

## REVIEW OF DECENTRALIZATION AND FISCAL AUTONOMY WITH FISCAL AND LEGAL ASPECTS IN TURKEY IN THE LAST YEARS

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### Abstract

The concept of decentralisation became one of the most discussed concepts in the literature, especially in political science and public finance in the post-2000 era with the globalisation process and the influence of international fiscal institutions. Many studies were made and literature was formed on the topic, based on the assumption that the transfer of fiscal authorities and responsibilities of the offering of public goods and services would create positive economic consequences particularly in developing countries.

In the post-2000 period, Turkey went into a reform process in the local administrations and made various administrative and legal regulations in this context. In this paper, the theoretic basis of the concept of fiscal decentralisation will be analysed and the progress of fiscal decentralisation in Turkey in the recent years. When talking about the post-2000 period in Turkey, this period can be divided in two. The first part is the one until the law no. 6360 in 2012 which can be called the decentralisation period. The main characteristic of the period after the law no. 6360 is the growing tendency of centralisation. This second period is called “the centralisation of the local” in various research articles.

In this paper, the decentralisation reform processes in Turkey will be analysed in detail in four aspects. In the first aspect, starting from the theoretical debates on the topic, the relationship between fiscal decentralisation and fiscal autonomy and the main arguments about the situation in Turkey will be summarized. In the second aspect, the dynamics of the decentralisation reform process will be discussed through a historical perspective and the fiscal decentralisation experience in the post-2000 period in Turkey will be examined. In conclusion, a general review will be made on the fiscal decentralisation process in Turkey.

**Keywords:** Fiscal Decentralisation, Fiscal Autonomy, Local Public Finance, Turkey

**JEL Code:** H71, H72, H77

### 1. Introduction

Decentralization was discussed widely in public finance literature. The main component of the decentralization, which means the delegation of taxing power and responsibility of spending and to lower levels, is fiscal decentralization. Transferring the authority of conducting public expenditures and collecting income to local governments has revived arguments about authorities of local governments. In the post-2000 period, Turkey went into a reform process in the local administrations and made various administrative and legal regulations in this context. In this paper, the theoretic basis of the concept of fiscal decentralisation will be analysed and the progress of fiscal decentralisation in Turkey in the recent years. When talking about the post-2000 period in Turkey, this period can be divided in two. The first part is the one until the law no. 6360 in 2012 which can be called the decentralisation period. The main characteristic of the period after the law no. 6360 is the growing tendency of centralisation. This second period is called “the centralisation of the local” in various research articles.

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## 2. The Concept Of Decentralisation And Theoretical Discussions

The concept of decentralisation refers to the transfer of the authorities and responsibilities concerning public services from the central administration to local administrations, private sector or non-governmental organizations. With decentralisation, public services or goods will be produced in local scale and public decisions will be made by local management. (Kovancilar et al, 2007 :93-94).

The most widely recognised definition for decentralisation for the developing countries in the literature was made by Rondinelli (Acar and Kitapçı, 2009: 86). According to Rondinelli, decentralisation is “...the transfer of responsibility for planning, management, and the raising and allocation of resources from the central government and its agencies to field units of government agencies, subordinate units or levels of government, semi-autonomous public authorities or corporations, area-wide, regional or functional authorities, or nongovernmental private or voluntary organizations...”. (Rondinelli, 1989: 58-59). The World Bank describes decentralisation in four different dimensions such as fiscal, political, administrative and market. (Crucq and Hemminga, 2007: 3). Political decentralisation is relevant for federal state structures where there are ethnic and cultural differences and it means that the authorities that pertain to the central administration are transferred to the local units. Administrative decentralisation is the distribution of the authorities, responsibilities and financial resources of the central government among different levels of the government for the provision of services. Unlike political decentralisation, administrative decentralisation can be seen in non-federal governments as well. Decentralisation in terms of market is the transfer of the authorities and responsibilities of the public to the private sector through privatisation and regulation.

Decentralisation was discussed in the public finance literature first by Tiebout (1956), Musgrave (1959) and Oates (1972) in terms of voters’ behaviour and provision of public services, and these studies laid an important groundwork for the thought of fiscal federalism. Oates changed the concept of public goods so as to include local public goods and argued with his decentralisation thesis that the provision of public goods different amounts in terms of pareto efficiency and locally as opposed to centrally will create more productive and efficient results (Oates, 1972:35). Decentralisation was analysed in the public finance literature starting from the 1990s within the frame of market failures.

The first and foremost stage of fiscal decentralisation is clearly apportioning decision-making, tasks and expenditure between the central government and the other lower units of management. The second stage is apportioning resources between the centre and the local in order to fulfil the provision of the public services (Yılmaz, Emil and Kerimoğlu, 2012: 52). The mechanism of resource allocation is gathered under three main titles; transfer of income, income allocation and transfers. Part of the income is transferred directly to local administrations whereas part of it is divided between the central administration and the local administrations due to certain rules and policies. Fiscal transfers have a compensatory function on the inequalities formed between administrations due to income sharings. Two criteria are used in the conventional measurement of fiscal decentralisation. The first is the ratio of the expenditure in the local unit in question (such as municipality, special provincial administration) to the total public expenditure in the province or region where that local unit is. The other criterion is the ratio of the income that is collected locally at a local unit to the public income that is collected at that province or region (Güzel, 2014: 55-56).

Fiscal autonomy is closely related to the concept of fiscal decentralisation. The minimum conditions concerning local fiscal autonomy are specified in the Article 9 of The European Charter of Local Self-Government which is the most important international reference text on decentralisation (Çam, 2015: 25). According to that, fiscal decentralisation includes two main elements that are expressed as expenditure and income responsibilities. Fiscal autonomy expands in regions where the expenditure of the local administrations within the general public expenditure, and the self-income level within the income of the local administrations increase.

The expenditure responsibility which is considered to be one of the fiscal criteria of local administrations is described as the control that the local administrations exercise on their budgets. The common criteria that is used on the measurement and evaluation of the spending power of local administrations is the ratio of the local expenditure within the total public expenditure (Bach, Blöchliger and Wallau, 2009: 3). The expenditure responsibility refers to the autonomy of decision of the local administrations over the spending policy due to the provision of their own public goods and services. The income responsibility is the right of local governments over their own resources. Fiscal autonomy is at the highest level when local governments determine the tax rates and the basis of tax whereas it is at the lowest level depending on special purpose fiscal transfers (Güzel, 2014: 60-61).

### 3. Decentralisation in Turkey

In Turkey, the sharing of tasks and responsibilities between administrations takes place between the central administration due to the unitary structure, as well as local administration units that have administrative and fiscal autonomy, and as part of the legal regulations in the recent years, there is an effort to fiscally strengthen local administrations. Nonetheless, due to historical, geographical and economic factors, an essentially centralist structure manifests itself.

**Table 1. Local Administration Expenditures (thousand TL)**

	2013	2014	2015	2016	2017	2018 (First 9 months)
Administrations attached to municipalities	11.537.832	13.635.014	17.958.472	20.966.714	24.823.300	19.236.473
Special Provincial Administration	14.973.608	6.844.171	7.571.107	7.882.697	9.266.959	8.410.730
Local Administrative unions	3.225.444	1.678.129	2.306.146	2.168.906	2.636.840	2.330.175
Metropolitan Municipalities	22.681.953	30.376.234	35.130.964	45.389.187	56.690.752	44.785.746
Provincial Municipality	7.078.819	4.358.653	5.153.172	6.364.938	8.089.462	6.822.697
District Municipality	30.480.918	28.971.669	34.489.640	39.658.165	47.381.358	39.473.721
Municipalities Total Expenditure	59.964.440	63.266.220	73.756.957	91.269.961	112.048.078	91.039.131

**Source:** Muhasebat ve Mali Kontrol Genel Müdürlüğü (2019), <https://muhasabat.hmb.gov.tr/mahalli-idareler-butce-istatistikleri>, (01.02.2019).

Depending on the 1982 constitution, metropolitan municipalities were formed in 1984 in Turkey and 16 metropolitan municipalities were founded until 2009. With the laws of local administration that were enacted in 2004 and 2005, new articles on strategic plan making and participation of city councils and NGOs in decision making processes were initiated and furthermore, the power of control of metropolitan municipalities over district municipalities were increased. With the law no. 6360 that was enacted in 2012, 30 metropolitan municipalities were formed, minor municipalities were removed and the borders of the district municipalities included the whole settlement (Başbakanlık, 2012). Likewise, the metropolitan municipalities started including all districts and their borders became the border of the whole metropolitan area. Thus, a quite central system of local administrations that did not need the minor municipalities was formed (Yentürk ve Karabacak, 2018: 173). According to Çam (2015), the fact that the central administration removes the provincial special administrations and minor municipalities within the limits of the metropolitan municipalities and controls 75 percent of the country's population is both problematic in terms of the democratic representation of the local and it reduces efficiency in terms of bringing service to remote regions (Çam, 2015: 44).

#### **4. Conclusion**

In Turkey, the division of duties and responsibilities between central and local authorities takes place within the unitary state system between the central state and local administration units. Within the scope of this paper, it is not possible to touch on the legal developments that affect the decentralisation process. But in summary, although there was an effort to strengthen the local administrations financially with the legislative regulations after 2002, the regulations after 2012 were in the direction of increasing centralisation. The magnitude of the expenditure of local administrations can be an indicator for decentralisation debates. Again, the share of self-income within the types of income of local administrations is an indication that is directly proportional with fiscal autonomy. Due to cultural, social and political factors, the administrative management of Turkey has a fundamentally centralist structure. The establishing of directorates of coordination of investment monitoring with the legislative regulation in 2012 can be considered a step towards centralisation. Again with the same law, 30 provinces were turned into metropolitan municipalities; as part of this, minor municipalities were removed; the borders of the district municipalities spread to the whole dwelling; metropolitan municipalities included all the districts in their borders; and their borders were extended as provincial borders. It can be argued that, with this regulation, there were losses in terms of local participation and representation, and that the implementation took place in the opposite direction of decentralisation.

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