	342046415,4
66	<b>Ören</b>	Muğla	Milas	1865	1679	175346555,7
67	<b>Aydınlr</b>	Siirt	Aydınlr	2789	2970	37297519,82
68	<b>Özalp</b>	Van	Özalp	4920	5379	28391868,15
69	<b>Çardak</b>	Denizli	Çardak	3733	2870	87236499,39
70	<b>Ulus</b>	Bartın	Ulus	2825	2731	34351139,44
71	<b>Sarıcakaya</b>	Eskişehir	Sarıcakaya	3672	4141	211814530,8
72	<b>Şamlı</b>	Balıkesir	Merkez	1294	1303	128869976,8
73	<b>Hilvan</b>	Ş.Urfa	Hilvan	14152	16318	19594158,22
74	<b>Bayat</b>	Çorum	Bayat	8090	9659	45303667,37
75	<b>Ardahan</b>	Ardahan	Merkez	16761	16681	43510352,39
76	<b>Sivrihisar</b>	Eskişehir	Sivrihisar	10490	10742	110392089,2
77	<b>Tavas</b>	Denizli	Tavas	11777	12150	62957472,46
78	<b>Elbistan</b>	K.Maraş	Elbistan	54741	58679	84343663,17
79	<b>Dağlıcı</b>	K.Maraş	Afşin	5003	6363	148642837,8

80	<b>Eğerci</b>	Zonguldak	Devrek	2393	2637	58187204,54
81	<b>Ezine</b>	Çanakkale	Ezine	11167	11617	188528278,6
82	<b>Çaykara</b>	Trabzon	Çaykara	2250	2399	37344680,78
83	<b>Gündoğdu</b>	Rize	Merkez	4699	4335	125669855,1
84	<b>İğneada</b>	Kırklareli	Demirköy	2497	2727	70324122,44
85	<b>Türkeli</b>	Sinop	Türkeli	4547	4767	48283595,92
86	<b>Adana</b>	Adana	Büyük Şehir	916150	1041509	228627070,3
87	<b>Karşıyaka</b>	Izmir	Karşıyaka	343360	375503	143403057
88	<b>Menemen</b>	Izmir	Menemen	29006	31713	125844042,3
89	<b>Dazkırı</b>	Afyon	Dazkırı	6677	7048	198087635,8
90	<b>Gölcük</b>	Kocaeli	Gölcük	64911	70858	58863233,88

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