TURKEY

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: TURKISH LIRA (TRY)

POPULATION AND GEOGRAPHY

Area: 780 043 km^2
Population: 79.037million inhabitants (2017), an increase of 1.6% per year (2010-2015)
Density: 101 inhabitants / km^2 (2017)
Urban population: 74.6% of national population (2017)
Urban population growth: 2.2% (2017 vs 2016)
Capital city: Ankara (6.7% of national population)

ECONOMIC DATA

GDP: 2 261.0 billion (current PPP international dollars), i.e. 28 607 dollars per capita (2017)
Real GDP growth: 7.4% (2017 vs 2016)
Unemployment rate: 10.8% (201)
Foreign direct investment, net inflows (FDI): 11 546 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 30.0% of GDP (2017)
HDI: 0.791 (high) rank 64 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Republic of Turkey is a presidential republic. Legislative power is vested in the Turkish Grand National Assembly, which comprises 600 deputies directly elected every five years through a system of proportional representation based on political parties. The Head of State is the President, elected by direct suffrage for five-year terms. This system has been in place since 2014, as a result of the 2007 referendum transferring to the people the Parliament's former prerogative of electing the president. A new major constitutional reform took place recently confirming the political transformation of the country. Following a constitutional referendum held on 16 April 2017, the country passed from a parliamentary representative system to an executive presidential system in 2018. With the new system, the powers of the Assembly were reduced, the Prime Ministry position was abolished, and all executive authority was transferred to the President including appointing a cabinet, regulating ministries, drafting the budget, etc. According to Article 123 of the Constitution, the Turkish administration is built upon the principles of both centralisation and decentralisation. It means that Turkey's administration has a unitary character: in terms of organisation and functions, central government bodies and decentralised entities form a whole. As a result, Turkey's administration at territorial level is based on both deconcentrated administrations and decentralised governments.

Several waves of reform have significantly modified territorial administration in recent years and provided SNGs with more powers. Between 2004 and 2005, a package of reforms was enacted, involving the restructuring of the Special Provincial Administrations - SPAs, the municipalities (granting additional responsibilities to them in the area of economic development and education infrastructure), the village administrations, the Local Government Unions and the Metropolitan Municipality. In particular, with the 2005 reform, the SPAs became self-governing entities and gained some powers. The Provincial Governor, who was appointed by the central government, is no longer the head of the SPAs, which now have their own council president. However, a dual decentralised/deconcentrated system remains in place, as provincial governors still have a major role as the head of the SPA's Executive Committee.

In 2008, there was both a territorial reform ("Scale Reform Act") and a local finance reform (Act no. 5779). In 2012, a new local government reform took place, modifying both the provincial and local levels and modifying the fiscal framework (Act no. 6360). With the 2012 metropolitan reform effective in 2014, the level of the 81 self-governing provincial administrations has been reformed: 30 entities lost their statute as SPAs to become "provincial metropolitan municipalities" (PMM). These entities have a two-layer structure, the metropolitan municipality and its constituent district municipalities. Municipal amalgamations also took place and the system of local finance was also reformed. Today, at territorial level, the State deconcentrated administration is based on provinces and districts while the decentralised administration is based on SPAs, metropolitan cities, municipalities, and villages. Turkey also has several areas without municipalities but traditional settlements. The legal basis for local authorities is provided by the Law on Special Provincial Administration (Law no. 5302), the Law on Municipalities (Law no. 5393), and the Law on Metropolitan Municipalities (Law no. 5216) of 2004, amended in 2012 (Act no. 6360).

Despite the on-going decentralisation process, Turkish public administration remains highly centralised. Art. 127 of the Constitution guarantees the tutelage of the central administration over local governments. As such, the central government ensures equality and uniformity of services throughout the country, as well as compliance with the law and the quality of the overall public administration between the central and the local governments. Turkey is a signatory of the European Charter of Local Self-Government, in effect in Turkey since 1993, even though it has many reservations regarding the Charter.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	973 provincial and district municipalities *(Belediyeler)* 386 towns; 30 metropolitan municipalities		51 special provincial administrations *(İl Özelİdareleri)* 30 provincial metropolitan municipalities	
	Average municipal size: 56 577 inhabitants			
	1 389		81	1 470

*Nb: Metropolitan municipalities are counted twice, as a municipal-level entity and as regional entity.
**Total population of municipalities was 76 888 607 in 2018.

OVERALL DESCRIPTION. Turkey has a two-tier local government system, comprising 81 provincial level entities and 1 389 municipal-level entities. Turkey also comprises 18 195 villages (*köy*) as of December 2018, representing a population of around 5.1 million inhabitants. Even if these villages are not fully-functional municipalities because of their small size, they are local self-governments recognised in the Constitution and do not depend on a municipality. They comprise three bodies: village council, council of elders, and village headman – the so-called *Muhtar* who is also elected every five years by the villagers.

REGIONS LEVEL. The provincial level comprises 51 SPAs as well as 30 PPMs (with a population over 750 000 inhabitants). The deliberative body of the SPAs is the provincial council composed of members elected by direct universal suffrage for a five-year mandate. It is headed by a president, elected by and from among the members of the council. Each SPA has a provincial executive committee composed of ten members for one year. Five members are elected by the provincial council while the five others are appointed by the governor (vali), who is appointed by and represents the central government. In 2018, the average size of provinces was around 1 million inhabitants, ranging from 82 274 inhabitants for the least-populated province (Bayburt) to 15 067 724 inhabitants in the province of İstanbul. Provinces are sub-divided into districts. There are 39 districts in Istanbul but only three in Bayburt. Turkey has the largest regional disparities in terms of GDP per capita across small regions within the OECD, even though disparities have decreased slightly over the last decade between Istanbul, the richest Turkish region, and Eastern Anatolia, which has been catching up. The GDP per capita of the Istanbul region is four times higher than the GDP per capita of Eastern Anatolia.

Metropolitan municipalities were first created in 1984 in the three largest cities (Istanbul, Ankara and Izmir). Two main waves of legislative reform extended the number of metropolitan municipalities: Act no. 5216 in 2004 and Act no. 6360 in 2012. The 2012 law determined a minimum size of 750 000 people and expanded the boundaries of metropolitan municipalities to their corresponding provincial boundaries in order to cover both urban and rural areas. Therefore, the reform established 14 new "metropolitan municipalities" in addition to the existing 16, and their boundaries extended to match those of the associated provinces. In metropolitan municipalities, the metropolitan and district mayors are elected directly, while the metropolitan assembly is not elected, but composed of representatives of district assemblies.

LOCAL LEVEL. The local level comprises four categories of local governments depending on their size: metropolitan municipalities (see above), provincial districts, district municipalities and town municipalities. In municipalities, the deliberative body is the municipal council composed of members elected by direct universal suffrage for a period of five years. The mayor is the executive body of the municipality and is elected by direct universal suffrage for five years.

In 2008, the Scale Reform Act reduced the number of municipalities from 3 225 to 2 954. It was followed by a new territorial reform in 2012, which reduced the number of municipalities from 2 954 to 1 397 as of the March 2014 elections. In 2017, the average size of municipalities was large by international comparison (9 700 inhabitants in the OECD and 5 900 inhabitants in the EU28). Median municipal size is however much smaller (8 600 inhabitants). Around 39% of municipalities (excluding metropolitan cities) had fewer than 5 000 inhabitants and 7% fewer than 2 000 inhabitants, while 37% had more than 20 000 inhabitants.

STATE TERRITORIAL ADMINISTRATION. SPAs co-exist alongside deconcentrated state entities that are managed by governors appointed by the central government. These governors maintain a major role as the heads of the Executive Committee of SPAs. Governors are represented by sub-governors in each district of the provinces. Since the 2014 reform, the state territorial administration in metropolitan municipalities has been represented by Investment, Monitoring and Coordination Directorates (IMCDs).

Regions as such do not exist in Turkey but the government established a national network of 26 Development Agencies based on Law no. 5449 in 2006. Since then, NUTS-II level has been used as the regional planning unit for preparing regional plans and strategies. Agencies have a participatory approach to encourage public-private dialogue. At the moment, all 26 NUTS-II regions have regional development plans prepared by Development Agencies and local stakeholders for the 2014-23 period, in accordance with the National Strategy for Regional Development (NSRD 2014-23). The latter was adopted in late 2014 and aims to address regional and rural-urban disparities. These plans are important in tailoring policy and implementation to local needs and circumstances. They also highlight regional situations that may need national-level intervention.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Article 6 (a) of the Special Provincial Administrative Act lists the duties and responsibilities of provincial governments. They comprise competences in economic development, land development, agriculture, environmental protection and planning, health services and social welfare.
Article 14 of the Law on municipalities defines functions of municipalities. They are divided between mandatory and discretionary service provision responsibilities. Mandatory responsibilities include urban infrastructure facilities, environmental and public health issues, urban traffic, parks and recreation, housing, social and cultural services, economic development and construction and school maintenance.
Metropolitan municipalities have additional responsibilities, such as urban planning, metropolitan transport master plan and disaster management (Art. 7 of the Law on Metropolitan Municipalities). Basic services in water supply, sewerage, natural gas and transport services may be performed by separate established administration called affiliated agencies.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	PROVINCIAL LEVEL	MUNICIPAL LEVEL
1. General public services	Internal administration	Internal administration; Marriage ceremonies
2. Public order and safety	Emergency assistance and rescue	Security forces; Fire brigades; Emergency aid
3. Economic affairs /transports	Industry and trade; Roads; Agriculture (reforestation, irrigation); Tourism	Local roads; City traffic; Tourism
4. Environmental protection	Environmental planning and protection; Protection of soil; Prevention of erosion; Sewerage; Solid waste; Supporting forest villages and reforestation; Parks and gardens	Environmental health; Forestry, parks and green areas; Protection of natural resources
5. Housing and community amenities	Water; Land development	Urban infrastructure
6. Health	Health centres; Health posts, mainly in rural areas; Mother and child health and family planning centres; Tuberculosis dispensaries; Hospitals;	Relief services and ambulances; Opening and operation of health facilities.
7. Recreation, culture & religion	Culture and artwork	Youth and sport activities; Leisure and recreational facilities; Libraries and museums; Conservation of cultural assets
8. Education		Pre-elementary school education; School buildings maintenance
9. Social protection	Social service assistance	Social and aid services

TURKEY

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT FINANCE

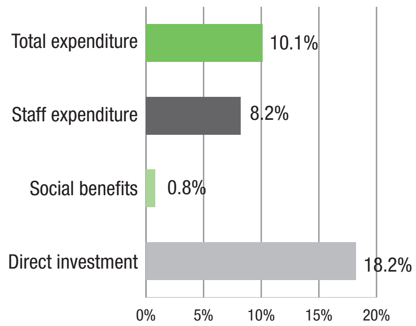
Scope of fiscal data: provincial special administrations, metropolitan municipalities, municipalities, local government unions, development agencies, youth and sports provincial administrations.	SNA 2008	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. Turkey belongs to the OECD countries with a centralised system of government. SNGs play a minor role in the provision of public services and investment and they depend heavily on central government funding. Different fiscal reforms, driven by territorial reforms, have changed the design of the intergovernmental fiscal system to increase SNG revenues: in 2008 (Law 5779 on Allocations from Tax Revenues under the General Budget to Special Provincial Administrations and Municipalities) and in 2012 following the Local Government Act and Metropolitan Act (Act no. 6360). These recent changes aimed at the strengthening metropolitan municipalities but they also increase their dependence on intergovernmental transfers, while clarifying their functions and reinforcing the financing framework and fiscal rules.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**980**	**3.8%**	**100%**
Inc. current expenditure	696	2.7%	71.0%
Staff expenditure	174	0.7%	17.7%
Intermediate consumption	423	1.7%	43.2%
Social expenditure	28	0.1%	2.9%
Subsidies and current transfers	33	0.1%	3.3%
Financial charges	38	0.1%	3.9%
Others	0	0.0%	0.0%
Incl. capital expenditure	284	1.1%	29.0%
Capital transfers	31	0.1%	3.2%
Direct investment (or GFCF)	253	1.0%	25.8%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



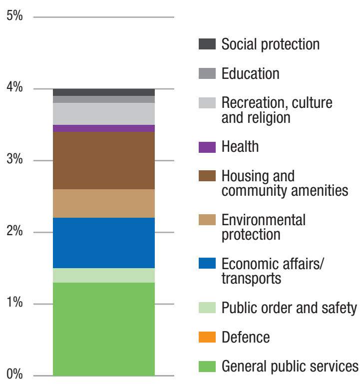
EXPENDITURE. SNG spending ratios to GDP and general government expenditure are well below the average for OECD unitary countries (9.2% of GDP and 28.7% of public expenditure). Municipalities represent the lion's share of SNG expenditure, especially due to the increasing share of metropolitan municipalities, whereas SPAs represent less than 20% of SNG revenue, and other local actors the remaining part. The share of SNGs in public staff spending is particularly low: 8.2% compared to 43.0% in OECD unitary countries. Staff spending also accounts for a small share of SNG expenditure, well below the OECD average for unitary countries (31.3%).

DIRECT INVESTMENT. SNGs in Turkey play a limited role in public investment compared to the OECD average for unitary countries (respectively 50.7% and 1.7% of GDP). However, investment accounted for a large share of their expenditure in 2016, well above the OECD average (13.8% for unitary countries). Metropolitan municipalities are however significant contributors to the economic growth of the country, through their large-scale investments in transport, tourism and environmental protection, healthcare, art, culture and sport. Yet they are primarily executing decisions made by the central government through the Presidency of Strategy and Budget, which considers regional dimensions while preparing the public investment programme. With the metropolitan municipality reform, Investment Monitoring and Coordination Presidencies (IMCP) were established as deconcentrated entities to coordinate investment decisions in metropolitan municipal areas. 26 development agencies were also created to facilitate the co-preparation of regional plans. Agencies proved to be effective in the public investment decision-making process at local level and mobilising local stakeholders and resources.

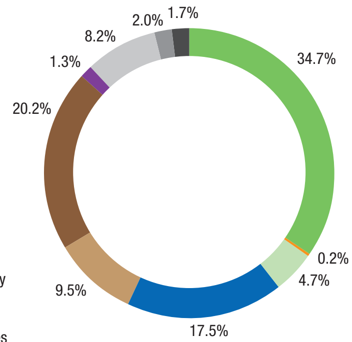
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

The two most important SNG expenditure items (excluding general public services) are housing and community amenities (mainly drinking water, housing and community development) and economic affairs and transport. They are followed by environmental protection, recreation and culture. For the SPAs, general administrative services represent the bulk of their spending, followed by education and economic affairs. For municipalities, the main budget items are economic affairs, housing and environmental protection, and general administrative services.

% GDP



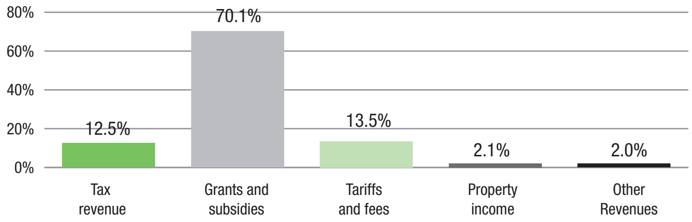
% SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**906**	**3.5%**	**10.3%**
Tax revenue	113	0.4%	2.3%
Grants and subsidies	635	2.5%	
Tariffs and fees	122	0.5%	
Property income	19	0.1%	
Other revenues	18	0.1%	

% SNG REVENUE



OVERALL DESCRIPTION. Since law no. 5779 of 2008 went into effect, municipalities and SPAs have received a fixed share of the receipts of national taxes (personal income, corporation income and profits, and VAT), which are redistributed in the form of grants according several criteria. Law no. 6360, effective since 2014, substituted the 2008 law and introduced major changes in the distribution of the different shares of general tax revenues going to different categories of SNGs. The goal was to take into consideration the population of the new entities, including the metropolitan cities. The SNG financing system is dominated by grants and subsidies from the central government, which represented up to 70% of SNG revenue in 2016 (vs 48.8% for the OECD unitary countries). By contrast, the share of tax revenue is particularly small compared to the OECD (38.7% in the OECD unitary countries).

TAX REVENUE. Tax revenue accounted for 3.5% of GDP and 2.3% of public tax revenue in 2016, which is well below the OECD average for unitary countries (4.7% of GDP and 19.8% of public tax revenue). All taxes are own-source taxes.The primary municipal tax is the property tax on land and buildings (*EmlakVergisi*), paid by owners whether or not the owner lives in the property. It provided around 59% of SNG tax revenue and 7.3% of SNG total revenue. It amounted to 0.3% of GDP, which was well below the OECD average in 2016 (1.1% of GDP).The tax is calculated based on the land and building's facilities and the size of the plot in square metres. Municipalities are responsible for collecting the property tax and can set the rates within 0.1% and 0.3% with the approval of the Council of Ministers. Other local taxes include excise taxes including the tax on motor vehicles and on petroleum consumption (approximately 10% of local tax revenue), the electricity and gas consumption tax, the environmental cleaning tax, the advertisement tax, stamp tax, and insurance tax. The environmental cleaning tax is paid by owners or residents who use the property. It is included in the water bill of the property and is calculated on the basis of water consumption per cubic meter.

GRANTS AND SUBSIDIES. The major component of the intergovernmental transfer scheme is the system of national tax revenue sharing (PIT, CIT and VAT). They consist mainly of formula-based block grants that are buoyant, predictable, and unconditional transfers (the share of conditional transfers is less than 3% of total revenues). The revenue entitlements of SPAs and municipalities from the national budget were originally defined by the 2008 Law no. 5779. Major changes occurred in 2014 with law no. 6360. As a result, municipalities were more reliant on central government transfers. According to the new tax-sharing scheme, of the total collection of the general budget tax revenues, 6% of national taxes are allocated to metropolitan municipalities, 4.5% to district municipalities (vs 2.5% before 2014), 1.5% to other municipalities (vs 2.85%) and 0.5% to SPAs (vs 1.15%). These funds are redistributed according to equalisation mechanisms based on various criteria, including population, economic development index as well as surface area, number of villages and rural population (for SPAs). Metropolitan municipalities have their own inter-metropolitan equalisation scheme. Transfers are channelled to municipalities and SPAs through the Provinces Bank, except for metropolitan municipality transfers that are directly transferred to the metropolitan municipalities' account by the Ministry of Finance. If municipalities default on their debt, the Provinces Bank may deduct a percentage of up to 40% from their transfer revenues (the decision is made by the Council of Ministers).

OTHER REVENUES. SNGs derive around 10% of their income from user charges and tariffs, in particular in the areas of sewerage, water, road construction and improvement, business license, and communal fees from Land Development Fees and Construction Permits. SNGs also receive an important revenue stream from profits of municipality-owned corporations, rents and the sales of municipal assets.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**303**	**3.2%**	**9.2%**	**100%**
Financial debt*	167	1.8%	5.8%	55.0%

* Currency and deposits, loans and bonds

FISCAL RULES. Turkey's fiscal rules concern essentially expenditure limits and borrowing constraints, in the absence of a balanced-budget rule. The Public Financial Management and Control Law No. 5018 was adopted in 2003 to re-organise the public financial management and control system at the national level in line with international standards and EU practices. Oversight of SNGs remains weak, and is expected to increase by way of regular reporting on the finances of individual SNGs. A Fiscal Management and Control Centre Harmonisation Unit exists, and its monitoring function shall be strengthened.

DEBT. SNGs are allowed to borrow within the rules set by law no. 4749 (regulation on public finance and debt management) to finance investment projects only ("golden rule"), and under the supervision of the central government (in the case of foreign borrowing). In addition, there is a series of borrowing limits and procedures. In particular, domestic borrowing is limited to an amount of 10% of the previous year's revenues. Total outstanding debt stock cannot exceed the revalued amount of the latest annual budget (1.5 times for metropolitan municipalities). The level of SNG debt is significantly below the OECD average for unitary countries only (14.5% of GDP and 11.8% of public debt). Around 55% of the outstanding debt was composed of financial debt while other accounts payable (commercial debt, arrears) amounted to 40% and insurance pensions (4.7%). Financial debt is made up of loans exclusively. Over 95% of the SNG debt is held by municipalities, in particular metropolitan municipalities, due to the infrastructure investment needs of urban jurisdictions. Despite the very small share of municipal bonds, most metropolitan municipalities are rated by international rating agencies.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
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Socio-economic indicators: OECD // World Bank // UNDP // UN DESA // ILO // Turkstat.
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // IMF-GFS // NALAS // Union of Turkish Municipalities. **Other sources of information:** Bakir, C. & Günes E. (2018) Policy Analysis in Turkey // OECD (2018) OECD Regions and Cities at a Glance 2018 // NALAS (2018) Fiscal Decentralisation Indicators for South-East Europe // Yilmaz, S. & Güner A. (2017) Impact of recent changes on local government discretion and accountability in Turkey // Yilmaz, S. &Güner A. (2017) Fiscal decentralisation in Turkey and differentiation in selected provinces , IJPF // Akman, C., Akman, E. & Okcu, M. (2015) Reform in Local Governments: What Did the New Municipal Law Bring in Turkey? //OECD (2015) "Turkey", in The State of Public Finances 2015: Strategies for Budgetary Consolidation and Reform in OECD Countries // OECD (2015) Governing the city // Kablan A (2013) Financial resources of municipalities in Turkey // S. UlasBayraktar, Elise Massicard (2012), Decentralisation in Turkey // Council of Europe (2011), Local and regional democracy in Turkey.