Academic Studies in Social, Humanities and Administrative Sciences

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Gazi Kitabevi

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"En İyi Akademi, Bir Kitaplıktır."

Acedemic Studies in Social, Humanities and Administrative Sciences

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APPRECIATION

This e-book study, which is shaped according to today's social and economic problems, is the product of the valuable efforts of our productive academicians with whom we are happy to be together. In the book, there are headings about the political parties' approach to animal rights in elections, the use of artificial intelligence in management, the effects of unregistered employment on occupational health and safety, the provincial cost of migration, the analysis of the economic democracy index of municipalities in Turkey, the importance of lithium resources in the Chilean economy and green finance, environmental responsibility, clean energy and clean technology and the relationship among the environmental responsibility between energy and clean technologies.

We would like to thank all the authors who contributed to our book. It will be helpful for academicians in their future studies. We wish the reader enjoyable reading.

Best regards…

Prof. Dr. Berna BALCI İZGİ

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The book has been published by the contributions of our valuable researchers and authors to provide the publication of the studies of researchers studying in the field of academic research in social, economic and administrative sciences and to create a source for research in this field.

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ANALYSIS OF THE FISCAL DEMOCRACY INDEX OF THE MUNICIPALITIES IN TÜRKIYE AND ASSESSMENT OF THE RELATIONSHIP BETWEEN FISCAL AUTONOMY

Gonca GÜNGÖR GÖKSU[1]
Durdane KÜÇÜKAYCAN[2]

Introduction

The Fiscal Democracy Index (FDI), utilized to determine mathematically to what extent fiscal democracy is implemented in a country, denotes the ratio of the total public revenues obtained by the deduction of mandatory public expenditures to the total revenue budget. General conviction suggests that the higher this ratio is, the stronger the fiscal democracy in the relevant country is. In terms of local administrations, fiscal federalism and autonomy are closely related to fiscal democracy. Notably, the local administrations having a sufficient amount of their own income allows them to allocate more resources for optional expenditures in their budgets.

The study seeks to measure the FDI index of Turkish municipalities and to determine the relationship between fiscal autonomy and local FDI. The study analyses the FDIs of the municipalities, divided into four groups for analytical purposes: metropolitan municipalities, metropolitan district municipalities, non-metropolitan provincial municipalities and non-metropolitan district municipalities. The municipalities supervised by the Court of Auditors in Türkiye are included in the scope of the study, and the findings correspond to the municipalities that have been audited by the Court of Audit. In the analysis, the local FDI values of all municipalities have been mathematically calculated by using the final budget income and expenditure amounts of the municipalities retrieved from the reports of the Court of Audit. The conclusion part of the study presents what measures can be taken to increase the local FDI and how the current situation can be improved in Türkiye.

The Conceptual Framework of Fiscal Democracy and Index

Democracy is the rule of the people by the people, where the right to rule belongs to the nation or the people. In democratic countries, the absolute superiority of the nation's will is underlined and guaranteed by the constitution. Democracy has legal, social, political, and economic aspects (Sahin & Uysal, 2013). Democracy refers to the right of citizens to have an equal vote in determining national necessities (Steuerle, 2008). Democracy is essentially a fiscal issue, and determining a country's current needs includes fiscal implications because the participation of citizens in the process of political decision has important fiscal outcomes, and fiscal democracy is closely related to the opportunity of voters to change the government and to determine fiscal policies in line with the election preferences of the governments (Genschel & Schwarz, 2012).

The concept of fiscal democracy, which expresses the financial dimension of democracy, is directly related to the capacity of the legislature to draft a budget for the needs of citizens (Lobna et

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al., 2019) because the right to draft a budget is an essential touchstone in the basic of fiscal democracy, the fiscal dimension of democracy has been established via the recognition of this right, thereby the fiscal sovereignty of the people being promoted. The use of budget right and the active participation of citizens in budget-making are indicators that fiscal democracy functions quite well (Sahin & Uysal, 2013). The capacity of governments to respond to the growing needs of citizens through the budget is fundamental to democratic practices in modern economies, and the existence of the right to the budget, which is an essential indicator of democratization, reinforces the principle of fiscal transparency (Lobna et al., 2019). Towards the end of the 20th century, the citizens' right to information regarding fiscal transparency and accountability gained importance through the development of information and communication technologies, the transition to an information society, and the tendency to question representative democracies (Akcha et al., 2019a). The development of the right to information impacts fiscal transparency and accountability, and it is now effective in the institutionalization of fiscal democracy (Sahin & Uysal, 2013).

To better understand the concept of FDI, the notion of economic-fiscal political heritage should be first examined. The concept of political heritage, an important research topic in the public finance literature since the late 1970s (Akcha et al., 2019a), is determined by the institutional commitments of the ruling government and parliament and is based on laws, institutions and budgets rather than individual preferences (Rose, 1990). A political heritage that is taken over as a compulsory programme can be an obstacle to the allocation of public revenues to meet current public needs (Lobna et al., 2019) because in most democratic countries, the budget deficits and increase in debt stock are opposing heritages to the current governments (Akcha et al., 2019a). Steuerle-Roeper measured the FDI in 2012 to show how economic and fiscal political heritage -economic and financial decisions inherited from the past- shapes today, and how the past decisions affect the future negatively (Steuerle, 2010) since the past decisions are challenges for the public budgets, and affect both the present-time and future decisions. The primary finding of the study on the index calculation suggests that the elected governments are confronted with the governance problem arising from the economic-financial political legacy, and that this problem is relevant to the reduction of the capacity of administrators to find solutions to social problems (Streeck and Mertens, 2010).

FDI is the ratio of the amount reached to the income budget after compulsory expenditures, which are budget expenditures controlled by laws other than appropriation laws (Levit, Austin and Stupak, 2012) are removed. This ratio is related to the flexibility of fiscal funds and calculated as the ratio of public revenues not allocated to these mandatory payments to the budget (Steuerle, 2010). The total of compulsory expenditures consists of staff salaries, social security payment, retired salaries, interest payments (Lobna et al., 2019), current expenditures and transfer payments. As for investment, payments and capital transfers are classified as discretionary expenditures (Akcha et al., 2019a). In the basic FDI, also known as Steuerle-Roeper FDI (Steuerle, 2010), public expenditures are classified as compulsory expenditures and discretionary expenditures (Streeck & Mertens, 2010), and it includes determination of the extent the executive body is flexible while implementing a budget (Akcha e al., 2019a). With FDI, the probability of governments making decisions freely in budget decisions is measured (Sahin & Uysal, 2013), and it is determined how much movement area or fiscal space the countries have in the field of public finances (Akcha et al., 2019a). Because fiscal space means to reduce the foreign dependency of them by ensuring the financing needs of countries for economic growth and development. Thus countries put in force their income and expenditure policies according to their national priorities (Sahin, 2014). The FDI rises with an increasing ratio of discretionary expenditures. Thus, in line with the preferences of citizens, the capacity of governments to introduce new service programs improves. Otherwise, implementing new programmes becomes limited for the governments, and the function of fiscal democracy weakens (Sahin & Uysal, 2013).

Literature Review

The literature review regarding the FDI analysis is limited. The first analysis was conducted in 2010 in the United States (US). The study by Steuerle and Roeper calculated the index value of the United States since 1962 by subtracting compulsory expenditures from the total income (Steuerle, 2016). The index value since 1962 has shown a downward trend since the 1970s. Especially since it was below zero during the 2009 Global Finance Crisis. In this period, compulsory expenditures, including interest payments, also exceeded the total government revenues, and discretionary expenditures were financed by borrowing (Streeck & Mertens, 2010). Germany is another country for which the FDI has been measured. The differentiation of compulsory and discretionary expenditures is not formal in the country. However, four essential expenditure items are allocated: (i) Payments for Nazi victims, (ii) personnel payments, (iii) Incentive payments to social security funds and (iv) Long-term unemployment benefits. In the calculation for Germany, it was determined that FDI values have decreased since the 1970s (Streeck & Mertens, 2010). The FDI was calculated for Czechia between 1995 and 2009, demonstrating that the index value of Czechia declined over time, caused by increases of social expenditures and interest payments in the long term (Akcha at al., 2019a).

Lobna et al. (2019) analyzed FDI the values for Jordan, Egypt, and Tunisia for the period 2010-2017, relying on two different calculation methods. Subsidy payments are not considered in the first calculation. Findings based on the first method suggest that the FDI value of Tunisia declined until 2016 while slightly increasing in 2017. On the other hand, the FDI value in Jordan has followed an unstable trajectory but has been on the rise since 2015. The index value of Egypt decreased until 2015, so dramatically that it was below zero, showing, however, a tendency of slight increase since then. The second method included the subsidy payments and features the index results for the three countries that are much lower than the figures in the first. The FDI value for Egypt was lower than minus 10 in all years examined, and the value for Jordan was under zero from 2011 to 2013, whereas the value for Tunisia was stable compared to the other two countries.

Akcha et al. (2019a) calculated the Turkish FDI value for the period between 1950 and 2018. The findings proposed that the index value, negative in 1950, began to rise in 1960, but the index declined by half because of the 1960 military coup. Although it improved since the middle of the 1970s, the index suffered from a sharp decline again with the 1980 military coup. The index value fell below the 1950 level due to the impacts of the 1994, 1998 and 2001 crises, falling to around minus 10. The recovery process started again in the mid-2000s, but Global Financial Crisis in 2008-2009 affected Türkiye. Even though it partially recovered post-global crisis, the FDI index of Türkiye remained far below the high rates attained in the past. Another study by Akcha et al. (2019b) analysed the FDI of the Turkish Central Government between 1980 and 2018 by relying on two different models of panel data analysis.

The Impact of Local Fiscal Autonomy on the FDI

To become autonomous, the local administrations must have sufficient sources of their income and must be equipped with powers such as taxing and setting rates at the local level (Ulusoy & Akdemir, 2009). Having sufficient income and being less dependent on the central government positively affect their service capacity. Thus, these administrations can expand their service range and allocate more resources for their optional expenditures in their budgets (Ulusoy & Tekdere, 2019). While the FDI value of local administrations increases, on the other hand, the size of their fiscal space will expand. But if local administrations have unproductive income sources, and sources of income against economic fluctuations are inflexible, the FDI will be affected negatively. Under these conditions, they may also experience insufficient allocation of resources for discretionary expenditures, and the FDI value may decrease. Local administrations with strong fiscal autonomy and

with self-income will rarely rely on borrowing, enabling them to reduce the expenditures allocated to the interest payments in the budget (Ulusoy & Akdemir, 2009), thus effectively taking them out of the debt-interest spiral (Ulusoy & Tekdere, 2019). With the decline of the proportions in the budget of interest rates referred to as compulsory expenditures, the total amount of compulsory expenditures will also decline; and while discretionary expenditures rise, the FDI is affected positively.

Another regulation that may create a positive effect on the FDI is that local donations, as stated in the European Charter of Local Self – Government are not as conditional much as possible. Under this regulation, local administrations are not obligated to make investments and produce services requested by the central governments (Yontar & Dağ, 2014) because conditional donations undermine fiscal autonomy, and also the arbitrary practices of the central government cause both resource constraints and the formation of an administrative structure dependent on a high level of central government (Ulusoy & Akdemir, 2009). On the contrary, when they do not have to depend on the donations and aids for special purposes allows the local administrations to determine their expenditures in accordance with their own plans and policies, thus encouraging them to create an environment that will strengthen fiscal democracy. Providing offsetting allowance to local administrations with limited fiscal sources (Ulusoy and Akdemir, 2009) is a solution for the protection of weak local administrations and the performance of local services (Yontar and Dağ, 2014). For example, in Türkiye, some of the central budget tax revenues allocated to local administrations are collected in another account in order to be distributed to the local administrations in need again. This process is called offsetting allowance (Cetinkaya, 2020), and this appropriation is seen as a second offsetting mechanism among municipalities after the distribution of general budget tax revenues (Marmara Municipalities Union, 2015). Discretionary expenditures might likely be halted for underdeveloped local administrations. Thus, supporting local administrations with insufficient income ensures that more resources are allocated for optional expenditures.

In addition, one aspect of the relationship between fiscal autonomy and fiscal democracy concerns participation. When they provide a substantial part of the revenues of the local administrations, the people will tend to ask for a visible return for what they have paid in form of taxes and to become more ambitious to take part in the decision-making of the budget deliberations. Fiscal autonomy, thus, encourages local participation and offers an incentive for change in the political behaviours of the people (Cetinkaya, 2020). Ultimately, when fiscal democracy improves, the public will determine where and how part of the discretionary expenditures will be spent.

Research Methodology

The current status of municipalities in Türkiye using the proportionate method of analysis for the purposes of the study are investigated. For this reason, the study first retrieves the actual budget revenues and expenditures of the municipalities. The universe of the research includes all municipalities in Türkiye. The sample of the study includes the municipalities in Türkiye whose audit reports for the 2012-2018 fiscal years by the Court were made public. The study chooses the year 2012 as the start of the analysis because it is since when the Court of Accounts decided to share the Public Administrations Audit Reports. Table 1 presents quantitative information about the municipalities that make up the sample of the research by years.

Table 1. Numbers of analyzed municipalities

Municipalities	2012	2013	2014	2015	2016	2017	2018
Metropolitan	16	16	30	30	30	30	30
Metropolitan District	39	62	96	112	122	129	119
Provincial	51	60	51	51	38	28	20
District	7	14	17	15	10	14	19
Total	113	152	194	208	200	201	188

Source: Public Administrations Audit Reports of the Court of Accounts.

The study analyzes the actual budget revenues and expenditures of metropolitan, metropolitan district, provincial and district municipalities audited by the Turkish Court of Accounts (TCA 2019) for the period 2012-2018. Other municipalities that were not audited by the Court of Accounts are not included in the scope. The audit reports by the Court of Accounts have been retrieved from the Public Administrations Audit Reports section under the heading of the reports on the official website of the TCA. The auditing reports, done by the TCA, are presented to the public in the form of reports since the 2012 fiscal year. Both the regularity and performance audit results of each public administration can be accessed in the reports that consist of two main sections: one on the information on the regularity audit of the public administrations, and another section on the results of the performance audit of the same administration. Thus, within the scope of the analysis, the actual budget revenues and expenditures of each municipality audited in the relevant reports are examined.

The total expenditures of the municipalities for the relevant fiscal year are presented in the budget expenditure estimation and actual amount table in the reports. As stated in the theoretical part, it is a prerequisite for the FDI to be calculated as mandatory and discretionary expenditures. In calculating the FDI for the municipalities, an evaluation was made of the economic classification within the scope of the analytical budget classification. Accordingly, personnel expenditures, premium payments to social security institutions, purchase of goods and services, interest payments and current transfers are considered compulsory expenditures. Discretionary expenditures consist of capital expenditures, capital transfers and lending schemes. In this context, in the first stage of the analysis, discretionary expenditures were identified by using the formula below.

$$\text{Total Expenditures} - \text{Total Mandatory Expenditures} = \text{Total Discretionary Expenditure} \quad (1)$$

In order to reach the final result of the FDI, the remaining amount (the sum of discretionary expenditures) after subtracting the mandatory expenditures from the total expenditure budget in the second stage of the analysis should be proportioned to the revenue budget of the relevant municipality. The second formula used in the FDI index calculations is given below. The method used in the literature was used to reach the FDI, known as Steuerle-Roeper Index, in the research (Steuerle, 2010). According to the literature, the remaining amount after deducting the mandatory expenditures from the total expenditure budget of the municipality is the total of discretionary expenditures. For FDI, the total discretionary expenditures of the municipality must be proportioned to the total revenue. The second formula used in the FDI calculations is below.

$$\frac{\text{Total Discretionary Expenditures}}{\text{Total Public Revenues}} = \text{Fiscal Democracy Index} \quad (2)$$

Results and Discussion

With the enactment of Law No. 6360, a remarkable increase was experienced in the duties and responsibilities of metropolitan municipalities, provoking discussions on fiscal autonomy once again because, with the abolition of the legal personality of the special provincial administrations, the duties and responsibilities of these administrations were transferred to the metropolitan municipalities (Ulusoy & Tekdere, 2019).

According to the table, the index values of metropolitan municipalities have declined over time. Especially in 2014, as a result of the transformation of 14 provinces into metropolitan municipalities, the number of metropolitan municipalities increased. Despite this increase in the number of municipalities, the index value has decreased. There has been a reverse development between the number of municipalities and the FDI value. Of the years examined, the lowest index value is from the year 2016, which can be attributed to the coup attempt against the government in 2016. Some increases in the index value in 2017 and 2018 contributed to the expansion of the financial area of metropolitan municipalities. However, this increase is lower than the results calculated for 16 metropolitan municipalities between 2012 and 2014. The FDI values of metropolitan municipalities are presented separately in Table 2.

Table 2. FDI Values of Metropolitan Municipalities

Mun.	2012	2013	2014	2015	2016	2017	2018	Ave.
Adana	31,9	35,9	37,4	6,2	-1,9	-0,9	-7,0	16,5
Ankara	46,4	40,2	30,3	40,9	42,1	46,9	49,5	43,3
Antalya	-3,7	19,1	1,8	41,5	27,3	35,9	35,1	23,5
Aydin	-	21,0	55,0	41,9	25,6	31,8	28,6	34,0
Balikesir	-3,7	29,3	51,6	48,8	25,8	20,3	45,9	32,2
Bursa	47,7	39,6	42,6	38,4	30,7	40,2	35,7	39,2
Denizli	47,7	55,1	-5,4	47,1	43,3	48,1	28,4	37,7
Diyar.	7,2	10,9	37,3	-7,81	18,0	61,1	42,9	24,2
Erzurum	28,1	38,3	37,9	-7,8	18,0	61,1	42,9	31,2
Eskişehir	25,4	20,0	28,3	23,2	16,0	27,3	28,3	24,1
Gazi.	47,9	52,2	45,5	26,6	23,3	39,7	40,2	39,3
Hatay	-	29,0	69,0	44,6	26,3	29,0	33,5	38,6
İstanbul	60,8	64,6	67,4	53,7	49,5	48,3	50,1	56,3
İzmir	58,6	52,7	59,6	54,7	51,1	53,9	52,8	54,8
Kahra.	23,7	43,3	63,4	33,2	23,8	22,8	18,7	39,5
Kayseri	46,5	59,3	57,2	58,2	41,4	35,0	42,6	48,6
Kocaeli	45,6	54,2	43,1	53,4	52,4	48,0	47,5	49,2
Konya	38,8	5,4	25,7	18,9	39,6	21,6	39,1	27,0
Malatya	-	11,9	20,0	13,6	10,9	19,8	37,9	19,0
Manisa	43,7	38,5	46,5	-6,1	42,9	37,8	40,3	41,4
Mardin	-14,0	7,8	59,0	52,6	42,6	36,6	28,0	30,3
Mersin	29,7	34,3	33,2	18,2	-29,6	12,6	12,6	15,8
Muğla	30,8	29,2	69,2	52,7	39,5	46,0	47,6	45,0
Ordu	-	-	35,2	30,7	15,7	32,0	27,3	28,2
Sakarya	30,3	33,3	39,7	39,4	43,2	30,4	34,8	35,9
Samsun	34,1	32,1	30,6	41,8	41,0	41,8	33,8	36,5
Şanliurfa	26,1	45,4	33,6	50,0	47,2	38,4	44,6	40,8
Tekirdağ	27,9	18,0	72,1	53,4	38,1	48,2	44,1	43,1
Trabzon	13,8	18,2	46,8	47,8	24,8	31,2	36,0	31,2
Van	14,4	28,9	38,8	18,0	14,3	23,2	23,8	23,0

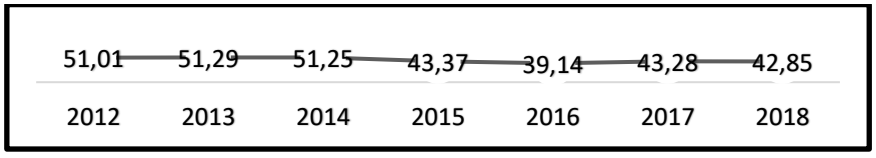
(-): Null **Source:** Calculated with the data in Regularity Audit Reports of the Court of Accounts.

According to the table, the FDI values of metropolitan municipalities vary by year. However, when analyzed in terms of the averages of the relevant years, the index average in Istanbul and Izmir is above 50 per cent, while the index values of Kocaeli, Kayseri, Ankara, Muğla, Manisa, Şanlıurfa and Tekirdağ are between 40-49 per cent. The most striking result in the table is the index value of Adana Metropolitan Municipality. According to the socio-economic development ranking analysis conducted by the Republic of Türkiye Ministry of Industry and Technology (2017), Adana was placed among the 30 most advanced provinces in Türkiye. However, the average FDI is 16.52 per cent. Especially in recent years, the local FDI value of Adana Metropolitan Municipality has been calculated as negative (negative value). This means that the metropolitan municipality's ordinary revenues are insufficient to meet even the obligatory expenditures. The same research ranked Bursa as the fifth most advanced province. The average index value of the Bursa Metropolitan Municipality is 39.29 per cent and there has been a decrease in the index value of the Bursa Metropolitan Municipality in recent years. The average index values of Eskişehir and Antalya Metropolitan Municipalities are also lower than 25 per cent.

An analysis of the situation of metropolitan municipalities in the Southeast and East Anatolia reveals that the average index values are less than the metropolitan cities in other regions. Except for Şanlıurfa, Kahramanmaraş and Gaziantep provinces, the average local FDI values of metropolitan municipalities in these regions is 30 per cent or less. An assessment of the case in the metropolitan cities in the Black Sea Region shows that the average index values of Ordu and Trabzon Metropolitan Municipalities is around 30 per cent. However, since the economic classification of the budget income and expenditure realization figures in the audit report of the Municipality of Ordu in 2012 and 2013 was not reached, the local FDI value for these years could not be calculated. The lowest average index value among metropolitan municipalities belongs to Mersin Municipality. In 2016, the local FDI value of Mersin Metropolitan Municipality was minus 29.64. Based on a general analysis of the data in Table 4, it can be stated that municipalities that did not have the status of metropolitan municipalities before Law No.6360 were inadequate to meet the current and transfer expenditures, which were considered mandatory, and their fiscal areas were considerably narrowed. The possibility of municipalities applying for extraordinary incomes (such as borrowing) for investment expenditures, which are expressed voluntarily, may increase, especially in the years when the local FDI decreases. One of the main reasons metropolitan municipalities allocate a large portion of their total revenues to mandatory expenditures and allocate a small share for discretionary expenditures can be attributed to poor fiscal autonomy because municipal administrations in Türkiye are dependent on central government transfers and a high level of inadequate revenues.

With the adoption of Law No. 6360, there has been a severe increase in the duties and responsibilities of metropolitan municipalities. With the implementation of the law that resulted in the abolition of the legal personality of the particular provincial administrations within the metropolitan borders, metropolitan municipalities had to undertake the duties of extraordinary provincial administrations. The fact that the total revenues of the metropolitan municipalities are insufficient to meet the services they undertake brings to the agenda that they should be more financially autonomous not only in the law texts but also in practice. With Law No. 6360, the loss of the spending capacity of other municipalities to the metropolitan municipalities increases the importance of the relevant municipalities.

Graph 1 Average FDI Value of Metropolitan Municipalities



Source: Calculated with the data in Regularity Audit Reports of the Court of Accounts.

The second municipal group investigated in the study is metropolitan district municipalities. The FDI values of metropolitan district municipalities are presented in Table 3. There has been a remarkable increase in the number of metropolitan district municipalities audited by the TCA during the years examined. Especially in recent years, the number of metropolitan district municipalities audited by the Court of Accounts is around 120.

Table 3. FDI Values of Metropolitan District Municipalities

Year	Number of Municipalities	FDI
2012	39	23,79
2013	62	25,32
2014	96	26,24
2015	112	22,15
2016	122	16,16
2017	129	17,73
2018	119	10,00

Source: Calculated with the data in Regularity Audit Reports of the Court of Accounts.

In the report drafted by the Special Expertise Commission of Local Administrations in 2014, it was emphasized that especially small municipalities experienced a bottleneck in creating funds (Republic of Türkiye State Planning Organization 2014). In addition, small municipalities that are financially inadequate and unable to borrow have problems even in financing social projects (the Republic of Türkiye Presidency Strategy and Budget, 2019). According to Table 5, the FDI value of metropolitan district municipalities has started to decrease over time. In 2018, the FDI value was calculated as 10 per cent. This value shows that metropolitan district municipalities allocate a large part of their total income to their mandatory expenditures and their financial areas have shrunk.

Provincial municipalities with no metropolitan status were subjected to a new regulation with Municipal Law No. 5393, adopted in 2005. First, the practice of differentiating municipal duties according to the income groups of municipalities has been abandoned. However, the evaluation of municipalities equally in terms of structure and size (as provincial, district and town municipalities) has led to the evaluation of all municipalities equally, regardless of their size, in the context of their mandatory and discretionary duties. Since 2014, the number of other provincial municipalities other than the metropolitan city has decreased from 65 to 51. Table 4 includes the FDI values calculated using the data obtained from the TCA audit reports drafted for other provincial municipalities.

Table 4. FDI Values of Provincial Municipalities

Year	Num. of Municipalities	FDI
2012	51	26,47
2013	60	26,54
2014	51	24,95
2015	51	25,70
2016	38	22,36
2017	28	24,05
2018	20	15,05

Source: Calculated with the data in Regularity Audit Reports of the Court of Accounts.

According to the table, 10% decrease in the index value in recent years is remarkable, indicating that the fiscal areas of other provincial municipalities have shrunk and a small part of their ordinary income is allocated to discretionary expenditures. Although the index value was interrupted in 2016, it increased slightly in 2017. However, by 2018, there was a decline by 10 per cent in the index value. In

addition, it is understood that the FDI value of the municipalities examined in this group is quite low compared to the general average of metropolitan municipalities. The result suggests that other provincial municipalities, such as metropolitan municipalities, are not sufficiently autonomous financially and have an insufficient income of their own. Similarly, the increase in the level of fiscal autonomy of the municipalities in this group contributes to the increase of the local FDI value. Table 5 contains the local FDI values of the district municipalities in the provinces with no metropolitan status.

Table 5. FDI Values of District Municipalities (2012-2018)

Year	Num.of Municipalities	FDI
2012	7	29,78
2013	14	24,21
2014	17	34,73
2015	15	26,52
2016	10	14,71
2017	14	15,41
2018	19	12,90

Source: Calculated with the data in Regularity Audit Reports of the Court of Accounts.

The findings in Table 5 suggest that although there has been an increase in the number of district municipalities in provinces other than metropolitan cities audited by the Court of Accounts, the index value of these municipalities has decreased very dramatically that the index value of the district municipalities audited in 2012 is 29 percent, but the relevant value has declined to 12 percent in 2018. When compared to metropolitan district municipalities, the number of district municipalities that are audited by the TCA is quite small. In 2018, a total number of 119 metropolitan district municipalities were audited. However, only 19 district municipalities were audited in the same fiscal year. At the same time, the local FDI values for both metropolitan district municipalities and district municipalities decreased by more than 10 percent from 2012 to 2018, indicating that for both district municipal groups, the amount of income allocated from the municipal budget for mandatory expenditures has increased over time, but a smaller share is allocated from the budget for discretionary expenditures.

Conclusion and Recommendations

This study, focusing on the local FDIs of the municipalities in Türkiye, concludes based on the initial findings that the index values of the metropolitan municipalities are better than those of the other municipalities. One of the most important reasons is that metropolitan municipalities have higher income generation capacity than small municipalities. In addition, the fiscal insufficiency of small municipalities and limited borrowing opportunities pose an obstacle to implementing even social projects. While the index average of metropolitan municipalities is above 40 percent except for 2016, the average of index values for other municipal groups varies between 10-30 percent. In addition, when the year 2016 of the seven-year period covering the 2012-2018 fiscal years is looked at, there was a decrease in the FDI for each municipal group in general. One of the main reasons for this decline can be considered as the financial reflection of the coup attempt in Türkiye in 2016 on municipalities.

While the index value of each municipality group was higher between 2012 and 2014, there has been a decrease in the index values since 2015. These declines may be associated with the consequences of adopting Law No. 6360. After the 2014 local elections, with the implementation of Law No. 6360, 14 provincial and district municipalities affiliated with these municipalities have become metropolitan municipalities. After the March 2014 local elections, the particular provincial administrations and villages, whose legal personalities were abolished, were attached to the metropolitan municipalities together with their movables, immovable and personnel; and a continuous

personnel change was experienced in the following years. Therefore, deviations have also occurred in the estimated budget income and expenditure figures.

Moreover, despite these changes, fiscal decentralization has remained limited and municipalities still need financial resources to fulfil the responsibilities delegated to them. When the change between the analysis's beginning (2012) year and the end (2018) year is examined, an average of 10 per cent decrease has occurred in the 10% index value for each municipality group. In other words, the financial areas of the municipalities have started to decline in recent years. The decrease in the index value means that the municipalities allocate a large part of their ordinary revenues to current and transfer expenditure items considered mandatory. There is an average of 10% decrease in revenues allocated to their discretionary expenditures. It can be interpreted as reducing the capacity of local administrations' capacity to implement new service programs in line with the citizens' preferences and weakening the functionality of fiscal democracy.

Although it is emphasized that municipalities are administratively and financially autonomous in the current legislation on municipalities, the fact that most of their revenues are covered by central transfers shows that the level of fiscal autonomy of the municipalities is inadequate. A number of quantitative and qualitative several studies that investigated the fiscal autonomy level in Türkiye drew attention to this issue, recalling that the municipalities cannot set their own tax policies, also identifying significant flaws such as the municipalities not having sufficient income commensurate with the duties and responsibilities. In other words, the tax revenues of the municipalities are insufficient to meet their expenditures, creating an obstacle in financing the increasing local expenditures. Since the balance of income and expenditure cannot be achieved, the municipalities, having to cut the resources they will allocate to their long-term programs, prefer borrowing and outsourcing as an alternative for investment expenditures.

High dependency on central transfers causes fragility in municipal budgets, while macroeconomic problems and unforeseen fluctuations in central budget applications can directly affect the expenditure policies of municipalities. In addition, there is not a strong link between central transfer payment criteria and expenditures. For this reason, municipalities can have expenditure management supported by fiscal autonomy, with the opportunity to determine their expenditures independently of the central administration. For this, it is recommended that the municipalities spend most of their expenditures through local fiscal resources. In addition, it is important that the municipalities have their own sufficient income and simple and easy-to-implement tax procedure legislation.

Additionally, municipalities should be able to create new sources of income. Maintaining stability over the financial structures of municipalities in order to strengthen the FDI value may enable them to use resources more efficiently. Greater fiscal autonomy in the municipalities in Türkiye will positively impact the local FDI values. For example, the amount of borrowing of municipalities with sufficient income will decrease and the budget share of the interest item, which has a significant share in compulsory expenditures, may decrease as the increase in the interest payments of the municipalities can affect the service provided on the one hand and damage the budget structure on the other.

To improve the existing fiscal situation in municipalities and to strengthen the local FDI, relevant regulations should be introduced to make sure that municipalities will have sufficient income in line with their duties and responsibilities specified in the relevant laws, citizen satisfaction should be prioritized, municipal tax tariffs should be re-examined in line with the economic fluctuations and the municipalities should be recognized greater discretion in determining their tax policies. It is also vital to develop democratic control mechanisms. Thus, the fiscal autonomy level of the municipalities can be improved by realizing the relevant suggestions. In addition, as stated in Article 9 of the European Charter of Local Self-Government, having sufficient fiscal resources proportional to the duties and responsibilities of municipalities in the Constitution and other laws will increase the value of the FDI and support the strengthening of local fiscal democracy.

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