Intergovernmental Finance and Local Government System in Turkey: Experiences and Lessons to be Learned from Poland

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I. Introduction

The impact of the enlargement of the European Union (EU) on subnational governments has political and economic significances for both member and applicant countries. There are four major reasons behind this argument. First, subnational authorities carry out many of the functions of the EU, such as health, education and transportation. Second, they spend additional resources to carry out EU policy decisions. Third, the proximity of local governments to citizens enables lower tier governments to be more familiar with their needs and requests. Finally, besides the political reasons, there is a major economic rationale for the importance of subnational governments. This is to say that the microeconomic stability, handled partly by local governments, will also help improve the macroeconomic efficiency attributed to the EU. The importance of local governments is also emphasized in the subsidiarity principle of the European Union, which is highlighted in the Maastricht Treaty: "...to continue the process of creating an ever closer union among the peoples of Europe, in which decisions are taken as closely as possible to the citizen in accordance with the subsidiarity principle."[1] In order to meet the EU standards of service delivery, there is a need for high-level investment in local infrastructure systems (water, wastewater, solid waste, etc.) in Turkey. Thus, local government reform in the country is necessary. After analyzing the administrative structures of local governments in Turkey and Poland, this report studies the four pillars of intergovernmental fiscal relations: i) Expenditure assignment ii) Revenue assignment iii) Intergovernmental fiscal transfers and iv) Local borrowing. Providing comparative and descriptive analyses, the report focuses mainly on Turkey and aims to sketch lessons that emerge from the Polish case.

The debate on intergovernmental fiscal reform in Turkey closely reflects the experiences of Poland for a number of reasons. First, before starting the local government reform process, Poland, like Turkey now, was a highly centralized unitary state. Second, there is a high degree of urbanization in both Turkey (almost 70 % of the population) and Poland (approximately 62 % of the population), which triggers a major need for new infrastructure and services, such as housing, safe water and sewerage systems, and good transport networks especially in metropolitan areas. Third, there is a large number of municipalities[2], the basic urban administrative units, both in Poland (2,489) and Turkey (3,215) due to the rise in urbanization. Fourth, Poland is the only country entering the EU with a large population (38 million inhabitants) and thus is similar to Turkey, which has a population of 65 million, and wants to access the EU. Finally, another common feature between two countries is that the structures of lower tier governments are based on a dual system: deconcentration[3] (e.g. provinces) and decentralization (e.g. municipalities and villages).

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[1] "Subsidiarity and European Union". (http://evropa.gov.si/aktualno/1998/1998-11-25/1998-11-25-c/04).
[2] Municipalities will be the main focus of the paper, since most of the data available refer to them and they are the tiers of governments to whom most of the authorities and responsibilities are given in the countries studied.
[3] Deconcentration signifies devolving official powers to lower-level organs of state administration

II. Reforming Local Governments

The centralized administrative systems in Poland and Turkey have historically made it very difficult to pursue rational social and economic policies on national and local levels. Prior to 1990, socialism was a major obstacle to local government reforms in Poland and the local government units were dependent on the upper tiers of the central government. Moreover, the communist party had the authority to nominate or approve the candidate in local elections in Poland. Although the Communist Party attempted to introduce some forms of decentralization in Poland, such as the Acts of 1983 and 1988, they were very limited and did not change the centralist structure of the government.[4] On the other hand, after the collapse of socialism in 1990s, major local government reforms, which moved in three directions, have been implemented in Poland. First of all, political changes were carried out to create the foundations of a democratic system including individual rights, and civil and political liberties. Second, the economic system was restructured such that it aimed at restoring market economy based on private ownership. Third, reforms were made in the system of government, especially in terms of decentralization.

As for Turkey the centralized government system has not worked very well in terms of keeping total expenditure under control and delivering services cost-effectively. Thus, there have recently been moves toward "loosening" the current structure and willingness to give more power and responsibilities to local governments. As the table below on the stages of local government reforms in Poland and Turkey shows, the local government structure of Turkey is based on the Municipalities Act enforced in 1930, which is very outdated; therefore, it should be revised according to the current needs of municipalities.

Stages of Local Government Reforms

Poland[5]	mid 1970s	Country was divided into 49 voivodships (provinces) and over 2,400 gminas (municipalities), functioning as part of a centralized system of administration
	1980s	Administrative units gained relative independence, which was not guaranteed by law and gminas remained under the control of the central administration
	1990	The law on local self-governments, which provided independence of about 2,400 gminas, was passed; however 49 voivodships remained under the control of central government
	1999	Division into three tiers of local self-government: -previously mentioned gminas -325 powiats that include a few to several gminas -16 voivodships (No dependence between tiers of government. Each tier has a different mandate)
Turkey	1930	Municipalities Act No. 1580 was enacted (still in force).
	1961	Adoption of a new constitution setting out the principle of

[4] Swianiewicz, Pawel. 2003. "Intergovernmental Finance System in Poland", p. 1
[5] Peteri, Gabor. 2003. p. 18

		decentralization. Local authorities are referred to in Article 115 of Municipalities Act and their different categories (provinces, municipalities and villages) listed in Article 116
	1984	Act No. 3030 laying the ground for reorganization of the major cities and establishing two-tier metropolitan municipalities, comprising both sub-municipalities (lower tier) and metropolitan municipalities (upper tier)
	1987	Law on Special Provincial Administration
	1988	Signature of the Council of Europe's Charter of Local Self-Government, which entered into force in 1993
	1995	Amendment of Article 127 of the 1982 Constitution concerning local administrative bodies

The striking feature about the Polish local government reform, which developed along three dimensions, is that it has been a process, where the actions were quickly taken, and the laws and policies were not discussed in detail since the reformers were determined to proceed as fast as possible.[6] The first dimension is the political transformation of 1989/1990, which included the transition from a centrally planned economy to market economy, from centralized politics to more decentralized one and introduction of more democratic local governments. During the first phase municipal authorities were accorded extensive autonomy and fiscal power. Nevertheless, the changes at the territorial level and the introduction of local self-government on the upper tiers did not occur until 1998.The second major stream of changes took place in the local government institutional settings. Third, there have been reforms in local government operation, in which local government officials aimed to find more effective ways to manage local issues and services. On the other hand, in Turkey the public sector reforms were delayed. The structural changes, territorial reforms and modernization of local governments did not start until recently.

III. Expenditure Assignment

The first fundamental step in the design of intergovernmental fiscal relations is a clear assignment of functional responsibilities among different tiers of government. Without a specific assignment of expenditures, it will not be possible to assess the adequacy of the revenue and tax assignments to different levels of government, or the need and effectiveness of a system of intergovernmental fiscal transfers. However, there is no absolute way for deciding which level of government should be responsible for public services. Thus, the adequacy of any assignment needs to be judged in terms of how well it achieves the goals or the objectives set up by the government in its local government reform strategy. On the other hand, the fact that it is up to the government to set these objectives should not be interpreted to mean that an unclear assignment is acceptable. According to the subsidiarity principle, efficiency in the allocation of financial resources is best achieved by assigning responsibility for each type of expenditure to the level of

[6] Swianiewicz, Pawel. 2003. "Reforming Local Government in Poland: Top Down and Bottom-Up Processes", p. 4

government that most closely represents the beneficiaries of provided public goods and services.

The distribution of specific expenditure responsibilities across different levels of government in Turkey and Poland varies according to each country's physical and demographic characteristics, institutional capacity, and political preferences regarding, among other things, equity or uniformity of service provision across jurisdictions. The recent process of political and economic transformation in Poland has not only contributed to the decentralization of political structure but also significantly enhanced the fiscal autonomy of local governments. For example, local authority reform and the introduction of new tiers of subnational governments mainly resulted in growth in the total amount of subnational government expenditures during the years 1997-1999 as a result of inheriting many tasks from the central government. In addition to new tasks, subnational governments also received higher revenues, especially from grants. In 1999, total expenditures of subnational governments in Poland were higher by 56.8 per cent in comparison with 1997.[7]

The table below shows that housing, recreational and cultural services in addition to education are major subnational expenditures in Poland (88.5, 74.4 % and 71.2 % respectively).

Current Subnational Expenditures by Function as a Share of Consolidated General Government Expenditure by Expenditure in Poland in 1999[8] *(in %)*

General public services	44.0
Defense	0.2
Public order & safety	32.6
Education	71.2
Health	7.0
Social security & welfare	6.8
Housing and community amenities	88.5
Recreational, cultural and religious affairs	74.4
Fuel and energy	-
Agriculture, forestry, fishing and hunting	32.5
Mining, manufacturing and construction, except fuel and energy	28.0
Transportation and communication	64.0
Other economic affairs	18.0
Other functions	2.3
Total	27.6

Expenses for housing are especially high in cities with developed industrial sectors where until recently nearly all flats belonged to large state enterprises. At the beginning of the 1990s a sizeable portion of industrial enterprise-owned flats were transferred to municipalities as municipal property. Since many of such buildings are in poor condition,

[7] OECD. 2001. p. 22
[8] OECD. 2002. p. 71

their repair and operation result in very high expenditures. Additionally, primary education is one of the main public service tasks that was transferred to municipal administration under the law of 1 January 1996. Until then it was a state responsibility, although 10.5 percent of the municipalities nationwide took over schools on the state's behalf as early as 1991–92. Nevertheless, in subsequent years fewer and fewer municipalities were willing to accept this role due to the failure of the state to provide adequate funds for operation. By the end of 1994 only 24.8 percent of all municipalities in Poland administered primary schools (including 91.1 percent of cities with more than one hundred thousand residents and 42.7 percent of municipality-cities with fifty to one hundred thousand residents).[9]

As for Turkey, the local government expenditures compose 15% of all government expenditures, whereas this amount is 85% for central governments. This percentage is fifty fifty in EU member countries. The low expenditure percentage of local governments in Turkey in total government expenditures shows the need for restructuring of local governments and better budgeting plans.

The expenditure structure varies depending on the type of municipality in Turkey. Metropolitan district and non-metropolitan municipalities, where the biggest expenditure item is public works, have almost the same expenditure structure by functional classification. Other major municipal expenditures include transfers (in metropolitan municipalities) and basic services (in non-metropolitan municipalities). Basic services (e.g. water, sewerage and public transport) expenditure is relatively unimportant in metropolitan municipalities because in such areas, some such services are carried out by enterprises which are established under their own statutes separate from metropolitan and metropolitan district municipalities.

IV. Revenue Assignment

Expanding roles and responsibilities of subnational governments is not adequate for them to function efficiently and effectively; sufficient local funds are required for the success of local government reform process. Thus, the availability of enough funds to realize at least some of the aspirations of local citizens is crucial; otherwise intergovernmental fiscal system can turn into a failure. While designing the revenue system, it is crucial to decide which level of government (i) chooses the taxes from which subnational governments receive revenues, (ii) defines the tax base(s), (iii) sets the tax rate(s), and (iv) administers the tax(es).

Central governments in Poland and Turkey have historically been cautious about giving subnational authorities full responsibility over the local budget. In Turkey municipalities have great importance regarding their share from the budget, which is determined by their size, and they are dependent on the central government as their main source of income.

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[9] Kowalczyk, Andrzej. 2000. p. 238-239

There are three types of revenue sources of municipalities in Turkey: i) local resources (municipal taxes, user charges and revenues other than taxes), ii) central government transfers, and iii) loans. On the other hand, local governments in Poland are financed through: i) local taxes and other revenues from own sources, ii) local shares in central taxes, and iii) central general purpose and specific grants. In both countries local taxes play a major role for financing services and reducing disparities across geographic regions and between different kinds of municipalities and social groups. The table below explains further local revenues in Poland and Turkey.

Local Government Revenues

Poland	**Turkey**
- Local taxes such as real estate tax, agricultural tax, forest tax, tax on means of transportation, dog tax, inheritance and gift tax, tax payable on the basis of a tax card, fees and charges - General government grants - Government grants specific for delegated powers - Earnings from council rents and from selling communal property - Budget surpluses from the previous year - Revenues from loans and bonds - Local fees, such as mining fees, and fees for health resorts and market places	-Local taxes on property, advertisement, entertainment, communications, electricity, fire insurance, environmental sanitation -User charges -Shares from State revenues - 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 -Fees for different services -Fines and other revenues including grants

In Poland, municipal government has some power of taxation, whereas in Turkey local governments have little or no authority to impose taxes and collect fees independently except in narrowly specified cases, and often only with central government's approval. For instance, gminas (municipalities) have the legal right to set the rates of three taxes - agricultural tax, real estate tax and tax on means of transportation - and some local fees. They also have the right to decide about certain tax exemptions and tax deferrals. On the other hand, both county and regional governments in Poland, which do not have as much fiscal autonomy as municipalities, are financed almost exclusively by central general and specific grants with a small contribution of shares in central taxes and few minor revenues from own sources. It is remarkable to note about the Polish revenue assignment system that in 1999, the creation of two new tiers of subnational government, poviat and voivodship, did not change the financial status of gminas as their main sources of budget came from general and special grants. Thus the 65.9 per cent growth in subnational government revenue (in 1999 vis-à-vis 1997) was mainly due to higher revenues from grants (general and special).

In contrast to Poland, in Turkey, where almost 80% of financial resources of local governments are provided by the central government, the main source of municipalities is central government tax revenue share. Although quite a stable , objective and predictable revenue for municipalities, shares allocated from the general budget tax revenues create problems for certain municipalities (especially for touristy and business area municipalities) because the only criteria used in this allocation is population according to the latest census. Providing other criteria besides population, such as the ratio of night-day/summer-winter population and tax capacity, will help establish horizontal revenue equity. The share provided by central government to lower tiers is currently 5 % of the total central government tax revenues collected in cash minus tax rebates according to law no. 2380. The table on Municipal Revenues Distribution shows that user charges are more than local taxes in Turkey and are nearly at the level of central government grant mainly because local taxes, whose rate s are set by central government and are not subject to municipal variation, have not been adjusted according to inflation for the last decade. In addition, there are two off-budget funds serving local administrations: Municipalities Fund and Local Administrations Fund, which were being managed by the central government up until 2001. Currently there are no off-budget activities in local administrations. Except for non-financial corporations established by local administrations, all local revenues and expenses are included in local administration budgets. [10]

Municipal Revenues Distribution in Turkey

Type of Revenue	**% in Total**
Central Government Tax Revenue Shares	42.9
User Charges and Other Fees	35.5
Local Taxes and Other Quasi-Taxes	13.2
Public Utilities Revenues	6.8

Local taxes, especially property tax, also play major roles in terms of providing revenues to local governments both in Poland and Turkey. In Turkey the share of property tax in 1998 has constituted 54.9 percent of total local tax revenues[11], and in 2001 property tax comprised 40% of all revenues from own sources in Poland[12]. Property tax is levied on houses and other buildings as well as on plots without buildings (private and public). There are two important types of criticism of the present property tax system in the country. One of the claims maintains that the tax does not raise sufficient revenues, especially in big cities. The second line of criticism focuses on the fairness of the tax – it is considered unfair that the tax depends on the type and area of property rather than on its value. For example, why should the owner of poor village house located in the countryside pay the same tax as the owner of similar (in size) but many times more valued house in the center of Warsaw? The alternative solution might be based on the variation of the maximum rates depending on the location of properties (for example different maximum rates for small rural villages and for big cities as well as a different rate in the center and suburbs of the city).[13] In addition, municipalities in Poland have

[10] Batirel, Omer Faruk. 2003. p. 7
[11] Guner, Ayse. 2003. p. 11
[12] Swianiewicz, Pawel. 2003. "Intergovernmental Finance System in Poland", p. 10
[13] ibid, p. 14

shares in some central budget revenues, such as the revenues from personal income tax and business income tax. In cities and suburban municipalities, as well as in municipalities with tourism, mining and manufacturing industries, the main sources of income are independent revenues or shared revenues. On the other hand, in rural municipalities in Poland the most important source of income is state grants (especially the equalization grant).

One of the striking positive aspects of the revenue system in Turkey is its being simple to manage, requiring a minimum of data and elementary calculations. Nevertheless, there are several weaknesses in the revenue assignment structure in Turkey. First, the revenue bases and the financial autonomy of local governments in Turkey are very restricted, and tax rates are not determined by local governments. Thus, local governments are not able to exercise their responsibilities, resolve local issues and problems freely and fully. Similarly, in Poland intergovernmental finance system does not place much revenue raising responsibility on locally elected officials. In consequence, local governments are not forced to justify their tax policies to their electorates and are under less pressure to reduce or justify their current expenditures. On the other hand, in Poland, in practice the central government sets the ceiling for taxation at the local level, and municipal and county councils then establish individual rates. Second, local authorities in Turkey have inadequate revenues to meet their needs. For instance, compared to countries with similar GDPs, a small portion of national income is spent on local government investment and services in Turkey. While 7-8 % of GDP is spent by local authorities in Latin America and other mid-income countries, and 21 % in OECD countries, this rate is 4-5 % in Turkey.[14] In addition, municipalities have a very minor role in funding and providing many of the services, such as education, health and social security since the central government in Turkey has a major responsibility for those. Due to their small revenue capacity, most local governments in Turkey depend very heavily on transfers from the national government. Thus, major changes need to be made in the revenue assignment in Turkey. First, small local fees and taxes, which do not raise significant revenues but are costly in collection and unnecessarily complicate the system (in Turkey as well as in Poland) should be eliminated. Second, there is a major need to identify the areas to direct funds to where they are needed. Third issue that requires further improvement is that municipal governments in Turkey should make more efforts to raise their own revenues instead of being under the patronage of the central government. For example, although they want to be independent on the expenditure side anecdotal evidence shows that they rather be dependent on the central government for revenues vis a vie intergovernmental transfers, which will be discussed further in the next section. One could claim that depending on central grants not only disables the development of democratic and autonomous municipalities but it also causes the municipalities to lack the ability of collecting their potential revenues and finding new resources by themselves. For instance, the per capita municipality's revenue with the inclusion of the borrowing proceeds was $34 in 1980 and it became $121 in 1998. When the proceeds of the borrowing are not included, it was $ 33 in 1980 and $ 97 in 1998.[15]

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[14] World Bank. 2001. p. 7
[15] Aydemir, Birol. 2000. p. 11

A major feature of the revenue assignment system in Poland that can be a good example for Turkey is the long-term *Strategy for Public Finances and Economic Development of 2000-2010*, adopted in 1999. This strategy includes several ways of meeting challenges in the field of creating new competitive jobs and bridging the gap between Poland and the EU. The tax system reform is part of the strategy, and its main goal is to:

- Cut taxes: reduction of direct taxes means lessening the burden imposed on residents and businesses, and a reduction of the tax burden provides the conditions for creation of new jobs;
- Simplify taxes: simple taxes mean, on the one hand, making it easier for an average taxpayer and, on the other hand, it curtails opportunities for tax abuse and taking advantage of legal loopholes; and
- Stabilize the system: stable taxes help increase the feeling of security and predictability on the part of investors, both domestic and foreign, as well as of each household.

V. Intergovernmental Fiscal Transfers

Intergovernmental transfers are the basis of subnational government financing in most developing and transition countries. They allow the central government to hold control over the public financing system while they offer a way to channel money into the budgets of provincial and local governments. Transfers refer to a number of different kinds of public financing instruments, including grants, shared taxes, subsidies, and subventions.

In Turkey municipalities are highly dependent on the central government for their income and have a great significance in terms of their share from the budget (about 75 % of local government revenues). There are three strategies used for the distribution of transfers in Turkey. The first one is the national tax revenues allocated based on the population size and is the largest transfer mechanism (about 55% of all transfers). Funds are transferred unconditionally and allocated to all municipalities based on their population. Second one is in-province tax revenues to metropolitan municipalities. This is the second largest transfer mechanism covering about 30 % of all transfers. The 16 metropolitan municipalities receive the equivalent of 4.1 % of the total tax revenues collected in the province where they are located. Upon receipt, the transfer is divided into three parts. The largest, 55 %, goes to various district municipalities according to population, 35 % is allocated to the metropolitan municipality, and the final 10 % to the water and sewerage administration. The third type of transfer consists of allocations from the central government budget to a number of ministries and other agencies that in turn allocate the funds for activities in municipalities. [16]

It is possible to define intergovernmental transfers in Turkey under the following headings: (i) capital grants, (ii) municipal fund grants, (iii) local government fund grants, and (iv) other grants. Capital grants consist of Municipal Fund and the Local Government

[16] World Bank. 2002. p. 21

Fund. The base of these funds is a fixed share of general budget tax revenues, they are distributed in the form of matching grants. Grants from these funds are used for the capital investment of local governments. In addition to these funds, a variety of grants are budgeted under several ministries. On the other hand, Municipal Fund is composed of general budget tax revenues, and is channeled to all eligible municipalities, regardless of their population. The aim of the fund is to cover the expenses of city master plans, infrastructure and building projects. As for local government fund grants, financed from general budget tax revenues, they are allocated as follows:

- 0.22 % of the general budget tax revenues is distributed to municipalities;
- 0.20 % of the general budget tax revenues is distributed to provincial local governments and villages.

Other grants include allocations from sources such as the Ministry of Interior, Ministry of Finance, and the Ministry of Public Work and Resettlement, which are distributed on ad hoc and discretionary basis. Nonetheless, when economic conditions worsen, the allocation of these grants may be suspended. For instance in 1994, when the country faced a severe economic crisis, only 42% the Municipal Fund was distributed.[17]

The Polish intergovernmental transfer system is quite simple, and aims at achieving the goals of relieving local fiscal constraints and guaranteeing and enhancing the quality of local goods and services provided by local governments. General-purpose grants in Poland, which consist a major revenue source in the transfer system, are those, which can be used as if they were receiving sub-national governments' own tax revenues. Within this category, grants related to objective criteria are those which are distributed according to some measure of taxable capacity and/or expenditure needs, whilst grants also related to own tax effort are those related to objective criteria and to an authority's own tax effort in such a way that an increase in the level of local taxation for a given authority results in an increase in the amount of grant for that same authority.[18]

The general grant for *gminas* (municipalities) consists of three parts: basic, educational and compensatory. Each of them is calculated and divided according to the formula provided by the Act on Local Government Revenues. The basic part must represent not less than 1% of the State's budget estimated revenues increased by the payments of the richest *gminas* (in 2001 it was 1.3% of central budget revenues plus payments of the richest *gminas)*. It is divided into 4% reserve and two pots: equalizing and proportional. On the other hand, the educational part – for all units of the local government – must represent not less than 12.8% of the State's budget estimated revenues and it is the largest part of the general purpose grant. Because this total amount of the grant is calculated to all tiers of local governments, resources may be moved between (for example) municipal and county level following demographic changes. Precise distribution of this part of the grant is the responsibility of the Minister of Education, although general rules are set in the Act on Local Government Revenues. The compensatory part is a new solution in Polish public finance, and has operated since 1999. The compensatory part consists of two elements. The first one has been introduced to compensate *gminas'* losses in revenues from the tax on vehicles, due to severe reduction of its subject starting from

[17] Sagbas, Isa. 2003. p. 12
[18] OECD. 2002. p. 63

1998. This sum is fixed as not less than 10.5% of planned revenue from the excise tax on the petrol. It is allocated among *gminas* by the Ministry of Finance, basically in proportion to former revenues from tax on vehicles.[19]

The general grant for *powiats* (counties) consists of three parts: educational, road and equalizing. The mechanism for educational part has been already described while discussing the *gmina* level. The road part – for counties and for regions altogether – is fixed as not less than 18% of planned revenue from the excise tax on the petrol. 10% of this total makes a reserve for capital investments and the remain is divided according to the length of roads managed by given authority (50% of the formula), intensity of traffic on these roads (50% in counties and 45% in regions) and intensity of traffic on border passes (5% - in regions only). The equalizing part is fixed every year in the Budget Act. It is allocated to all *powiats* except for one in which the planned revenue from the 1% share in the PIT paid by the *powiat's* citizens is the highest. All remaining powiats get compensation being a 85% of the difference from the richest *powiat* per capita PIT shares revenues. As for regions, the general grant consists of similar three parts as in the case of *powiats*: educational, road and equalizing. The equalizing part is fixed every year in the Budget Act. It is distributed among all regions – except of one in which the planned revenues from shared taxes are the highest. Remaining regions receive 70% of the difference to the richest region. Educational and road parts are defined in the same way as for county governments. [20]

In addition to general grants, sub-national governments in Poland receive specific grants from central governments and other extra-budgetary units for the following purposes:
- for carrying out tasks in the field of government administration and other tasks which are commissioned by law;
- for financing and extra financing of their own tasks;
- for executing tasks which derive from agreements between units of local governments and government administrations or other units of local governments;
- for implementing the task specified by the specific fund;
- for extra financing of their own tasks which derive from provincial contracts.

Although the transfer system in Turkey is simple and is based on population, it lacks transparency as the allocated shares are not made public. Furthermore, dependence on intergovernmental transfers reduces economic efficiency and local autonomy by minimizing local government control over spending decisions. There are significant reasons for the significance of transfers in local government shares. First is the limited access to local own source taxes. Second, local governments in Turkey do not have the incentives to raise their own revenues as they believe that increase in local taxes will have a minimal effect on the total local revenues. Thus, political leaders do not want to face the consequences of higher taxes. As a result of these beliefs, local governments are more inclined to accept intergovernmental transfers. Another weakness of the current transfer system is that it does not promote fiscal equalization for two reasons. First, fiscal equalization requires transfers to be allocated according to a formula that accounts for

[19] Swianiewicz, Pawel. 2003. "Intergovernmental Finance in Poland", p. 19
[20] ibid. p. 19

differences among local authorities in both fiscal capacity and expenditure needs. In the current system of revenue sharing, there is no such formula. Second, population is used as the only indicator of expenditure needs in this system. This does not take into consideration the local tax capacity and expenditure needs, which vary across municipalities. Thus, population alone would not determine their level. It is possible to suggest that a formula-based equalizing transfer system could be developed with allocations from the fixed pool based on relative tax capacity, need and effort.

On the other hand, a major strength of the Polish grant system is that allocation of the general purpose grant is based on the formula which depends on objective and easily measurable criteria. Therefore the system is not influenced by subjective decisions of bureaucrats nor the political clientelism. As for the weakness of Polish grant system, the criteria for special grants allocation are also much less clear (with some exceptions such as support for housing benefits paid by local governments). Lack of clear criteria leads to subjective decisions and sometimes may be suspect of political clientelism. It seems there is still much to be done in Poland to go in the direction of the more transparent and fair system.

VI. Local Borrowing

Borrowing from the central government and private credit markets is a major source of revenue for local governments. However, local borrowing should not be an added burden to the national public debt; instead it should be dedicated to funding capital rather than current expenditures.

Local borrowing in Poland aims for both capital and operational expenses. Practically, local governments take credits or issue bonds mainly to cover costs of capital investments. Local borrowing has played a more important role in covering capital expenses after 1990s due to several reasons including macroeconomic stabilization, stronger national banking systems, improved financial skills of local government officials, and advice of international donors. On the other hand, the size of local government debt in Poland remains because:

- Polish constitution states that the overall public debt cannot be more than 60% of the GDP. If the consolidated public debt were to exceed 60% of GDP then both local governments and the national government would be prohibited from incurring new debt. If, for instance, the consolidated public debt stood at 50% of GDP and the national government decided to limit its borrowing to 5% of its revenues, then no local government could borrow more than 5% of its revenues during the same year,
- The overall limit of local government debt cannot be higher than 60% of annual revenues.,
- The debt service in a given year cannot exceed 15% of total budget revenues.

As Swianiewicz suggests, a major barrier for local borrowing in Poland is the high level of public debt. Even though the local government debt is below 2% of GDP, the public sector debt is almost 50% of GDP.[21]

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[21] ibid. p. 28

In Turkey, as well, receiving loan is another source for municipalities although it is not a significant one except for metropolitan municipalities and bigger size municipalities. Subnational governments are quite restricted in their borrowing abilities, either by law or because of financial constraints, and central governments seem to be hesitant to hand over borrowing power to local governments. The poor credit history of municipalities led to their outstanding debt to the central government and related public agencies, which amounted to US$5.1 billion in April 2002. Most of the debt is owed by the 16 metropolitan cities where the needs are high, the ability to raise local revenues is not fully exploited, the borrowing represents 22% of the total revenues, and where the default rate is high. The large cities also have received about 90% of the foreign loans, guaranteed by Treasury. In the same year, municipalities spent close to 31% of total revenues on investments, implying that only about 1/3 of all investments are financed by borrowings and the remaining 2/3 from current revenues. [22]

VII. Conclusion and Recommendations

This paper tried to show the differences and similarities between the local government structures in Poland and Turkey. It is possible to conclude that local governments in Poland are asserting themselves increasingly as autonomous components of the larger government structure, whereas in Turkey subnational governments are quite centralized. There are a few strengths of the local government system in Turkey, one of which is the steps taken towards empowerment of municipalities over the past decade. For example, the 1984 restructuring program of the municipal system in Turkey has given municipalities the authority to collect taxes such as the property tax and to introduce a tax for solid waste collection.

Three major factors are required to improve intergovernmental fiscal structure in Turkey: a clear definition of roles and responsibilities across tiers of government, tax legislation providing incentives to improve services and incentive structures that improve accountability and participation. In addition, new forms of municipal finance are needed to i) enhance national and local tax collection capabilities and expenditure controls, and ii) facilitate local authorities' access to national, regional and international capital markets. Furthermore, administrative and technical capabilities also need to be upgraded.

Below are some suggestions to consider in order to achieve better management and financing of local governments in Turkey:

Introducing a Joint-System: All municipalities in Turkey, except for metropolitan municipalities, have the same status under law regardless of their size. Instead of considering all the municipalities at the same status, it would be more efficient to integrate provinces with similar size and economic resources for purposes of coordination and implementation of services. This would also help reduce their expenditure caused by spill-over effect. For example, a common transportation system established by two

[22] World Bank. 2002. p. 34

neighboring municipalities would allow them to provide services more cost-efficiently. In addition, the consolidation option could help minimize horizontal fiscal disparities, which occur as a result of varying fiscal capacity and expenditure needs across municipalities, implying that small municipalities with low revenues do not have as much decision-making power as the industrially prosperous ones.

Reducing Number of Municipalities: A major problem in local government politics in Turkey lies in the fact that municipalities are established without taking into account their revenues, and the benefits and services they could provide. Although the central government has a great impact over decision-making process of the local government, it does not effectively control the number of municipalities. As a matter of fact, it has become almost like a competition among political parties to convert villages into municipalities (See table 2 in the Appendix for the increasing number of municipalities over the years). Furthermore, the increase in the number of municipalities signifies a major financial burden for the central government since the central government revenue is usually enough only for the personnel and small services in the local government administration.

One can see the process of consolidating local units or reducing their number in many EU countries since 1960. For example, in Sweden the number of localities has been decreased from 2,500 to 278. Moreover, Denmark merged 1,388 habitations into 275 localities. Similar stories happened in Germany (24,512 to 8,500 by 1980) and Belgium (2,663 to 589 between 1961 and 1980). Britain does not even have local authorities in its villages, with the basic unit being the district with an average population of 120,000.[23]

Improving Transparency: There is a major need to increase policy measures that are clear about who is taking the decisions, what the measures are, who is gaining from them and who is paying for them in order to achieve a democratic regime in local governments.

Introducing a New Legal System: The legal system regarding local government administration is very old, such as the 1930 the Municipalities Law, and does not meet the changing needs of local governments. Therefore, the legal system should be renewed in a way that it will lessen the role of the central government over the local government authority.

Strengthening Subnational Statistics: The existence of subnational data is crucial in terms of providing information to municipal governments in designing policies, monitoring their performance, increasing the living standards of citizens and reducing poverty. While it is possible to find updated and detailed subnational data for Poland, the options are fairly restricted for Turkey, especially on the expenditure side.

To sum up, local government reform, when implemented correctly and efficiently, could improve services for all citizens. With the transfer of power from the higher to the lower levels of government, local governments could become the main providers of basic services such as education and health. The central government could also benefit from

[23] Ebel, Robert et al. 2000. p. 8

efficient local governments, and would be able to better focus its resources on policy-making and would not be diverted so much by arising issues on the local level. At the same time, good performance on the local level would strengthen the overall legitimacy of the State. However, one should bear in mind that the successful completion of local government reform is a joint responsibility of both central and local governments that require mutual efforts.

ANNEX

Annex I: Types of Local Authorities in Turkey

i) ***Special Provincial Administration (SPA):***

Turkey is divided into 81 provinces. In addition to the provincial offices of central government departments, bodies known as Special Provincial Administrations (SPAs) function as a local unit of government. They carry out tasks in the regions beyond municipal boundaries, within their respective provinces. Moreover, they act as an assisting agent to the services carried out by the central administrative organizations. Once a province is established, the special provincial administration is established as well. It is also important to emphasize that although local governments have existed for almost 150 years in Turkey, SPAs and villages physically exist but functionally they do not have much significance.

Duties of SPAs include health, social aid, public works, culture education, agriculture, and economy.

- Duties Concerning Health and Social Aid: To build hospitals, health and social aid centers such as houses for orphans and the poor, drying the marshy areas and carrying out tasks concerning environmental health assigned to these administrations by the Public Hygiene Law and employing the required personnel, and sparing allowance for the needy families of soldiers.
- Duties Concerning Public Works: To provide construction, maintenance, and repair provincial roads, provide drinking water for villages, build bridges and ports in the cities, provide boats and other vehicles to carry people and goods, and give privilege to the undertakings to be established for public services such as natural gas and drinking water.
- Duties Concerning Culture and Education: To open secondary schools of arts and professions, build primary school buildings, pay the salaries of employees, open night schools, public classes and courses, arrange conferences, establish printing press, print newspapers, and give permission for the opening of private schools.
- Duties Concerning Agriculture: To found farms and nurseries, vaccinate wild trees, open storage for the vehicles of agriculture in order to rent to the farmers, found storage for breeding animals, improve the pastures for the development of stock-breeding, and build new pastures.
- Duties Concerning the Economy: To establish “economic, reputation and collection funds” for the province and give permission for these, establish chambers and stock exchanges for the development of industry and trade in the province, and open exhibitions, bazaars, public shopping utilities and museums.

The Special Provincial Administration has three organs:

a) Provincial Council: Provincial council is the ultimate decision-making organ of the SPA. It consists of members elected on behalf of the districts. The office term for the members is 5years. The number of members to be elected by the provincial council depends on the number of districts in that city and the population of the districts. The largest provincial council in Turkey is that of Istanbul with 211 members, and the smallest is of Bayburt with 9 members. The average number of members in a provincial council is 39.

b) Provincial Executive Committee: The secondary decision-taking organ of SPA is the executive committee. It is headed by the Governor and is composed of five members elected from among the members of the provincial council. Office term for the members of the provincial executive committee is 1 year, and reelection is possible for the members who complete their terms.

c) Governor: The Governor, who is appointed by the decision of the Council of Ministers and approval of the President, is the head and the highest authority of the central administration in the province.

ii) Municipality:

Municipalities are a form of local authority established to function in areas with a population of more than 2,000 inhabitants. There are three kinds of municipalities with varying responsibilities, powers and resources in Turkey: Metropolitan municipalities, district municipalities (within metropolitan areas), and municipalities in other urban localities. At the national level, municipalities are represented by the Turkish Municipal Association. There are also several unions of municipalities that function at the regional level such as the Union of Municipalities in the Marmara Region and the Union of Aegean Municipalities.

Municipalities are authorized:

- To impose and enforce rules and municipal prohibitions where prescribed by law,
- To punish those violating the prohibitions,
- To collect municipal taxes, duties and fees,
- To set up drinking water, city gas, electricity and transport facilities and networks or transfer their operational rights.
- To run transport vehicles within the municipal borders.

Municipalities have three organs:
a) Municipal Council: The council is the main decision-making body of the municipality and has members between 9 and 55 depending on the municipal population. The members are elected among the municipal population and stay in office for the period of 5 years.

b) Municipal Executive Committee: The executive committee is the decision taking, execution and counseling organ of the municipality. It is composed of mayor, heads of the municipality service units and members elected by the municipal council from its members. The office term for the members of the committee is one year. Nevertheless, reelection is possible for the members who have completed their terms. The committee consists of both elected representatives and appointed members of the municipal staff. The number of elected members may not exceed half the number of appointed members, and may not be less than two.

c) Mayor: Mayor is the head and executive organ of the municipality and is elected by public ballot every 5 years. Although mayors stand for election as candidates of political parties, once elected they are obliged to resign from any administrative role in their parties. Each district elects its own mayor and municipal assembly members.

There are two major issues that can terminate a mayor's term of office before the elections:

- If the municipal council finds the mayor's annual activity report unsatisfactory by a two-thirds of majority vote (three-quarters majority in metropolitan municipalities),
- If the mayor's answers to the councilor's questions are considered to be unsatisfactory by a two-thirds majority (three-quarters majority in metropolitan municipalities), the mayor may be dismissed by the Council of State.

***Metropolitan Municipality*:**

Metropolitan municipality is a municipality with more than one district or lower-tier municipality within its boundaries. The largest metropolitan municipality in Turkey is Istanbul with about 10,000,000 population and the smallest is Bayburt with around 97,000 population. Metropolitan areas were formed as result of increases in population and inland migration.
Metropolitan municipality consists of three organs:

a) Metropolitan municipal council: The council, whose chair is the metropolitan mayor for a period of five years, is the ultimate decision-taking organ of this authority. In addition to its own duties, the metropolitan council discusses and approves some of the decisions of district municipalities. For instance, the council takes decisions that provide solidarity and conformity among the overall integrity of the metropolis in services carried out by district municipalities. Metropolitan council also has the right to discuss and approve some of the decisions of district municipalities.

b) Metropolitan executive committee: The executive committee is a decision-taking, execution and an advisory body of the municipality. It is headed either by the mayor or someone assigned by the mayor, and is made up of secretary general and heads of units of construction, public works, legal affairs, accounting and personnel. The metropolitan mayor is responsible for performing the duties assigned to him by law, and execution, coordination, representation and supervision of services to be carried out between the district and lower level municipalities.

iii) Villages:

Villages are traditional settlements where municipal administration has not been founded. They are small settlements with vineyards, orchards and gardens. A village administration is formed in villages where at least 150 people live. The village administration has obligatory and optional duties. Obligatory duties include the protection of health, strengthening of social relations, maintenance of order and security, waste removal, public works and cultural affairs. Discretionary duties are services such as building of public baths, laundries, bazaars and marketplaces. There is a decrease in the number of villages established. The basic body in the village administration is the Village Assembly. This assembly, composed of villagers over the age of 21, elects the village headman (*Muhtar*) and members of the Council of Elders. It decides whether some optional duties should be made obligatory and determines the salary of the headman. Village administration, like provincial administration, is a mixture of elected and non-elected members. It includes the village headman, who is elected, and a village council, which has elected members, appointed members and some natural members.

The village administration consists of three organs:

a) Village society: Village society is composed of all the voters who have the right to elect the headman and the members of council of elderly and is responsible for decision-taking. Since the village society is composed of the entire local electorate, it is considered as direct democracy. The responsibilities of the village society include electing the village headman and the council of elderly; deciding whether a discretionary work is to be made compulsory; defining the wage to be paid to the village watchman and other village employees; electing the person to represent the legal personality of the village in lawsuits to be dealt due to disputes among the legal personality of the village and headman or council of elderly.

b) Council of elderly: Council of elderly carries out village works, takes decisions regarding their implementation, and supervises them. The council is headed by headman, and consists of elected and natural members. Elected members are appointed by the village society for a term of five years. The council of elderly has administrative, supervisory and judicial tasks. The administrative tasks include discussing compulsory works and deciding which ones should be realized by *imece* (the collective physical working of villagers to carry out compulsory works of village) and which ones by paying money, and determining how long the villagers are to work for compulsory works of the village.

c) Headman: Headman is the highest-ranking administrative person of village and head of legal personality of village. He or she represents both the central government and villagers for 5 years.

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Annex II: Revenues of Local Governments in Turkey

i) ***Special Provincial Administrations (SPAs):***

a) **In-House Revenue:** This is a very small portion of overall SPA revenue (about 1.5 %). It includes:

- Revenues from taxes, duties, fees and legal contributions, which are formally authorized by special laws.
- Income of yields from investments and activities
- Revenues arising out of utilization of moveable and immoveable property
- Revenues of commercial bills, shares and interests of money deposited in the banks.

b) **Shares from Revenues of the State**: Law no. 2380 states that 1.70 % of the total collection of the state budget tax revenues be granted to Special Provincial Administrations. Moreover, 15 % of the property tax collected by municipalities is granted to SPAs. The share from national tax revenues is deposited at the Bank of Provinces, which then transfers them to the SPA of each province based on their population.

c) **Aids from the State**: Central administration provides aid to SPAs due to their insufficient revenues. The state aids include allocations from the Provincial Special Administrations Fund and Local Authorities Fund, and the amounts transferred from the Ministry of National Education, Village Services General Directorate, General Directorate of Youth and Sports and the budgets of the State Planning Organization.

For special provincial administrations, other sources of income have a share in the total income (including income tax) of 80.79%, as follows:

- Shares of provincial private administrations and revenue of institutions and enterprises managed by provincial private administrations: 0.6 %
- Revenue from properties of SPAs: 8.23 %
- Other revenue and fines: 41.82 %
- Special revenue and funds: 30.14 %

ii) ***Municipalities*****:**

Local revenues of municipalities include various taxes, user charges, and revenues other than taxes. The tax rates, which are decided upon by the Municipal Revenues Law No. 2464 of 1981, are not subject to municipal intervention. In other words, local municipalities are authorized to assess and collect taxes but cannot determine tax bases and rates, which is the responsibility of the central government.

a) **Municipal taxes:** Municipal authorities are entitled to directly collect special taxes according to the Act of Municipal Incomes (No. 2464). Property tax, advertisement tax, entertainment tax, communications tax, tax on electricity and gas consumption, fire insurance tax, and environmental sanitation tax are the most significant municipal taxes.

All taxes, except for communication tax and entertainment tax, are collected only by municipalities. Communication tax is collected by the state for municipalities and the entertainment tax is collected by both municipalities and SPAs.

i) Property Tax: Municipalities are entitled to tax buildings and land within their jurisdictions according to the Law of 1970 on Property Tax. Property tax returns are filed in every four years. While the tax rate for buildings is 0.2 %, if the building is used for residential purposes it is reduced to 0.1 %. However, for newly constructed buildings this tax cannot be lower than the property tax of the land on which it is built. The taxable base for property taxes is the tax value of the property, which is defined as value of the property at the time of declaration. Until 1998, property taxes were collected annually based on property values filed every four years. Since property values were not updated annually, inflation had negative impact on the municipalities' ability to generate property tax revenues. This system has been changed, requiring tax payers to file property taxes annually. Although the real estate tax has a major share in the general budget tax revenues in most developed countries, such as in the UK and the US, where it is about 9%, it is not a major component of municipality revenues in Turkey due to high inflation. The share of the real estate tax was 0.5 to 3.2 %of total revenues of the municipalities in Turkey between 1988 and 1995.

ii) 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. The advertisement, which is a bigger share of municipal taxes in bigger cities than in smaller ones, reached 9.5 % in 1993 and 5.3 % in 1995.

iii) Entertainment Tax: Various forms of entertainment are subject to this tax. Up to 25 % of the ticket price or of the revenue is paid as tax to the related municipality. The share of entertainment tax in municipal tax revenues was 2.0 % in 1993 and 2.1 % in 1995. There is a correlation between the income of the city and the share of the entertainment tax. This is because the ratio is low in small towns with populations less than 5000 and high in metropolitan cities.

iv) Communications Tax: Communications tax signifies that 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. Communications tax had a share of 13.7 % among municipal taxes and was the third most important source of revenue in 1993. Nevertheless, its share reduced to 8.1 % and its rank fell to fifth in 1995.

v) Tax on Electricity and Gas Consumption: 5 % of the sale price of electricity and gas is paid to the municipality. 29.2 % and 22.1 % of municipal taxes were generated from this tax in 1993 and 1995 respectively. The tax on electricity and gas consumption is the second most significant tax revenue source for municipalities. Per capita GDP and climate pay major roles on the level of taxation.

vi) Fire Insurance Tax: 10 % of fire insurance fee is paid to municipalities by insurance firms. The revenue from fire insurance tax is percentage wise higher in metropolitan cities and lower in small settlements. Municipalities in the Aegean region have a higher percentage of revenue from fire insurance tax compared to other regions. This is probably because this region has experienced some severe fire disasters in the past.

vii) Environmental Sanitation Tax: This tax is paid by the users of properties benefiting from sanitation (solid waste and sewerage) services. The annual rate is declared by the related municipality yearly. The share of tax on environment sanitation does not change significantly depending on regions or the size of settlements. Together with real estate tax it makes up 2/3 of the income gained from municipal taxes.

The table below shows the share of municipal tax in total revenue in years 1993 and 1995, and indicates whether it is ad valorem tax. The main problem of local taxes is their vulnerability to a high inflation rate.

Name of tax	**Share of Municipal Tax in Total Revenue in 1993**	**Share of Municipal Tax in Total Revenue in 1995**	**Specific**	**Ad Valorem**[24]
Real Estate Tax	49 %	31 %		
Advertisement Tax	9.5 %	5.3 %	√	
Entertainment Tax	2.0 %	2.1 %	√	√
Communications Tax	13.7 %	8.1 %		√
Tax on Electricity and Gas Consumption	29.2 %	22.1 %		√
Fire Insurance Tax	4.2 %	3.6 %		√
Environmental Sanitation Tax		36 %		

b) **User Charges:** User charges are paid by residents in return for the use of services provided by municipalities. People who do not consume and therefore do not receive the benefits of the related services do not pay for these charges. The share of user charges in total revenues decreased from 10 % to 3 % between 1983 and 1995. Municipalities are not free to set the charges as they wish. The upper and lower limits of the amount to be charged are declared by the Cabinet. User charges are levied on the following services:

- Occupancy of the public places
- Working license on holidays
- Bottling of spring water
- Brokerage fee
- Inspection and control of slaughtering of livestock

[24] The lower and upper limits of the ad valorem tax rates are specified by law

- Examination of weigh and measurement equipment
- Building and construction fees
- Reconstruction fee

iii) *Village Administrations*:

The budget of villages is prepared by the council of elderly and becomes valid with the approval of related civil administrator, i.e. governor.

There are two types of village revenues:

a) In-House Revenues: Revenues from imece, the collective physical working of villagers to carry out compulsory works of village, comprise in-house revenues. Decisions regarding imece are taken by the council of elderly.

b) State Aids: Salma (tax collected from villagers in order to provide local services that cannot be financed by the central government) compose state-aids. The amount of salma depends on the cost of the service involved. The tax is payable either in cash or community service -imece- and village money (the income from operations and rental of properties of village, fines, aids and donations as well as other kinds of fees and charges).

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Annex III: Local Revenues in Poland

i) ***Non-Tax Revenues***

The most important part of non-tax revenue comes from services rendered by the units of local government. These include fees for services such as removal of waste, discharge of waste water, street cleaning, road maintenance, supply of water, heat and electricity to residents, kindergarten fees, swimming pool tickets, museum tickets, etc. However, receipts from services rendered normally do not cover expenditure incurred for that purpose. The delivery of these services is often organized in local government-owned enterprises. The biggest part of non-tax revenue is collected by gminas.

ii) ***Revenues from Taxes***

a) Property tax

There is no doubt that the property tax is by far the most important source of own local revenues. It is paid both by physical persons and by legal entities. The list of subjects of taxation includes:

- buildings or their parts;
- other architectural structures
- plots of land which are not subject of agriculture or forest taxes; lakes, water reservoirs;
- plots of agricultural land or forests, which are used for commercial activity other than
- agriculture or forestry;

Property tax is paid by the owner of the property (so, for example not by the tenant of the flat). For most of categories the tax is paid "per square meter". The only exception is made for "other architectural structures" (*budowle*) for which the tax depends on the value used for depreciation of these objects. If no depreciation is used by the tax-payer, the base of the tax is a market value of the object. It is local government administration which is responsible for the property tax collection and administration. In case of individual tax payers it is an obligation of the administration to deliver the information on the amount to be paid (i.e. the home owner who has not received such information from the town hall does not need to pay). In case of legal entities, the tax payer is obliged to calculate and pay its tax regardless whether such a notification has been delivered.

b) Agriculture tax

The tax on agriculture is the second most important local tax. The basic tax rate is defined centrally but local council may reduce the tax rate. The tax is typically paid by the owner of the farm or by the farmer who rents the farm. According to the tax regulations, it does not matter whether the area is actually cultivated or not. The tax is paid per hectare; however, the area is additionally weighed by the quality of soil, and economic and climate environment for farming activity.

There are several tax exemptions, which are decided in the law, such as:

- farms on soils of the lowest quality,
- farms on which the production has been stopped, but for no longer than 3 years.

c) Tax on vehicles

The tax is paid to the municipal government, on which territory the tax payer lives or on which territory the company (which is the owner of the vehicle) is registered. Until 1998 it was a significant source of local revenues, since the tax was levied on every motor vehicle. But since 1998 the tax base has been limited. Presently, the tax is levied on owners of: lorries with a load capacity over 2 tons, tractors, buses and trailers with a load capacity over 5 tons.

d) Other local taxes

Remaining local taxes have only a very limited importance for municipal budgets. The forest tax, for instance, is based on very similar principles to the tax on agriculture, and the base for the tax rate is in this case a market price of the cubic meter of wood. Moreover, tax on dog owners brings very low revenue and it is not imposed by some local governments. The rates of the remaining taxes, which are revenues of local governments (tax on civil law activities, tax on legacies and donations, tax on small businesses), are set on a central level, and municipal council cannot change them. The only discretion to decide upon local policies related to these taxes is granting individual tax exemptions or reductions. Finally, the tax on small businesses is a flat rate income tax levied on some small enterprises, such as taxi drivers and hair-dressers.

Sources:

Swianiewicz, Pawel. 2003. “Intergovernmental Finance System in Poland”. Warsaw, Poland: Warsaw University.

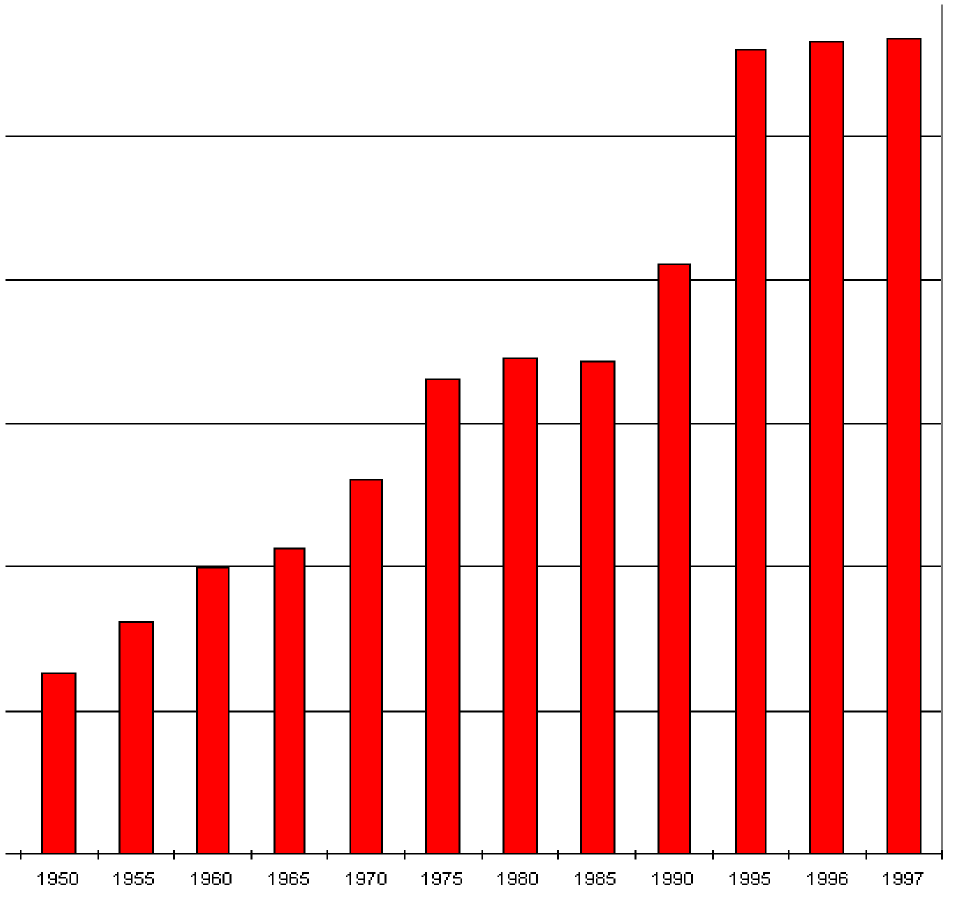
APPENDIX

Table 1: Municipalities in Turkey

Population Size	Number of Municipalities	%	Total Population	%
0-2000	398	12.4	640.685	1.3
2001-5000	1750	54.5	5.071.517	10.5
5001-10000	459	14.3	3.093.641	6.3
10001-20000	242	7.6	3.308.077	6.8
20001-50000	169	5.3	5.233.931	10.8
50001-100000	83	2.7	5.891.050	12.0
100001-250000	62	2.0	10.252.059	21.0
more than 250000	37	1.2	15.272.271	31.3
Metropolitan Municipalities	16	-	-	-
Total	3216	100.0	48.763.231	100.0

Source : Ministry of Interior. Local Authorities website (http://www.mahalli-idareler.gov.tr). Accessed in March 2004.

Table 2: Increase of Number of Municipalities in Turkey



Source: World Bank. Intergovernmental Fiscal Relations and Local Financial Program Website. Accessed in April 2004. (http://www1.worldbank.org/wbiep/decentralization/Courses/Turkey%206.21.99/Tablo2.gif)

Table 3: Local Taxes and Charging Bodies in Poland

<table>
<tr><th>Tax Type</th><th>Entities Obliged to Pay Taxes</th><th>Budget Eligible to Receive Tax</th></tr>
<tr><td>Real estate tax</td><td rowspan="2">Legal entities, individuals, non-corporate organisations</td><td rowspan="7">Gmina budgets</td></tr>
<tr><td>Tax on means of Transportation</td></tr>
<tr><td>Dog Tax</td><td>Individuals</td></tr>
<tr><td>Agricultural tax</td><td rowspan="2">Legal entities, individuals, non-corporate organisations</td></tr>
<tr><td>Forest tax</td></tr>
<tr><td>Inheritance and gift tax</td><td>Individuals</td></tr>
<tr><td>Taxes payable under tax card</td><td>Individuals</td></tr>
<tr><td>Personal income tax (PIT)</td><td>Individuals</td><td>State budget, gmina budget (27.6 % of PIT), poviat budgets (1 % of PIT) and voivodship budgets (1.5 % of PIT)</td></tr>
<tr><td>Corporate income tax (CIT)</td><td>Legal entities, non-corporate organisations</td><td>State budget, gmina budget (5 % of CIT) and voivodship budgets (O.5 of CIT)</td></tr>
</table>

Table 4: Total Revenue by Level of Government in Poland - 1999

	Central government	**Local government**	**General Government (consolidated)**
Tax revenue as % of GDP	19.56 %	2.93 %	35.12 %
Subnational tax revenue as % of total tax revenue	--	8.35 %	100 %

Source: OECD. 2001. "Fiscal Design Across Levels of Government Country Report-Poland". Paris, France: OECD.

Table 5: Borrowing as a Share of Municipal Resources in Turkey (%)

	1983	1985	1987	1989	1991	1993	1995	1998
Borrowing	7.9	7.1	17.2	15.3	15.7	26.7	15.8	19.7
Internal	7.9	5.5	13.0	7.8	7.9	12.6	11.1	12.5
External	0.0	1.6	4.2	7.5	7.8	14.1	4.6	7.1

Source: State Planning Organization.2000. "Eighth Five-Year Development Plan". Ankara, Turkey: State Planning Organization.

Table 6: Borrowing Sources and Investments in Turkey

	Total	Large Municipalities (> 500,000 population)	Other Municipalities
Domestic loans	2.6%	1.3%	1.3%
Foreign loans	8.4%	7.4%	1.0%
Total loans	11.0%	8.7%	2.3%
Total investments	30.6%	15.8%	14.8%

Source: World Bank. 2002. "Turkey: Local Government Sector Review". Washington DC: World Bank.

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