

## Chapter 4

# Fiscal Autonomy of Sub-Central Governments in Turkey

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### **ABSTRACT**

*Local authorities that are the closest to citizens need to be financially strong to be able to present efficient and high-quality services. Also called fiscal autonomy, this financial strength helps municipalities to have own-revenues enough to meet their expenditures. When municipalities have sufficient own-revenues and have autonomy in planning and budgeting processes, the qualities of their services increase, and they can manage their resources more effectively and efficiently. Enhancing fiscal autonomy is a requirement of citizen-based management approach with high performance. Focusing on the importance of decentralization, this chapter presents the discussions on various definitions and measurements of fiscal autonomy, followed by a section on the state of fiscal autonomy in Turkey by analyzing the indicators of SCG tax revenue/total revenues, SCG own-revenues/total revenues, and transfers from the general budget tax revenues/total revenues. It finally offers some suggestions to enhance fiscal autonomy.*

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## **INTRODUCTION**

The term “decentralization” with its administrative, fiscal, and political aspects has always been at the top of Turkey’s agenda in terms of restructuring local authorities, an issue that resembles an unending symphony. Since mid-2000s in particular, Turkey has introduced important legal regulations to empower local authorities and has focused on restructuring local administrations. The Public Finance Management and Control Law Numbered 5018, Special Provincial Administration Law Numbered 5302, and Municipal Law Numbered 5393 can be given as examples of these regulations. As a result of these regulations, certain important achievements have been recorded, such as enhancement of fiscal transparency and accountability on local level. However, there have been no significant attempts to fiscally enhance local administrations or improve own-revenues.

In broad terms, decentralization can be defined as the transfer of responsibility and power to provide public services from central administrations to semi-independent administrations and organizations, private sector or sub-administrative units (Litvack & Sedon, 2016: 3). There are two significant aspects of decentralization (Rodden et al., 2003: 3-4). The first one is political decentralization which means transferring the political and administrative power to local administrations to enhance effective public management and accountability alongside emphasizing political participation in the decision-making process. The second one is the transfer of fiscal resources to local authorities; that is fiscal decentralization. Fiscal decentralization can also be defined as inclusive of three relevant processes: “devolution”, “delegation” and “de-concentration”. Firstly, devolution can be defined as the transfer of the power to increase taxes and prepare expenditure budgets from the central administrations to local authorities. Secondly, delegation refers to a partial transfer of responsibility to local authorities, meaning that a central administration is still responsible for rendering services and keeps the power to annul the transfer at any time. The final process is de-concentration referring to the transfer of responsibilities for specific services to regional branch offices. Subnational governments are not supposed to participate in this process. The level of fiscal autonomy is different in each process (Meloche, Vaillancourt and Yılmaz, 2004: 2). There are three fundamental elements of fiscal decentralization (Rodden et al., 2003): (1) the transfer of the responsibility for expenses and some of the revenue to local authorities, (2) aids and transfers from the central government to local authorities, and (3) autonomy in borrowing. In other words, it is highly important for local authorities to have revenues that offset the services they render and to have full autonomy in preparing their budgets and also in levying their own taxes and charges to have a high level of fiscal decentralization.

How to measure fiscal decentralization is a controversial issue. As fiscal decentralization is a multidimensional concept, there are various methods (Ebel &

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