

Japan International Cooperation Agency (JICA)

**State Planning Organization
The Republic of Turkey**

**THE STUDY ON THE REGIONAL DEVELOPMENT PLAN
FOR THE EASTERN BLACK SEA REGION
IN THE REPUBLIC OF TURKEY
(DOKAP)**

Final Report

Volume VII Institutional Development

October 2000

**NIPPON KOEI CO., LTD.
RECS INTERNATIONAL INC.**

LIST OF REPORTS

(This Volume is indicated by)

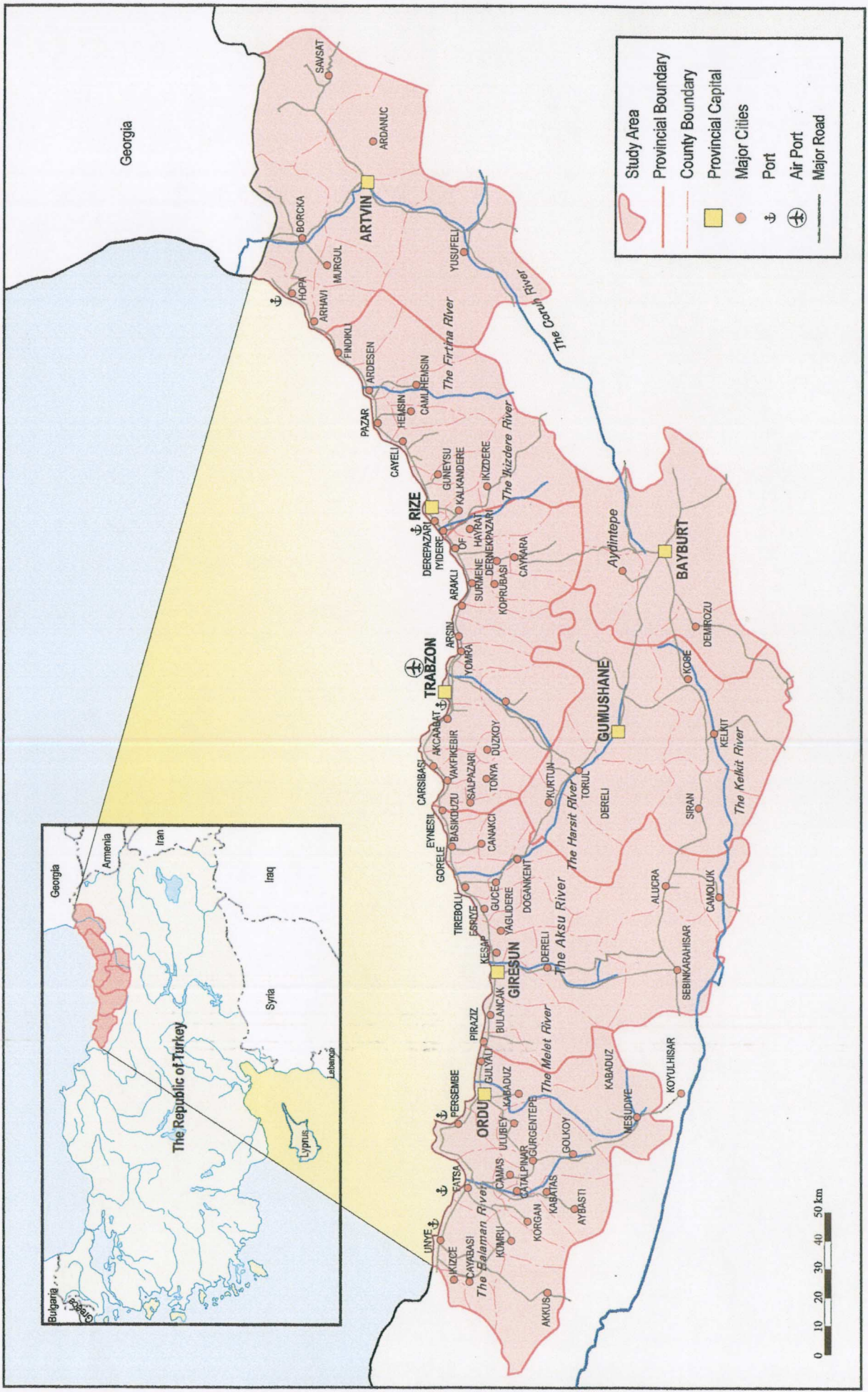
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Volume II	Master Plan
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Currency Equivalents

US\$ 1 = 462,280 TL

1,000 TL = US\$0.00216

(September, 1999)



Location Map

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ABBREVIATIONS

AGM	General Directorate of Afforestation and Erosion Control (Agaçlandırma ve Erozyon Kontrolü Genel Müdürlüğü)
ASOR	International convention on the harmonization of frontier controls acceding to the convention.
BECC	Black Sea Economic Cooperation Council
BOD	Biological Oxygen Demand
BOO	Build, own and operate
BOP	Bank of Provinces
BOT	Build, operate and transfer
BOTAS	Petroleum Pipelines Corporation (Boru Hatları ile Petrol Tasıma A.Ş.)
BSEC	Black Sea Economic Cooperation
BSEAP	Black Sea Environmental Action Plan
CDA	County directorates of agriculture
CI	Corporate Identity
CIS	Commonwealth of Independent States
CMR	Convention on the contract for the international carriage of goods by road
COTIF	Convention Concerning International Carriage by Rail
CS	Customers Satisfaction
DHKD	Society for the Protection of Nature (Doğal Hayati Koruma Derneği)
DOKAP	Eastern Blacksea Regional Development Plan (Doğu Karadeniz Bölgesel Gelişme Planı)
DSİ	General Directorate of State Water Works (Devlet Su İşleri Genel Müd.)
EIA	Environmental impact assessment
EIE	Electrical Power Resources Survey and Development Administration
EİEİ	Electric Survey Administration (Elektrik İşleri Etüt İdaresi)
FAO	Food and Agriculture Organization of U.N.
FCCC	UN Framework Convention on Climate Change
FCRI	Field Crop Research Institute
FIRR	Financial Internal Rate of Return
FİSKOBİRLİK	Association for Hazelnut Marketing Cooperatives (Fındık Tarım Satış Kooperatifleri Birliği)
FTSİİ	Forest Trees and Seed Improvement Institute
GAP	Southeastern Anatolia Project (Güneydoğu Anadolu Pro.)
GATT	General Agreement on Trade and Tariffs
GDAR	General Directorate of Agricultural Research (Tarımsal Araştırmalar Genel Müdürlüğü)
GDNPGW	General Directorate of National Parks, Game and Wildlife
GDP	Gross domestic product
GDRS	General Directorate of Rural Services (Köy Hizmetleri Genel Müdürlüğü)
GDVA	General Directorate of Village Affairs

GEF	Global Environmental Facility
GIS	Geographic information system
GPS	Global Positioning System
GNP	Gross national product
GOT	Government of Turkey
GPRA	Government Performance and Results Act
GRDP	Gross regional domestic product
GSM	Global system for mobile communications
GVA	Gross value added
IFAD	International Fund for Agricultural Development
IGEME	Export Development Center (Ihracati Gelistirme Etud Merkezi)
IIBK	Institute for Finding Jobs and Workers
ILLER Bankasi	Bank of Province
IRR	Internal rate of return
ISP	Internet service providers
IT	Information Technology
ITB	International Tourismus – Boerse
IUCN	World Conservation Union
JICA	Japan International Cooperation Agency
KGM	General Directorate of State Highways (Karayollari Genel Mudurlugu)
KOSGEB	Small and Medium Size Enterprises Development Organization (Kucuk ve Orta Olcekli Sanayileri Gelistirme ve Destekleme Idaresi Baskanligi)
KÖK	Association for Protection of Characteristics of Blacksea (Karadenizin Ozelliklerini Koruma Dernegi Klübü)
KÖYKOBIRLIK	Union of Village Cooperatives
KTÜ	Blacksea Technical University (Karadeniz Teknik Universitesi)
MARA	Ministry of Agriculture and Rural Affairs (Tarim ve Köy Isleri Bakanligi)
M&E	Monitoring and evaluation
MENR	Ministry of Energy and Natural Resources (Enerji ve Tabii Kaynaklar Bakanligi)
METU	Middle East Technical University
MOC	Ministry of Culture
MOF	Ministry of Forestry (Orman Bakanligi)
MONE	Ministry of Natural Education
MOT	Ministry of Tourism (Turizm Bakanligi)
MPGM	General Directorate of National Parks and Wildlife (Milli Parklar ve Av-Yaban Hayati Genel Mudurlugu)
MTA	Mineral Research Institute (Maden Tetkik Arama)
NARS	National agricultural research system
NGO	Non governmental organization
NPR	National Performance Review
OECD	Organization for Economic Cooperation and Development
OGM	General Directorate of Forestry (Orman Genel Mudurlugu)

OIZ	Organized industrial zones (Organize Sanayi Bolgeleri)
ORKOY	Forest Village Relations General Directorate (Orman ve Koy iliskileri Genel Mudurlugu)
OSCE	Organisation for Security and Co-operation in Europe
PDA	Provincial Directorate of Agriculture
PGRRI	Plant Genetic Resources Research Institute
PMU	Project Management Unit
PPA	Power purchase agreement
PTT	Mail Telephone Telegraph General Directorate (Posta Isletmeleri Genel Mudurlugu)
PVC	Polyvinyl Chloride
RIC	The convention concerning the international transport of goods by rail
RIV	The international convention to facilitate the crossing of frontiers for goods carried by rail
SEKA	Government Paper Corporation
SFYP	Seventh Five-year Development Plan
SID	Small Industry Districts (Kucuk Sanayi Siteleri)
SIS	State Institute of Statistics (Devlet Istatistik Enstitusu)
SME	Small and medium enterprise
SMI	Small and medium industry
SPO	State Planning Organization (Devlet Planlama Teskilati)
SSK	Social Security Agency (Sosyal Sigortalar Kurumu)
STOL	Short Take-off and Landing
TCDD	General Directorate of State Railways (Turkiye Cumhuriyeti Devlet Demiryollari)
TCZB	Agricultural Bank of Turkey (Turkiye Cumhuriyeti Ziraat Bankasi)
TDI	Turkish Maritime Company (Turkiye Denizcilik Isletmesi)
TEDAS	Turkish Power Distribution Company (Turkiye Elektrik Dagitim Anonim Sirketi)
TEAS	Turkish Power Generation and Transmission Company (Turkiye Elektrik Uretim Iletim Anonim Sirketi)
TESK	Union of Associations of Artisans and Traders
TIR	Transports Internationaux Routiers
TKK	Agricultural Credit Cooperatives (Tarim Kredi Kooperatifleri)
TODAIE	Institute of Public Administration for Turkey and the Middle East (Turkiye ve Ortadogu Amme Idaresi Enstitusu)
TOE	Ton of oil equivalent
TPAO	Turkish Petroleum Corporation (Turk Petrolleri Anonim Ortakligi)
TQM	Total Quality Management
TTGV	Technology Development Foundation of Turkey (Turkiye Teknoloji Gelistirme Vakfi)
TTK	Turkish Hard Coal Enterprise (Turkiye Taskomuru Kurumu)
TÜBİTAK	Turkish Scientific and Technical Researches Council (Turkiye Bilimsel ve Teknik Arastirmalar Kurumu)

TÜPRAS	Turkish Petroleum Refineries Corporation (Turkiye Petrol Rafineleri AnonimSirketi)
TÜSİAD	Association of Turkish Industrialists and Businessmen (Turkiye Sanayiciler ve Isadamlari Dernegi)
TV	Training and visit system
USAID	U.S. Agency for International Development
VAT	Value added tax
VGT	Village group technicians
WTO	World Trade Organization
YIBO	Regional primary education boarding schools (Yatili Ilkogretim Bolge Okullar)

Abbreviation of Measures

Extent

cm² = Square-centimeters
m² = Square-meters
km² = Square-kilometers
ha. = Hectares (10,000 m²)

Volume

cm³ = Cubic-centimeters
m³ = Cubic-meters
l = Liter

Length

mm = Millimeters
cm = Centimeters (cm = 10 mm)
m = Meters (m = 100 cm)
km = Kilometers (km = 1,000 m)

Weight

g. = Grams
kg = Kilograms
ton = Metric tonne
DWT = dead weight ton

Energy

kcal = Kilocalories
TOE = Tons of oil equivalent
kW = Kilowatt
MW = Megawatt
kWh = Kilowatt-hour
MWh = Megawatt-hour
GWh = Gigawatt-hour

Others

% = Percent
°C = Degree Celsius

CHAPTER 1 INTRODUCTION

This paper reports on a detailed study of the institution sector conducted as part of the DOKAP Master Plan Study. The DOKAP regional development will take place basically within the framework of existing institutional setting. Administrative capacities for development planning, finance and management, however, are expected to increase especially at the local level along with the DOKAP regional development. How and to what extent this capacity will increase depends, in turn, on institutional arrangements for the DOKAP regional development.

In Chapter 2, the existing development administration and finance in Turkey are described, emphasizing local administration and finance. General issues for local development administration in Turkey are clarified at the end of the chapter.

In Chapter 3, the existing development administration and finance in the DOKAP region are described. Specific issues for DOKAP development administration are clarified.

In Chapter 4, strategy and framework for improving local administration in the DOKAP region are presented. Some models for administrative reform are presented, particularly those related to local administration. Specific measures to improve the DOKAP administration are proposed in Chapter 5.

Chapter 6 reports in detail the examination of alternative institutional arrangements for implementation and management of the DOKAP Master Plan presented in Master Plan report. Recommendations are made as to steps and procedure to be taken to establish a new regional agency.

CHAPTER 2 EXISTING DEVELOPMENT ADMINISTRATION AND FINANCE IN TURKEY

2.1 Development Administration in Turkey

2.1.1 Basic structure of development administration

The development planning and administration system in Turkey is highly centralized, despite the renewed emphasis on regional development in recent years. At the level of provinces, there is some deconcentration of central functions to the regional and provincial offices. There is very little devolution or delegation of central functions to local governments.

In terms of central administrative structure, Turkey is divided into provinces on the basis of geographic and economic conditions, and public service requirements. Provinces are further divided into counties and districts (Turkish Constitution Article 126). Some ministries have various central agencies, and both ministries and their agencies have their branch offices or field units in the provinces. Some agencies have regional offices comprising several provinces.

Local administrative bodies are public corporate entities established to meet the common local needs of inhabitants of provinces, municipal districts and villages, whose decision-making organs are elected (Article 127). Four types of local governments can be distinguished: 1) provincial special administration, 2) municipalities, 3) metropolitan municipalities, and 4) villages.

2.1.2 Territorial jurisdictions of local governments

The responsibility of a municipality is basically within the boundary of the respective urban area. However, city governments often extend their services, such as maintenance of bridges and roads, to neighbouring villages located in their adjunct areas, respectively. Boundaries of the latter are formally determined, as those living in these adjunct areas are required to pay municipal taxes. However, these people are sometimes deprived of such services. Territorial jurisdictions of local administrations are illustrated in Figure 1. The shaded areas indicate the administrative territories of provincial special administration.

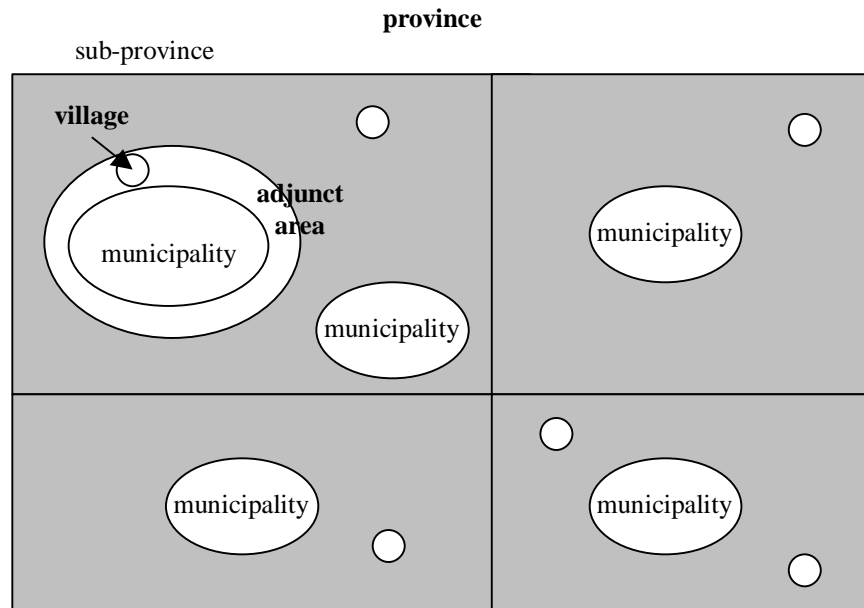


Figure 1 Territorial Administration in Turkey

2.1.3 Assignment of responsibilities

The functional framework of municipalities was established by the Municipality Act of 1930. This Act and many other Acts assign a rather wide range of responsibilities to municipalities. The major services for which municipalities are responsible are:

- Urban planning and implementation, mapping, regulation of construction and issuance of construction permits,
- Land development and opening new areas for settlement development,
- Planning and construction of social housing,
- Organization and management of mass transportation system, passenger and freight terminals and parking lots
- Construction and maintenance of urban roadways, public squares and bridges,
- Provision of water, sewerage and public utility gas services, and
- Garbage collection and disposal, cleaning of public spaces.

Also, cities could provide profit-seeking activities such as theaters, hotels, night clubs, museums, zoos, ice factories, and construction materials plants.

Distribution of administrative duties between central and local governments is summarized in Table 1

Table 1 Distribution of Administrative Duties

Responsibility	Safety	Social Capital	Education	Welfare-Health	Economy
Central	Diplomacy Defense Judiciary Criminal punishment Police Register	Expressways National roads Ports Sub-regional physical planning	Universities High schools Primary schools	Social insurance Doctor licenses Medicine licenses National health insurance	Currency Trade customs Postal services Economic policies
Provincial Special Administration	None	Local roads (mostly repair)	Primary schools (mostly repair)	(Optional) Hospitals Orphanages	Exhibitions Fairs
Municipalities	Control of public places	City planning Local roads Licensing for housing Public housing Sewerage (Other optional duties) Hotel, restaurants, baths, market places, terminal buildings, municipal service buildings, cinema halls, slaughter houses, air-cooled stores, bakery buildings	Kindergartens Public libraries	(All optional) Hospitals Orphanages Day nurseries Water supply Waste disposal Local transport	Price and quality control

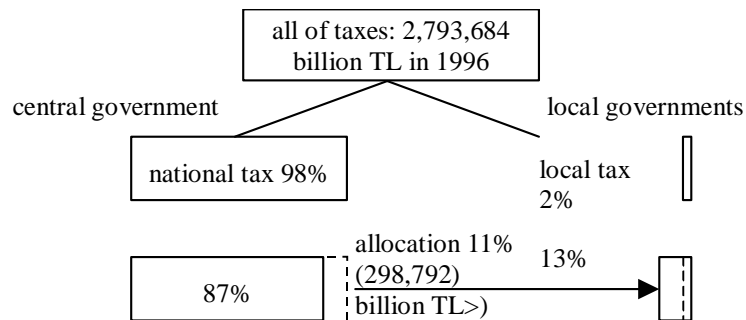
Local governments may establish unions for undertaking their legally assigned duties, regulated by the Municipality Law. Article 127 of the 1982 constitution of Turkey prescribes unions of local governments as follows.

- 1) Local governments either may act by agreement as or may establish unions for undertaking services;
- 2) These administrative bodies shall be allocated financial resources in proportion to their functions;
- 3) The formation and functioning of joint standing committee is subject to the approval of the Ministry of Interior, and
- 4) A “local government union” is possible for:
 - a) economic and commercial aims,
 - b) social and cultural purposes, and
 - c) providing physical infrastructures, such as roads, sewerage systems, and solid wastes collection.

2.2 Financing Local Governments in Turkey

2.2.1 Tax allocation from Central Government

The local government realizes only 15% of the total public expenditures and employs 10% of the total public employees. The difference of financial power between the central government and the local governments comes from the small share of local taxes and their dependence on the central government transfers even to pay for the most basic expenditures. In 1996, the central government distributed approximately 11% of national tax revenues in the general budget to local governments (Figure 2).



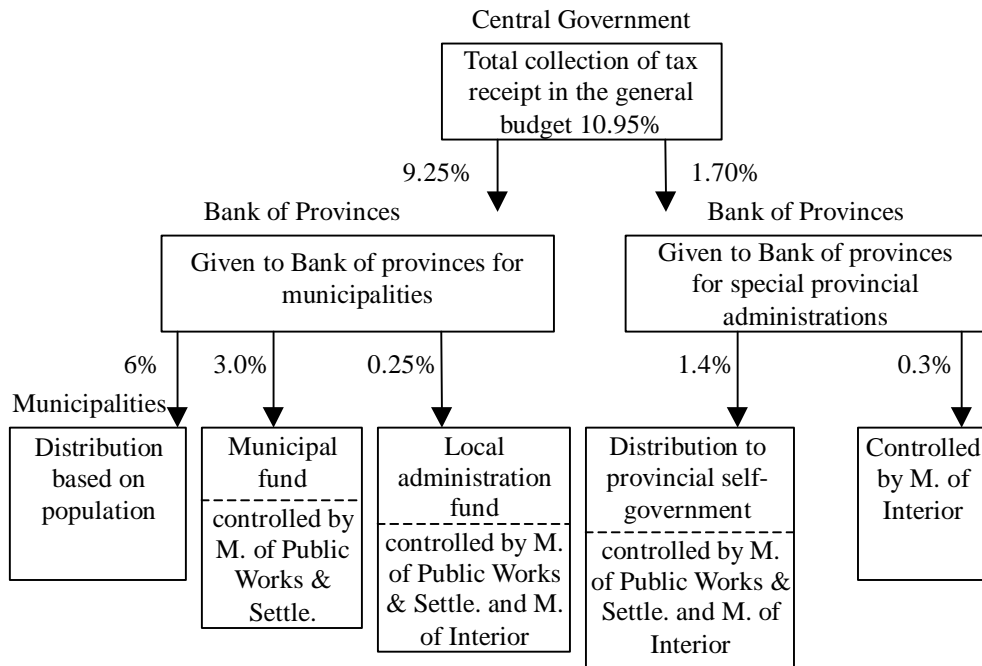
Source: Information provided by Dr. Melih Ersoy, Department of City and Regional Planning, Middle East Technical University, 1999

Figure 2 Tax Allocation from the Central Government in Turkey

This tax allocation consists of:

- 1) Distribution to municipalities based on population,
- 2) Distribution to provincial self-governments based on population,
- 3) Municipal fund controlled by the Ministry of Public Works and Settlements,
- 4) Local administration fund administered by the Ministry of Public Works and Settlement and Ministry of Interior, and
- 5) Funds controlled by the Ministry of Interior

Flow of the tax allocation from the central government to local governments is illustrated in Figure 3.



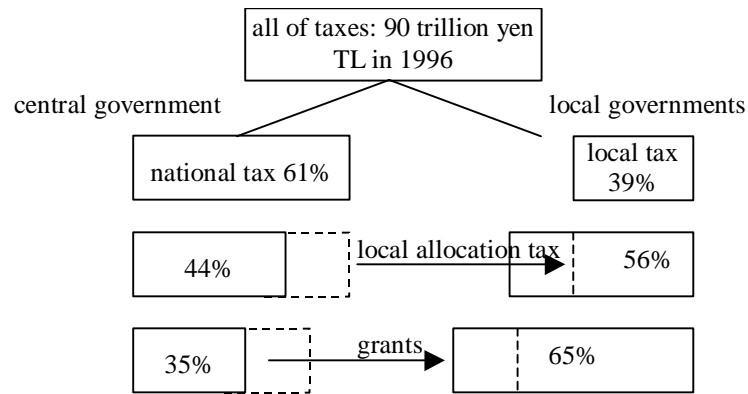
Source: Information supplied by Dr. Melih Ersoy, Department of City and Regional Planning, Middle East Technical University, 1999

Figure 3 Flow of Tax Allocation from the Central Government to the Local Governments in Turkey, as of May, 1999

A new bill called “Local Administration Reform” has been under discussion since 1997. At present, the third draft of this bill is being discussed in the relevant agencies.

The new bill aims to increase the share of taxes allocated to the local governments: 1.7% to 5% for provincial special administrations and from 6% to 10% for municipalities. The Council of Ministers is empowered to substantially increase these transfers.

In Japan, the portion of local tax is 39% of all the taxes collected. In addition, a much larger portion of national taxes is distributed from the central government to local governments, as shown in the Figure 4. Therefore, the expenditures of local governments has exceeded that of the central government since 1953.



Source: Toyo-Keizai-Shinposha, Local

Figure 4 Tax Distribution between Central and Local Governments in Japan

Turkish local authorities account for a small portion in total national revenues, even with the increase of share under discussion in the Grand National Assembly. In addition, the following issues should be noted.

- 1) The tax allocation from the central government to localities is based on the size of population. Therefore, areas where the population declines, as in DOKAP, are at a disadvantage.
- 2) The Ministry of Public Works and Settlements and/or the Ministry of Interior control municipal fund and local administration fund. These ministries do not give priority to less developed areas in their allocations.

2.2.2 Municipal finance

Composition of municipal revenue

The revenue of municipal governments in Turkey consists of:

- 1) Tax sharing (50% of Municipal income) from the general budget
- 2) Special aids and transfers (hereafter referred to as “grants”): 5%,
- 3) Municipal taxes: 8%,
- 4) User charges: 3%, and
- 5) Other revenues (from properties/enterprises of municipalities, fees and fines, Etc.): 34%.

The sum of the allocation, grants, municipal taxes and user charges accounts for only 66% in the total revenue. In Japan, the sum of allocation, grants and local taxes has a dominant share (80%) as shown in Table 2. Thus, the municipal governments in Turkey have to rely heavily on the revenues other than taxes. These revenues come from institutions or companies owned by municipalities.

Table 2 The Structure of Revenues in Budget of all the Local Governments in Japan in 1998

Local tax	44%
Local transfer tax	1%
Local allocation tax	20%
Central Government grants	15%
Borrowing	13%
Charges & fees	2%
Miscellaneous	6%

Source: Toyo-Keizai-Shinposha, Local Government Finance in Japan, 1998, page 137

The tax allocation and grants

The transfers from the central government (6% of the general revenue) provide half of the total revenue of local governments. It can be used for any purpose. “Special aids and transfer” are grants on project basis and can be used only for specific purpose. The allocations and grants make up 55% of the total revenues.

Japan’s system of tax allocation might provide a reference to solve the inequality effect between population-increasing and decreasing areas in Turkey. The system in Japan is to distribute to local governments the necessary revenues to maintain an adequate level of public services. The amount allocated is calculated in the following manner for each local government.

$$[\text{Regular allocation tax}] = [\text{Standard financial need}] - [\text{Standard financial revenues}]$$

Municipal taxes

The portion of municipal tax is only 8% in the total revenue. Real estate tax and environmental sanitation tax constitute two-thirds of the municipality tax income. While price index increased by 4.16 times between 1993 and 1995, in the same period, total municipal revenues and municipal tax revenues rose by 3.52 and 8.45 times, respectively. It means that municipal tax revenues doubled in real terms, while the total municipal revenue was not able to cope with the high inflation rate.

1) Real estate tax

It is levied on the capital value of land and improvements. Assessment of the value was made every four years. The property tax is the single most important revenue source of local governments for most of the OECD countries. However, in Turkey, it is very unproductive and inefficient due to the long interval of assessment despite high-inflation during the four years. The law enacted in 1998 enables the governments to make annual adjustments.

Some experts say that it is inefficient to collect, especially the real estate tax, left to the administration of local governments, before 1998. Sometimes municipalities

hesitate to collect the taxes by claiming that the costs of administering taxation, including personnel cost and cost to maintain proper databases, are larger than the expected revenue due to successfully collected taxes. However, according to the research “Mugla Municipality Restructuring”, computerization of tax collection system would increase the cost/ benefit ratio from 0.27 to 0.73.

2) Environmental sanitation tax

This tax was levied in 1994 and is paid yearly by the house owners directly to the municipalities for collection and disposition of solid wastes.

User charges

User charges consist mainly of the following three charges; those three items together make up more than two-thirds of the user charges:

- i) Occupancy of the public places,
- ii) Work license on holidays, and
- iii) Brokerage charges.

Revenues other than taxes

These revenues include:

- revenues earned from institutions and enterprises managed by municipalities,
- rents and profits accrued from the rent or sales of immobile and mobile municipal goods,
- fees and fines, and
- contribution to the infrastructure investment.

According to the law, contribution to the infrastructure investment cannot exceed 2% of the real estate tax. This law, along with political considerations, has sometimes made the municipal governments hesitate to increase these contributions. However, as mentioned before, the law passed in 1998 enabled the governments to make adjustments of the real estate tax. This would allow adjustments to avoid financial losses caused by inflation.

Local governments manage not only public works, but also profit-seeking businesses such as restaurants, theaters and hotels. Article 15 of the Municipal Law enables municipal governments to provide such services. These businesses, however, might be more efficiently managed by privatization.

Sales and cost of these involvements account for a part of the governments' revenues and expenditures, not having separate self-accounting. Therefore, it is

difficult to know profit or loss situation for each service. This makes it hard to determine whether user charges should be increased.

In Japan also, local governments provide services such as water supply, transportation and hospitals. The difference between Turkey and Japan is that in Turkey these activities are directly managed by local governments, while Japan's local governments establish public enterprises for each service. In Japan, every enterprise such as water supply and bus company is to be financed by user charges and run on a self-supporting basis. Therefore, a separate account must be used, different from the general account of the local government. The local finance law in Japan designates those companies to be operated under a special account as municipal water supply, industrial water supply, transportation, electric power plants, gas supply, port services, hospitals, markets, slaughter-houses, leisure facilities, land development and sewerage.

Composition of expenditures

The composition of expenditures of all the municipalities in Turkey is as follows:

- salary: 31%,
- the other current expenditures: 15%,
- investment: 30%,
- debt payment: 20%, and
- other expenditures: 4%.

The structure of expenditures of all local governments in Japan is shown in Table 3.

Table 3 Structure of Expenditures of All the Local Governments in Japan, 1998

Salary	27%
Social welfare, other current expenditures	21%
Debt payment	12%
Capital expenditures	34%
Subsidy, etc.	6%

Source: Toyo-Keizai-Shinposha, Local Government Finance in Japan, 1998, page 137

2.2.3 Financing of provincial special administrations

The composition in the revenues of provincial self-governments is as follows:

- 1) The major source of revenues is the tax allocation and grants. According to the law, 1.4% of the national tax revenues is to be transferred from the central government to provincial governments.

- 2) Of the real estate tax collected by municipalities within the provinces, 15% is transferred to provinces.
- 3) The other resources consist of the following:
 - fees and duties received from stone quarries, license fees for construction,
 - contribution to infrastructure investment, and
 - income received from sales and rent of immovable belongings to the provincial government.

Expenditures of the provincial governments are current expenditures, investment expenditures, capital formation and transfer expenditures.

2.3 Public Investment in Turkey

2.3.1 Regional public investments

The central government proceeds with the infrastructure preparation such as national roads, ports and expressways as its duties. The finance for these investments comes mainly from related ministries of the central government. The Black Sea Region has the lowest public investment expenditures per capita, 66 million TL, during eight years from 1990 to 1997. This expenditure is only two-thirds of that in the all Turkey.

Table 4 Regional Comparison of Public Investments in Turkey, 1990

	Population average, unit 1,000	Public investment expenditure, total 1990-97, at 1998 prices in bill of TL	Public investment expenditure per capita, total 1990-97, mill. of TL
Mediterranean	7,542	556,665	74
East Anatolia	5,481	571,021	104
Aegean	8,024	952,817	119
South-East Anatolia	5,645	543,771	96
Central Anatolia	10,247	1,217,410	119
<u>Black Sea</u>	<u>7,991</u>	<u>526,452</u>	<u>66</u>
Marmara	14,742	1,354,960	92
Turkey total	59,672	5,723,096	96

Note 1) Investments of local administration and funds are not included.

- 2) Projects which can not be shared among provinces and involve more than one province are not included.

Source: Various Indicators Related to Provinces and Regions, SPO, 1999, table 2,15

2.3.2 Financing of regional social infrastructure

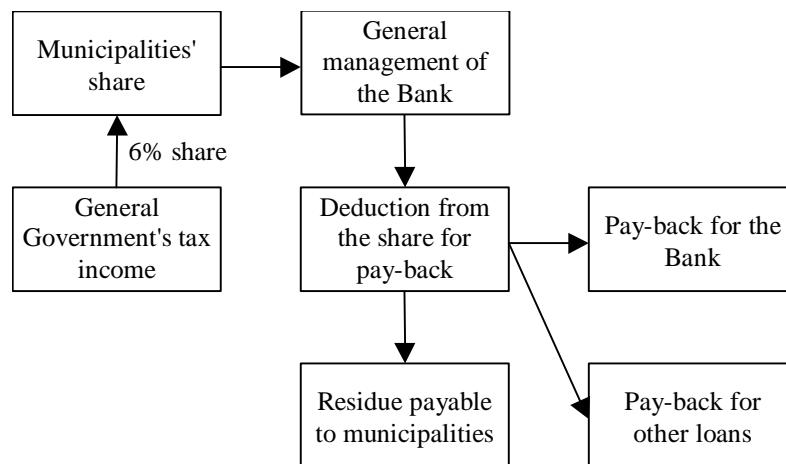
As mentioned before, roles of municipalities include city planning, water supply and sewerage services. Municipalities are allowed to get loans from commercial

banks, but due to higher interest rates, they prefer to borrow from the Bank of Provinces (BOP).

A request for infrastructure construction to BOP is made by related local governments. Financing, tendering, and controlling are provided by BOP, but the costs must be repaid by the local governments. The details of this administration and finance is described below.

- 1) All municipalities are the shareholders of BOP.
- 2) BOP is responsible for designing and implementing the infrastructure investments of the municipalities if the related municipal assembly authorizes BOP to carry out the project on behalf of the municipality.
- 3) After receiving the authorization letter, BOP carries out a feasibility study to evaluate and appraise the needed project.
- 4) If the project is found to be eligible and conform with the State’s investment policy, then the necessary arrangements with the State authorities, such as SPO and Treasury have been completed and the project is included in the investment plans.

The repayment procedure is shown in Figure 5. The central government distributes the tax allocation, 6% of the tax receipt in the general budget, not directly to the local governments, but through BOP. BOP firstly deducts the repayment amount of the local governments from the allocation, and then pays the rest to them. This repayment is included in the “debt payment” in the expenditures of municipal governments. Institutionally, BOP holds the vital part of local government finance.



Source: The Bank of Provinces

Figure 5 The Repayment Process from Local Governments to BOP

2.4 Issues for Local Development Administration in Turkey

(1) Excessive centralization

In Turkey, the central government undertakes all development functions including some that should be left to local governments. All public works, local social services, and administration is concentrated in the central government. Due to this concentration, the local governments do not have the resources to undertake these functions.

Another key issue of centralization is administrative control. Local budgets are subject to control of the representatives of the central government. Staffing pay scales and routine management are all subject to the approval of central government representative. In the case of the Spatial Provincial Administration, the management is all together in the hands of central government appointees.

(2) Weak local administration

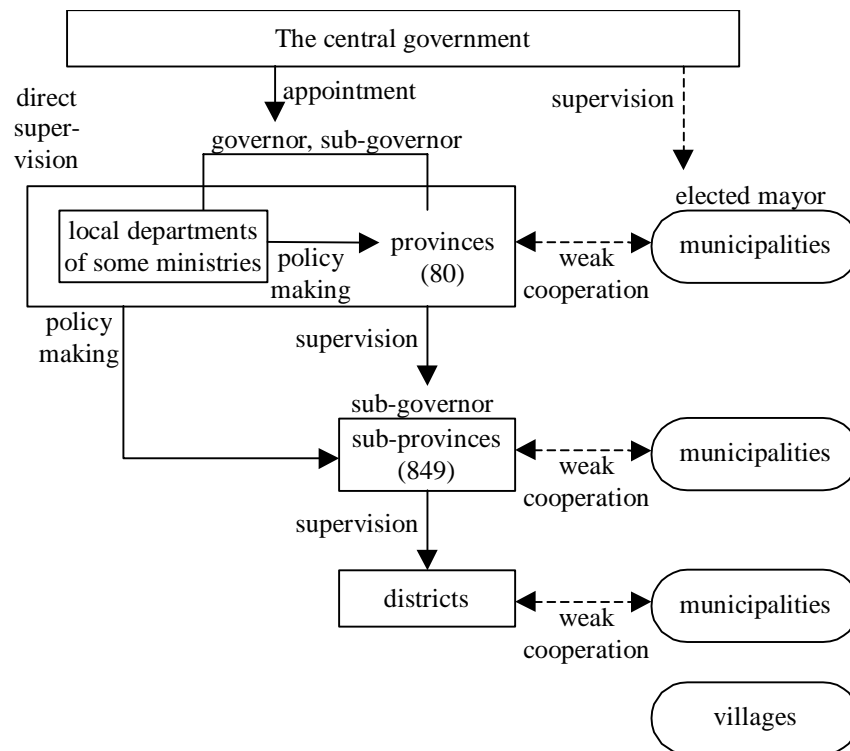
As a converse of the high centralization mentioned above, the local administration in Turkey is generally weak. A province has dual roles of being both an arm of the Central Government and a unit of local self-government. Functions of the latter, however, are largely administrative. The Provincial Administrative Council is a legislative-type assembly of the province, whose members are elected for five-year term, but presided over by the Governor, who is appointed by the Ministry of Interior. On the average, expenditures of the provincial self-government make only about one-tenth of those undertaken by the Central Government within the province. The major source of revenue for the provincial self-government is grants transferred from the Central Government.

Collectively, municipalities are more important units of local administration, as the sum of municipalities' budgets is 20 times as large as that of provincial self-governments (in 1996). Municipal administration comprises an assembly as an elected legislative body, an executive committee, and a mayor as the chairman of the executive committee, elected for five-year term. The municipal assembly approves the annual budget and the development plan, plans local projects, and negotiates loans. The municipal budget, after the review by the municipal council, is submitted to the highest administrative agent of the central administration in the locality, provincial or sub-provincial governor, for approval.

Villages are the smallest units of local administration. Compulsory duties of a village are related to the protection of health, strengthening of social relations, maintaining order and security, cleaning and construction activities in the village. Village administration comprises a village assembly, a council of elders, and a

village headman elected for five-year term. The Headman is also considered as the representative of the Central Government in the village, and receives his salary from the Government. The main source of revenue of village administration is nominal amount of household tax (*salma*). Otherwise, it depends on traditional “collective work obligation (*imece*)”.

Local governments as a whole realize less than 10% of the total public expenditures in Turkey. They employ collectively only 10% of the total public employees. Control by the central government of the local administration is illustrated in Figure 6.



Source: cf. A. Selim Parle, “Local Administration and Economic and Social Development in Turkey”, 1991, page 5

Figure 6 The Central Government Control over Local Governments

(3) Lack of coordination

According to the Provincial Administration Act, responsibilities and duties of a provincial governor as the chief administrative and political officer in the province are related to: (1) administration of provincial programs, (2) inspection and audit of field offices of the Central Government, (3) coordination and planning of operations of Central Government agencies within the province, (4) maintenance of public order and safety, and (5) representation of the State and the Central Government. Although each field unit or provincial office has direct contacts with

its ministry, all the requests for technical and accounting information as well as budget requirements must go through the governor.

In practice, however, there are problems involved in the coordination of two administrative divisions: regional and provincial offices of Government agencies. Provincial offices report directly to the provincial governor, and they are under his authority and control. Regional offices, however, report directly to their ministries or central agencies. The Provincial Coordination Board proved to be unsuccessful in resolving this problem, as governors found it difficult to have regional offices participate in board meetings. Relations between regional offices and their central organizations are negatively affecting the coordination efforts at the level of province.

(4) Large number of local governments

The number of local governments in Turkey is summarized and compared with that in Japan.

	Turkey	Japan
Provinces	80	47
Municipalities	3,215	2,662 (669 cities and 1,993 towns)
Villages	35,000	579

Municipality is defined as a corporate body providing local government services in all communities over 2,000 population. Accordingly, the number of municipalities in Turkey increased from 1,725 in 1980 to 3,215 in 1998, as some villages have exceeded this population threshold. On the other hand, Japan has decreased the number of local governments from 70,000 to 16,000 in 1889, and from 16,000 to 10,000 just after the World War II.

About two-thirds of the municipalities have population smaller than 5,000. Despite their variance in size, financial and administrative powers, all the municipalities are equally charged with a long list of duties according to the Municipality Law.

Metropolitan municipality is a new local government unit introduced in 1983. The basic idea is to facilitate coordination of activities of municipalities within a larger jurisdiction of the metropolitan municipality for better services provision. The law establishing metropolitan municipalities allowed them to obtain 5% of the taxes collected within their jurisdictions respectively, in addition to the shares of municipalities. There are no such municipalities in the DOKAP region.

(5) Poor management of municipal enterprises

Local governments in Turkey manage not only public services, but also profit-seeking enterprises. Revenues and costs of these services and enterprises account for sizable part of their revenues and expenditures. Revenues other than taxes constitute about one-third of the total revenue of municipalities during 1983-95, increased to 43% in 1996. Revenues of institutions and enterprises managed by municipalities and rents and profits accrued from immobile and mobile municipal goods made up 30% and 49% of the total earnings in this category in 1993 and 1995, respectively.

Despite their importance in municipality accounts, revenues and costs of municipal services and enterprises are not accounted for separately. It is difficult to see the profit-loss situation of each activity, while some activities are clearly incurring large losses.

To ensure more effective functioning of municipal enterprises, larger municipalities and metropolitan municipalities have been attempting to establish corporate entities at an increasing rate since 1984. As other corporations, municipal corporations are regulated according to private law. Municipalities can benefit from this opportunity as they can evade several restrictions imposed on local governments by the central administration. Municipal corporations cannot be controlled by municipal assemblies at establishment. It is often argued that most municipal corporations do not function effectively in providing goods and services as compared to private firms.

CHAPTER 3 EXISTING DEVELOPMENT ADMINISTRATION AND FINANCE IN DOKAP

3.1 Existing Local Development Administration and Finance in DOKAP Region

(1) Local government structure

Local administration in the DOKAP region, as of 1997, consists of 286 municipalities and 2,714 villages as below, as well as seven provincial self-governments. There is no metropolitan municipality in the DOKAP region (Table 5).

Table 5 Number of Municipalities and Villages

Province	No. of municipalities	No. of villages
Artvin	12	308
Giresun	77	557
Gumushane	18	330
Ordu	72	505
Rize	21	348
Trabzon	77	495
Bayburt	9	171
DOKAP	286	2,714

There are 182 unions of local governments in 17 provinces of the Black Sea Region. Of these, 133 are inter-village unions. There are no unions between provinces and only two inter-municipality unions. Of the total, 149 are formed to render various services (mostly infrastructure services), and 10 for irrigation. One-third of all the unions have no permanent financial resources.

(2) Municipal revenues and expenditures

The revenue structure of DOKAP municipalities and all the municipalities in Turkey are compared in Table 6 for the year 1996.

Table 6 Revenue Structure of All Municipalities in DOKAP and Turkey, 1996

(Unit: billion TL)

Revenue Source	DOKAP		Turkey	
Share of payment, general budget tax revenues	4,850	48%	181,311	50%
Municipal taxes	596	6%	28,599	8%
User charges	269	3%	10,114	3%
Revenues from institutions and companies managed by municipalities	1,279	13%	17,098	5%
Profit of enterprises	464	5%	5,307	1%
Revenue from municipal properties	700	7%	35,076	10%
Special aids and transfer	1,073	11%	17,416	5%
Others	814	8%	67,176	19%
Total	10,045		362,092	

Source: SIS, "Final Accounts, municipalities and special provincial administrations, 1996"

Composition of expenditures of all municipalities in the DOKAP region and Turkey is compared in Table 7.

Table 7 Expenditure of All Municipalities in DOKAP and Turkey, 1996

(Unit: billion TL)

Expenditures	DOKAP		Turkey	
Current expenditures				
Personnel	4,447	41%	119,959	31%
Services	875	8%	23,170	6%
Consumption goods	1,180	11%	30,872	8%
Other current expenditures	142	1%	4,311	1%
Investment expenditures				
Machinery, equipment	914	8%	16,463	4%
Building, installations, large repairs	1,657	15%	98,456	26%
Transfer expenditures				
Expropriation and purchases	170	2%	9,632	3%
Participation and capital transform	25	0%	4,455	1%
Economic transfer	111	1%	2,301	1%
Financial transfer	398	4%	41,134	11%
Social transfer	124	1%	5,112	1%
Dept payment	710	7%	27,940	7%
Total	10,753		383,805	

Source: SIS "Final accounts, municipalities and special provincial administrations, 1996"

(3) Financing of provincial special administrations

Composition of revenues and expenditures of provincial self-governments is compared between the DOKAP region and Turkey in Tables 8 and 9, respectively.

Table 8 Revenue Structure of DOKAP Provincial Self-Governments

(Unit: billion TL)

Revenue Source	DOKAP		Turkey	
Income & wealth tax	1,048	18%	17,505	19%
Expenditure tax	23	0%	1,966	2%
Other tax	24	0%	411	0%
Income from corporations Managed by provincial administration	2	0%	267	0%
Revenue of Property of Provincial self-government	1,238	22%	14,773	16%
Other revenue and fines	2,095	37%	32,294	35%
Special revenue and funds	1,293	23%	24,913	27%
Total	5,723		92,129	

Source: SIS "Final accounts, municipalities and special provincial administration, 1996"

Table 9 Expenditure Structure of DOKAP Provincial Self-Governments

(Unit: billion TL)

Expenditures	DOKAP		Turkey	
Current expenditures				
Personnel	159	4%	2,760	4%
Administrative	377	10%	5,542	8%
Services	47	1%	762	1%
Other current expenditures	72	2%	1,516	2%
Investment expenditures				
Building, installations, large repair	2,244	59%	47,390	69%
Purchases and repairs of machinery	295	8%	2,350	3%
Capital formation and transfers				
Participants and capital formation	128	3%	1,069	2%
Expropriation and purchases	40	1%	899	1%
Financial transfer	346	9%	4,568	7%
Dept payment	56	1%	924	1%
Others	34	1%	563	1%
Total	3,798		68,343	

Source: "Financial accounts, municipalities and special provincial administrations, 1996"

3.2 Issues for DOKAP Local Administration

(1) Small public investment per capita

The Black Sea region has the smallest public investment expenditure per capita of all the regions in Turkey during 1990-97 as seen already. This expenditure is only two-thirds of the average in Turkey. The DOKAP region has even a smaller public investment expenditure per capita, corresponding to smaller than a half of the national average during 1990-97. Moreover, differences between the DOKAP provinces are quite large as shown in the Table 10.

Table 10 Comparison of Public Investment per Capita, 1990-97

Region/Province	Average population, 1990-97 (1,000)	Public investment expenditure, 1990-97 (TL x 10 ⁹ in 1998 prices)	Per capita public investment expenditure, 1990-97 (TL x 10 ⁶)
DOKAP	2,940	132,482	45
Artvin	199	15,314	77
Giresun	481	6,353	13
Gumushane	162	18,969	117
Ordu	834	17,525	21
Rize	338	13,601	40
Trabzon	822	51,434	63
Bayburt	104	9,286	89
Black Sea	7,991	526,452	66
Turkey	59,672	5,723,096	96

Note: 1) Investments of local administration and funds are not included.

2) Projects which cannot be shared among provinces and involve more than one province are not included.

Source: Various Indicators Related to Provinces and Regions, SPO, 1999

(2) Small revenue per capita

The DOKAP region has much smaller revenues per capita in municipal governments' general budget. In 1996, the DOKAP seven provinces had total revenue of TL10,045 billion in the final accounts of municipalities, with the population of 2.9 million. Turkey had the total revenues of TL362,097 billion, with the population of 62.7 million. It means that the DOKAP municipalities had TL3.47 million or only 60% of the average of all Turkey, TL5.78 million, in the revenues per capita.

This discrepancy may be caused by the following:

- 1) The DOKAP region has a disadvantage in receiving tax allocation from the central government due to the population decrease.
- 2) There is no regional distribution criteria in the municipal fund and local administration fund controlled by the central government.
- 3) There might be some tax evasions as generally seen in Turkey.

The above 1) and 2) come from the administration framework of Turkey. However, municipalities could make an effort to prevent tax evasions, mentioned in 3). Especially, as mentioned before, the law passed in 1998 enabled government to make annual adjustments of the real estate tax. It becomes more important to effectively collect the municipal taxes.

(3) Poor management of public services

There are some cases of poor management in public services. For examples, Cayeli municipality in Rize province incurred a huge loss in water supply in 1998. The revenue cannot even recover the operation cost, as shown below.

(Unit: million TL)

Revenue	21,175
Operating expenditures	34,809
Capital expenditures	58,604
Loss	72,238

This might be an extreme example. The basic problem causing such losses is lack of separate self-accounting system for each service. The introduction of separate self-accounting system is essential to improve the management of public services.

It is indeed true that the law prevents the contribution to infrastructure investment to exceed 20% of the real estate tax. However, annual adjustments of the real estate tax

would provide an environment to smooth the contribution escalation. Thus, it has become even more important to clarify the profit-loss situation and discuss whether the contribution should be increased or not.

(4) Other specific issues

Lack of experts

Along with the introduction of the separate accounting system, increase in management skills will be essential to provide better services at lower costs. However, not only in the management area but also in technological fields, there are few experts. Thus it is very important to develop human resources of local governments. Salary limitation is a significant bottleneck to keep experts. Therefore, in the long run, this restriction should be modified so that local authorities could obtain autonomy to make a decision of salary or bonus for at least a certain level of experts.

Higher portion of personnel expenditures

The municipalities in the DOKAP region have a higher portion of payroll costs, 41% in the total expenditures, compared to the average of all municipalities in Turkey (31%). Moreover, the ratio of the current expenditures, including the personnel cost, is 61% in the DOKAP region. The ratio is much higher than that of the average in Turkey, 46%. The higher portions crowd out the public investment and undermine the financial flexibility.

Lack of information sharing system

The central government has proceeded with application of one tax number to one taxpayer system since 1997. However, many local governments still use more than one tax numbers to one taxpayer, applying different tax numbers in real estate tax, environmental sanitation tax, water charge, and bus transportation charge. Those tax-related divisions independently request for tax payment to and collect the taxes from the same taxpayers. This lack of information sharing system involves many government officials in taxation and causes delay in the tax collection.

It also discourages many taxpayers to pay tax on time because they have to wait in long queues in several offices. Another reason for the long queues is that many taxpayers would discharge taxes on the very last day of the deadline. Therefore, some incentives should be given for early payment.

According to a municipal government official, only 60% of the people pay tax on time. Moreover, the municipal government has an accumulated uncollected tax of TL600 billion in 1998, or 10% of the annual tax income.

Lack of transparency of decision making process in government work

Policies and plans are sometimes modified by political consideration, and economic efficiency might be neglected.

Duplication of activities among neighboring municipal governments

There are duplication among activities of neighboring municipal governments. For examples, neighboring municipalities in Rize province, purchased the same trucks and dump trucks to provide road construction services.

In addition, each government introduces own tax computer system, buying it from a private company. The computer systems are not exactly the same. It brings about higher introduction cost and difficulty in information sharing among the local governments. If these governments share common facilities they could each decrease their investment expenditures and increase the working ratio.

CHAPTER 4 STRATEGY AND FRAMEWORK FOR DOKAP LOCAL ADMINISTRATION REFORM

Issues for DOKAP development administration, clarified in the previous chapter, consist of structural issues common to local governments in Turkey and issues more specific to the DOKAP region. Major structural issues are the small revenues and public investments and too many small municipalities. The first issue may be partly addressed by the new bill “Local Administration Reform,” which would increase the share of tax allocation from the central government from 1.7% to 5% for provincial self-governments, and from 6% to 10% for municipalities. The second issue would be a long-term one involving many politicians and officials.

The specific issues may be addressed more directly by local governments. To guide the reform of local development administration, a few models are presented in this chapter: new public management, and cases in Britain and the United States.

4.1 New Public Management

The specific issues clarified above may be attributed to inefficiency, and lack of productivity and transparency in the local administrations. Existence of these three basic features is quite usual for any public administration. These are uncommon among many private companies that have to endeavor to increase efficiency, productivity, and client participation. To achieve this, they strive for total quality management (TQM), customers satisfaction (CS), corporate identity (CI).

TQM is a system to raise productivity and quality in production lines. Workers measure their actual work efficiency and set goals to realize higher productivity and better quality. CS is a method to clarify their own advantages and disadvantages from the viewpoint of satisfying their customers. They regularly inquire to their clients whether they timely deliver their products, and cope with the consumers’ complaints. CI is an activity to declare to the public what role the company will play in and contribute to the society, setting some goals or using logos. This declaration would motivate the employees to make an effort for the aim. Through these activities, many private companies seek profit, increasing their efficiency and offering better services to their customers.

The purpose of public administration is, like that of private corporations, to provide better services with more efficiency to taxpayers. The people could request for governments “value for money” whether the taxes are efficiently used from the viewpoint of taxpayers. Since city or village governments could recognize

residents', requirements better than the central authority could, local administration should be effectively reinforced.

This original and ultimate objective of administration, however, does not seem to be reflected in existing bureaucratic activities. Many administration works are done in the same way as the previous year. Government officials could not always answer taxpayers or beneficiaries whether an on-going public job would generate an expected outcome, and how the outcome would affect daily life of the residents. Many officials as well as taxpayers may have the following perceptions:

- 1) Local governments do not seek profit, therefore, it is difficult to apply the private management methods in public works,
- 2) It is risky to disclose expected outcomes of administration activities to residents, considering the next election, and
- 3) Government officials would have the same salary, no matter how hard they work.

However, the following may also be valid.

- 1) Many people say government works are not efficient and many local officials do not deserve their salary. There must be a mechanism not only to measure work efficiency, but also to give incentives for better work and punishment against poor work. Some of the private management methods, like TQM or CS, could be applied.
- 2) Local governments have to provide more transparent and efficient administration activities to residents. As mentioned before, policies and plans are sometimes modified by political consideration and economic efficiency might be neglected.
- 3) Under the proposed legislation "Local Administrative Reform", local governments would receive much higher portions of tax transfer from the central government. It might become riskier to provide more financial power to those who could not efficiently use these budget increases.

Accordingly, it is recommended that the local governments in the DOKAP region change:

- from public administration (PA) to public management (PM),
- from officials satisfaction (OS) to residents satisfaction (RS),
- from input-oriented work (IW) to output-oriented work (OW), and
- from information suppression (IS) to information disclosure (ID).

These changes and visions are collectively called as “New Public Management (NPM).” NPM strategy consists of the following:

- to apply private management skills to public services,
- to provide a more transparent process in government work,
- to disclose information on government activities and their results,
- to advance local alliance to realize economy of scale, and
- to promote decentralizing and local control.

In other words, the NPM is a renovation to realize better public services with higher efficiency, through applying private management skills and involving new players such as businessmen or residents in government works.

This new approach and goal of the NPM are illustrated in Figure 7.

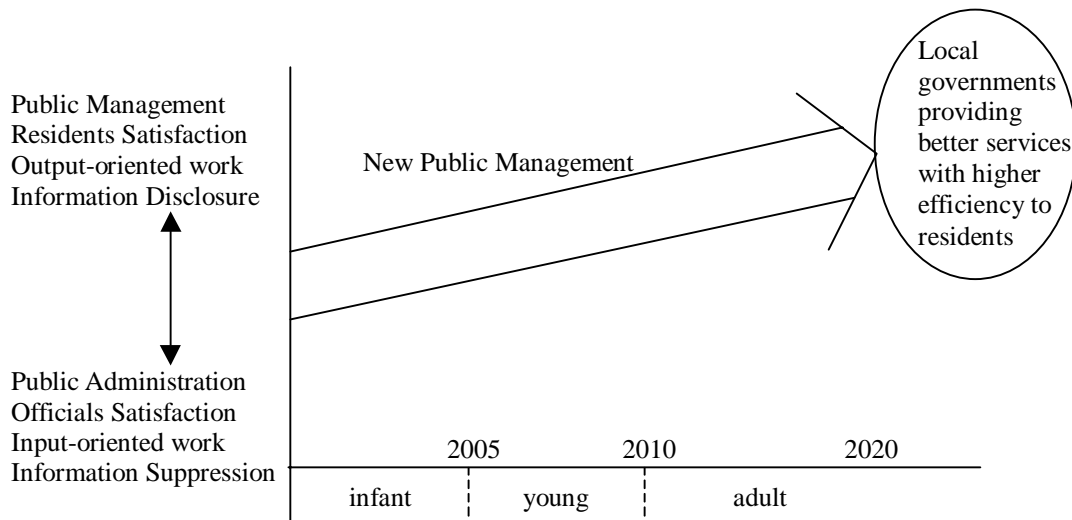


Figure 7 Approach and Goal of NPM

4.2 Administrative Reform in Britain

The administrative reform in Britain started in local governments in the 1980s and in central authorities in the 1990s. The main concepts of this reform are:

- 1) to promote privatization,
- 2) to reinforce auditing local governments through foundation of “Audit Commission for Local Authorities”,
- 3) to enable administration departments to explain benefits of policies to residents through establishment of “Citizens Charter”, and

- 4) to reflect inhabitants comments and complaints in government works and disclose the results in the public.

When Mrs. Thatcher came to power in 1979, local governments were in a financially bad situation due to having too many officers. Therefore, she introduced in the 1980s, “compulsory competitive tendering system “and “Audit Commission for Local Authorities”.

The former system enables local governments to tender for government services, together with private companies, such as water supply, garbage collection and transportation. The services to be tendered are designated by the law. If the governments continue to lose the bids, those sections or divisions in charge would be abolished.

Introduction of this system promoted privatization of existing government services. Due to this system, while the number of officials increased by 1.5 times during the period of 1961 to 1974, the number did not increase in the 1980s and 1990s.

The Audit Commission for Local Authorities consisted not of government officials, but of staff hired from private audit offices. The local governments pay the operation cost of this committee. Those staff audit local governments, not only examining the accounts to make sure that they have been done correctly, but also appraising whether taxes are efficiently used from the viewpoint of taxpayers.

In the 1980s, the major administration added two more systems to proceed with this administrative reform: establishment of “Citizens Charter” and an administration appraisal system. The charter guarantees service standards of public services, such as those in hospitals, and schools. They monitor the realization levels in the guaranteed standards, evaluate and disclose them to the public.

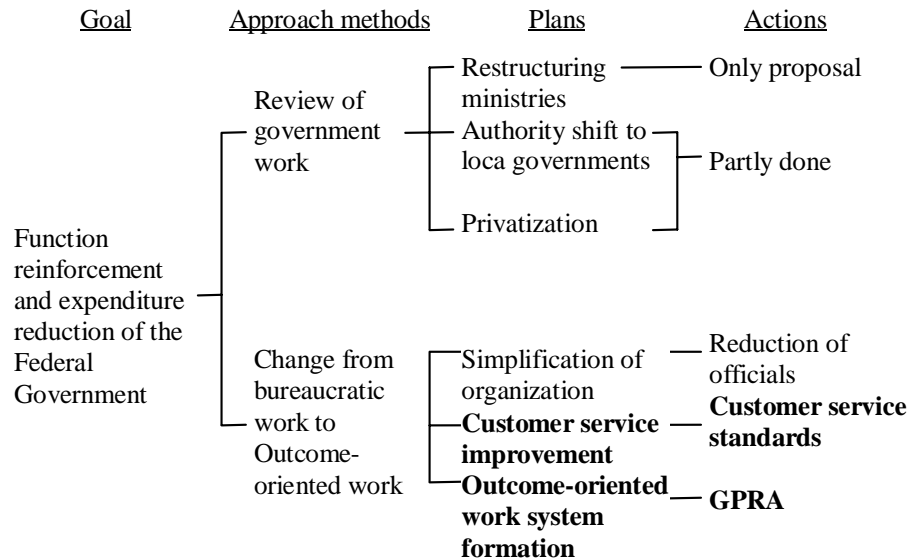
4.3 Administrative Reform in the U.S.

In the United States, the Clinton administration has implemented a radical administrative reform since 1993, because the government made a huge loss in its current account. This reform, called as “National Performance Review (NPR)”, has illuminated the loss and reduced 10% of the central authority officials. On the other hand, local governments have introduced an administration appraisal system to proceed with output-oriented work and provide more transparent process in government works.

The Government Performance and Results Act (GPRA), passed in 1993, plays an important role in this outcome-oriented work formation. This law enforces all the

Ministries to explain expected results of policies and how these outcomes would affect daily life of the people.

The NPR outline and position of GPRA in the NPR are illustrated in Figure 8.



#Customer Services Standards (CSS): service quality provided by governments.

Source: Shinichi Ueyama “Reinventing Japan, A Review of Government Performance”, 1998, page 16

Figure 8 NPR Outline and Position of GPRA and CSS

An example of Seashore Police is often mentioned as a successful example of GPRA and CSS. Even before the act, the police already introduced an appraisal system. One of their benchmarks was patrol frequency. However, from the viewpoint of the inhabitants, the patrol frequency is not important. More significant to residents is to decrease sea accident frequency or number of people who died in those accidents. Therefore, since 1993, the police has changed their benchmarks such as “lowering the accident frequency by 12%”. This policy actually reduced the number of dead people from 91 to 27 in 100,000 people. As seen in this example, the GPRA enables the governments to describe outcomes generated by policies and make them clear from the viewpoint of residents.

In local authorities, Oregon State began its administration appraisal system in the 1980s. At that time, forest business was in recession and many work force in this sector lost their jobs. Therefore, the governor launched plans of economy rehabilitation and vocational training. One of the benchmarks was that 80% of the unemployed workers would be able to obtain the same salaries as before.

Sunnyvale city, in California State, started this assessment system in the 1970s. During ten years, the city raised labor efficiency by 44% and lowered government service cost by 33%.

CHAPTER 5 PROPOSED MEASURES FOR DOKAP LOCAL ADMINISTRATION REFORM

Specific measures for DOKAP local administration reform are proposed in this chapter in line with the NPM concept. Differences between the NPM and the existing administration system are summarized in Table 11.

Table 11 Comparison between New Public Management and Existing Administration

	Existing administration	New Public Management
Setting objectives	Government officials prepare no goals	Government officials clarify goals expected by citizens
Planning and budgeting	Budgeting as planned in the previous year	Giving priority to more important works in the budgeting
Work appraising	No appraisal	Government officials evaluate their own jobs by themselves Government officials hear comments from beneficiaries. Officials monitor the work progress and disclose it in the public.
Work implementation	Work is done in vertically divided divisions	Work is done cooperatively in some divisions to realize policies

Proposed measures include:

- Communication enhancement with businessmen and residents,
- Employment of city managers,
- Taxation system improvement,
- Financial management improvement,
- Establishment of local administration evaluation, and
- Vocational training.

These suggestions include daily work improvement, operation development and law enforcement. A local authority could begin the daily work improvement from today. However, it would take time to prepare the operation development. Therefore, in the last part of this chapter, an implementation schedule of these suggestions will be shown.

5.1 Communication Enhancement with Local Businessmen and Residents

Many residents do not know much about government activities. Authorities do not endeavor to account for them or these demonstrations are not fully conveyed to citizens. This could cause misunderstanding between the administration and inhabitants.

It is recommended that government officers directly communicate with inhabitants to explain their plans or hear their comments and complains. This approach is similar to Customer Satisfaction (CS) used in many private companies. This application would provide more transparency and democratic process in government works.

For example, a vice mayor would discuss the region's economic development plan with the unions of businessmen. Public servants in charge of water supply would talk about rate increases in a meeting with the beneficiaries. Workshops by government officials might enhance mutual understanding with non-government-organizations (NGO) or other residents. It is easier to introduce these practices in toll roads, water supply or museums, as they could easily specify customers or beneficiaries in these services and the purpose of these services is simple.

5.2 Employment of City Managers

Mayors are elected every five years. They do not always have good management capacities. There are a few experts in city governments, not only in the management area but in technological fields. Therefore, it is recommended that large municipalities, such as provincial centers, employ city managers to support mayors. These managers would play the same role as the Secretary General in a metropolitan municipality.

The city managers would be hired from among private top management. These managers would improve government services through applying private management skills. In the United States, some managers or staff from private corporations are enlisted in local governments.

In Turkey, however, salary limitation would be a significant bottleneck to keep the city managers. Therefore, in the long run, this restriction should be modified so that local authorities could obtain autonomy to make a decision on salary or bonus.

A typical organization of municipality is given in Table 12. In this organization, the section of city planning and investment is the most important section for the city managers.

Table 12 Municipality Organization

Mayor	Secretary
	Personnel management
	Municipality office
	Law management
	Audit management
	Safety management
Vice mayor	Technical management
Vice mayor	Transport management
	Sport management
	Technical management
	Culture management
Vice mayor	Machine & repair management
	Procurement management
	Research and coordination
	Traffic management
Vice mayor	Water supply
	Sewerage
Vice mayor	accounting management
	Income management
	real estate tax management
Vice mayor	city planning
	Investment
	Building & construction
	Map & land register

5.3 Taxation System Improvement

Information sharing system

The central administration has proceeded with application of one-tax-number to one-taxpayer system since 1997. However, as mentioned before, many local governments in the DOKAP region still use more than one tax number, applying different tax numbers in real estate tax, environmental sanitation tax, water charge, and bus transportation charge. Those tax-related divisions independently request for tax payment to and collect the tax from the same taxpayer.

This lack of information sharing system causes delays in the tax collection. It also discourages many taxpayers to pay tax on time.

In addition, the computer systems operated in local governments are not exactly the same. Each government introduces own system, buying it from a private company. It brings about higher introduction cost and difficulty in information sharing among the local governments.

It is recommended that local administrations organize an information sharing system among the tax-related sections in and outside the local governments, with

introduction of a common computer system (Figure 9). The objective is to encourage taxpayers to discharge the obligation through providing a quick taxation and collection system. This method would lower the taxation cost and increase municipal tax revenues.

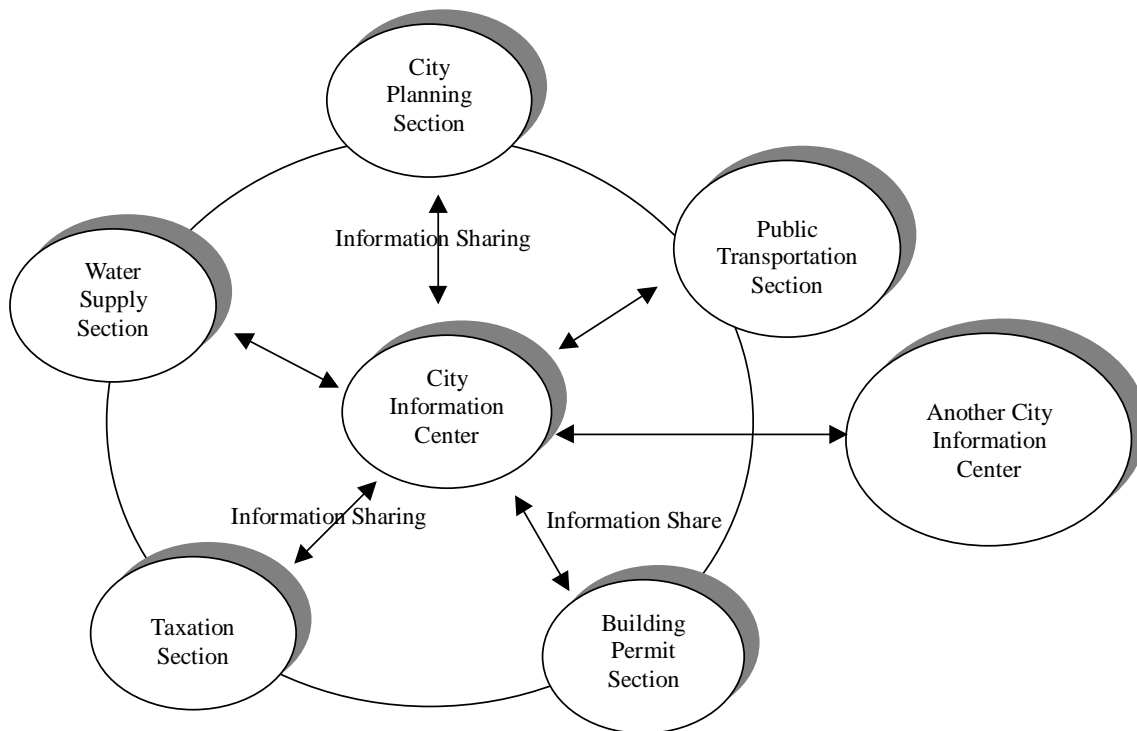


Figure 9 Information Sharing System in and outside Local Governments

Training and procurement

It is more efficient that tax experts will come to the DOKAP region from Ankara to teach and train local taxmen from many governments there. It may be possible also to pool the potential and qualified tax experts.

Along with this training of local taxmen, procurement of a common tax computer system will be essential to establish information sharing system in and outside local governments. The local governments involved would share the purchasing cost of the common software and hardware.

5.4 Financial Management Improvement

Accrued accounting application and balance sheets

Municipal governments usually manage their revenues and expenditures on a one year cash basis. Therefore it is difficult to understand their financial situation on the long term basis, including each public investment efficiency. However, it is

important to clarify municipalities' financial situation from the viewpoint of balance in the assets and liabilities. Thus, it is useful to apply private corporate accounting, including accrued accounting system and balance sheets. Some municipalities in Japan started to provide balance sheets by private corporate accounting methods.

In the balance sheets preparation of each municipality, current assets would be: cash and deposit, account receivable, and unpaid revenues (taxes, user charges). Fixed assets would be: land and buildings, and securities. Liabilities would be: loans, account payable, and allowance for retirement.

These asset value should be estimated by their acquisition costs, not by their market value. An expected image of balance sheets is illustrated in Figure 10.

Assets	Liability and Equity
Bus and other vehicles	Loans for procurement of public transport vehicles
Water supply facilities	Loans for water supply facilities
Hospital buildings	Loans for construction of hospitals
Other assets	Other liabilities & equity

Figure 10 A Trial Balanced Sheet Preparation

The balance sheet may reveal each investment is not efficient in public transport, water supply and hospital service. In some governments, total debt might be larger than total fixed assets. In this case, the governments are in the worst financial situation, being unable to pay back the debt even with their liquidation.

Introduction of separate accounting system

As mentioned before, sales and cost of each public service account for a part of the governments' revenues and expenditures, not having separate self-accounting. Therefore, it is difficult to know profit or loss situation for each service. This makes it hard to determine whether or not user charges should be increased. Introduction of a separate accounting system for each service is essential to explain financial situation of each government service independently (Figure 11). Moreover, this approach would motivate government officials in charge to improve their work efficiency and financial situation. In addition, the financial information disclosure would help build a consensus on increasing user charges.

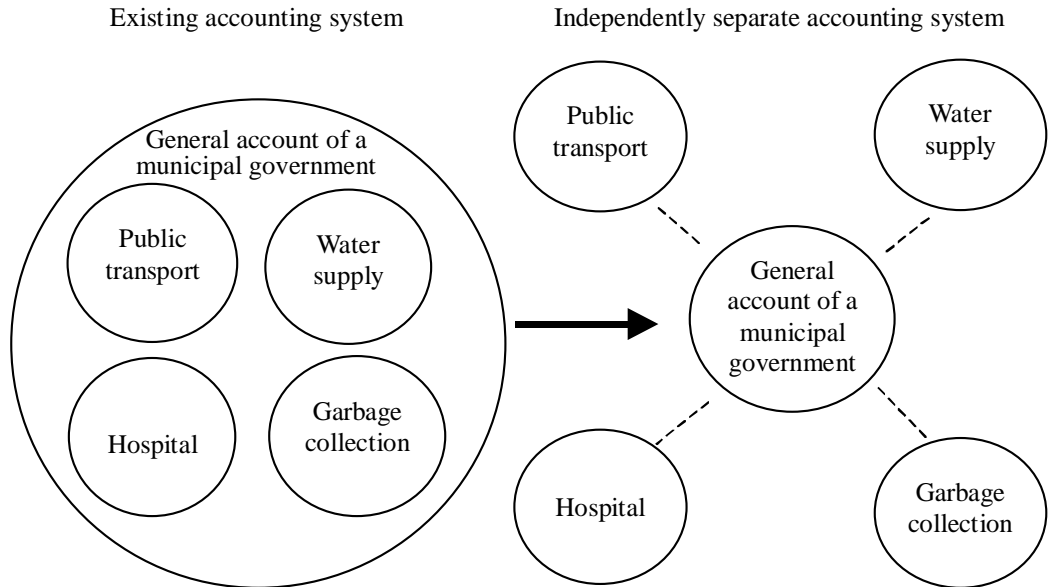


Figure 11 Application of Separate Accounting System

Actions to be taken for this system application are as follows:

- 1) The governments will introduce independently separate account system for each of government services.
- 2) The governments will discuss increase in user charges.
- 3) The governments will make a decision on policy providing subsidies as supplement to revenues.
- 4) This accounting system will be a corporate accounting with balance sheets and income statements.
- 5) These financial reports will be audited and open to the public.

Categorization of public and potential privatization services is illustrated in Figure 12. Local governments might provide subsidies to hospital, day nurseries and orphanages, or establish a joint operation of such service with neighboring governments. Kindergarten and apartment services could be privatized.

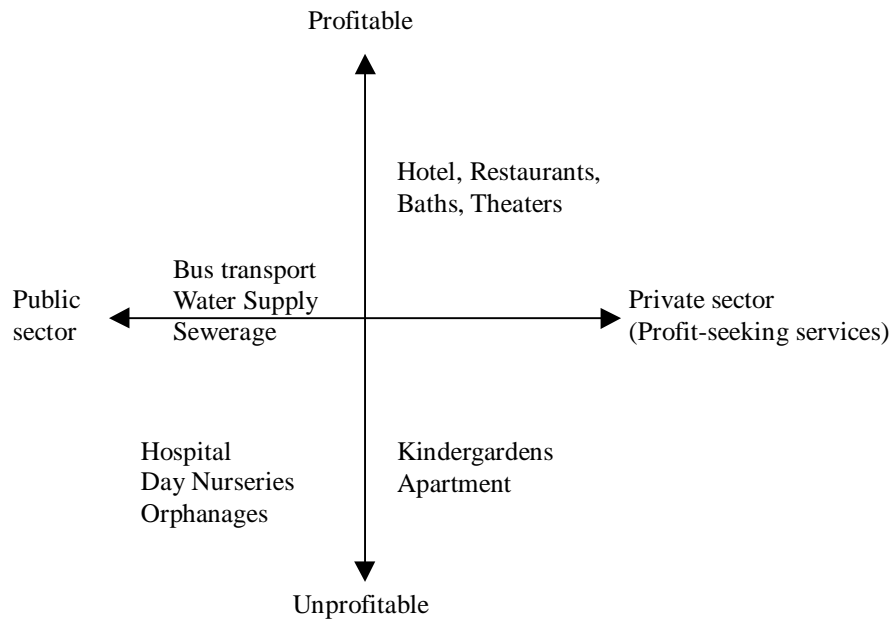


Figure 12 Public and Potential Privatization Services

DOKAP local government audit committee

This committee will consist not of government officials, but of staff hired from chambers of businessmen. Those staff will audit local governments, not only appraising expenditure but also evaluating investment efficiency, user charge levels and tax collection efforts. Operation costs of this committee will be paid by the central government.

Procedure involved in this system will be as follows:

- 1) Those audit staff will collect data such as investment, user charges and tax collection, together with examining the accounts to make sure that they have been done correctly.
- 2) Those staff will provide a comparison table, among local governments, of the above data and feed back their analysis to the governments.
- 3) The comparison table will be disclosed to the public.
- 4) Mayors, governors or general managers in related divisions will set goals of their administration activities, taking consideration of the table and the analysis.

In the long run, an enforcement law will be necessary to require the application of independently separate accounts and audit of local governments.

5.5 Establishment of Local Administration Evaluation System

(1) Approach

The purposes of the local administration evaluation system establishment are:

- 1) to measure efficiency of each public work, and
- 2) to realize more transparent administration from the viewpoint of residents.

They can be realized through:

- clarifying expected outcomes of policy, projects and daily work with use of benchmarks, and
- appraising the outcomes from the viewpoint of taxpayers.

This approach would motivate government officials to increase work efficiency and improve their services. In addition, inhabitants, governors, mayors and city council could appraise and watch the performance of their local governments. Policies and programs without good performance might be reviewed. Therefore, it will become difficult to intervene in policies or projects with political consideration.

(2) System design

Evaluation will be done on administration implementation and policy. The former is called as implementation evaluation and the latter is referred to as policy evaluation.

Process of these appraisals is as follows.

- 1) Measuring efficiency of each government work including tax collection, water supply, garbage collection, and road maintenance,
- 2) Listing outcomes expected by taxpayers,
- 3) Setting benchmarks,
- 4) Checking in every fiscal year how much the governments have realized the policy, and
- 5) Disclosing the result to the public.

The benchmarks can be used to measure the performance of a local government, compared with those of other governments. An example of the implementation evaluation and policy evaluation is shown in Tables 13 and 14, respectively.

Table 13 An Example of Setting Benchmarks in Implementation Evaluation

Implementation goals	Objectives	Benchmarks			
		2001	year 2005	2010	
Introduction of an effective taxation system	Application of speedy collection system	Taxpayers' waiting time in tax offices	5 hours	1 hour	0
	Increase in tax revenues	Ratio of uncollected municipal tax to total municipal tax revenues	10%	5%	0

Table 14 An Example of Setting Benchmarks in Policy Evaluation

Policy goals	Objectives	Benchmarks			
		2001	year 2005	2010	
Provision of valuable employment opportunity to every workforce	Investment promotion	Number of newly established companies	100	150	200
	Training of workers	Number of workers who have joined in government training courses	1000	1200	1300

This policy evaluation, a new administration cycle may become as illustrated in Figure 13.

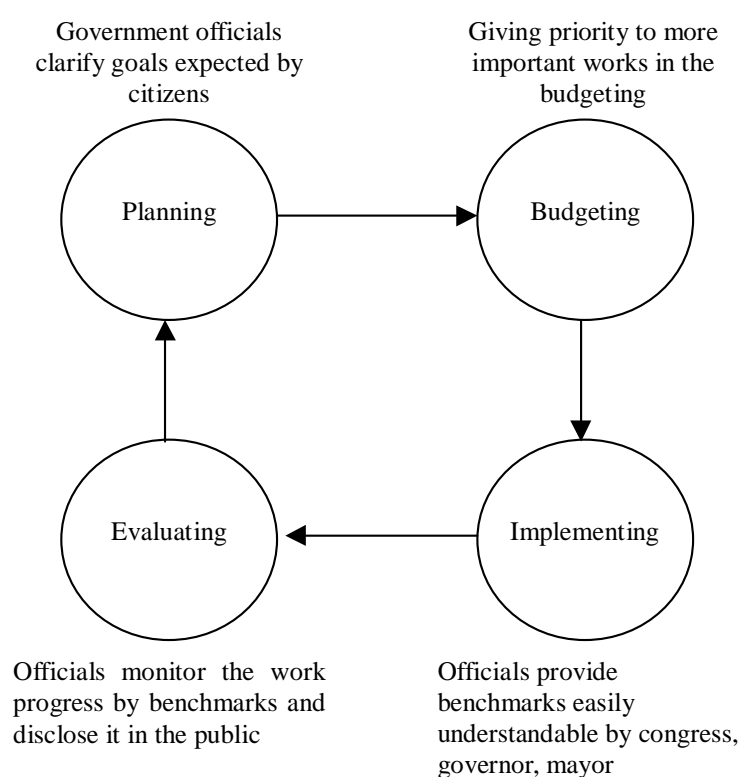


Figure 13 New Administration Cycle by the Introduction of Local Administration Evaluation System

(3) Principles and procedure of system application

To begin with ones which could be easily implemented, or quickly achieved

It is important to start a task which could be easily implemented, or quickly achieved. It is not necessary that all of divisions or sections begin this system at the same time. Gradual realization is essential to success. It is usual to start the implementation evaluation and then proceed with policy evaluation. In other words, many government officials firstly make an effort to increase their work efficiency, and then tackle the taxpayer-oriented system. Municipalities of the United States

established this system preferentially in implementation evaluation such as road maintenance and park construction.

To apply this system from larger cities

Smaller cities in terms of population have limited number of officials and activities. Those mayors know better about performance of their subordinates and works. Therefore, it is more effective to apply this appraisal system from larger cities, for example, provincial centers.

To involve non-government organizations

It would contribute to a fair appraisal of officials performance to involve non-government organizations such as chamber of businessmen. It is difficult to evaluate efficiency of co-workers.

To compare benchmarks among the larger cities

It is important that a municipality knows its work efficiency, comparing its benchmarks to those of other governments.

To consider political environment

It is also critical to introduce this system considering election timing. Mayors who nearly finish his five-year assignment would prefer establishment of policy evaluation to declare new policies for next election. However, new mayors would prefer gradual formation from implementation evaluation to policy one.

In either case, it is crucial for local governments to specify what they would like to change in establishment of this system such as increasing efficiency of their officials, declaring new policies to inhabitants, or reviewing budget distribution.

(4) Conditions to sustain implementation

To give incentives to government officials with higher performance

Salary increase or other incentives should be given to government officials with higher performance. However, bonus is limited by law to only 1.0% of the all officials in a local government. Therefore, in the long run, this law should be modified so that local authorities could obtain autonomy to make a decision of salary or bonus.

To keep continuity

Policies or benchmarks might be modified by replacement of mayors or governors. However, they have to explain the reasons to their subordinates or residents. It is important to keep continuity of government policies and this evaluation system even with some modification by replacement of new top-ranking officers.

To establish an enforcement law

It is suggested that Turkey enact a law enforcing governments to account for their policies to the people. Otherwise, application of this evaluation system would depend on individual decisions of mayors or governors. As mentioned, the Government Performance and Results Act (GPRA) was passed in the United States in 1993. This law requires all the Ministries to explain expected results of policies and how these outcomes would affect daily life of the people.

5.6 Vocational Training

As mentioned before, there are a few experts in local governments, not only in the management area but also in technological fields. Thus, it is essential to develop human resources of local governments. It is suggested that local governments in the DOKAP region offer practical courses to their officials. These courses may cover the following fields:

- basic private management skills and practical applications such as accounting, marketing, TQM, CS and CI,
- public finance,
- taxation management, and
- local management including school and hospital operation.

The courses should offer many methods in analyzing and solving administration problems, using internet and various computer software, and some should be lectured by Turkish prominent managers.

Training for public officials are provided mainly by the Ministry of Interior and the Public Administration Institute for Turkey and the Middle East, but offering size is limited. The capacity of the Ministry of National Education is rather limited. Thus, it is suggested that local governments provide a vocational training center, as shown in Figure 14. The local authorities involved will share the operation cost. In the first stage, the center would be a temporary one. If it is found successful, the center would become a permanent one with a building and staff. These budgets would be allocated to the local governments involved. The center could provide not only vocational training, but also consulting services to smaller municipalities as these city governments do not have enough qualified staff.

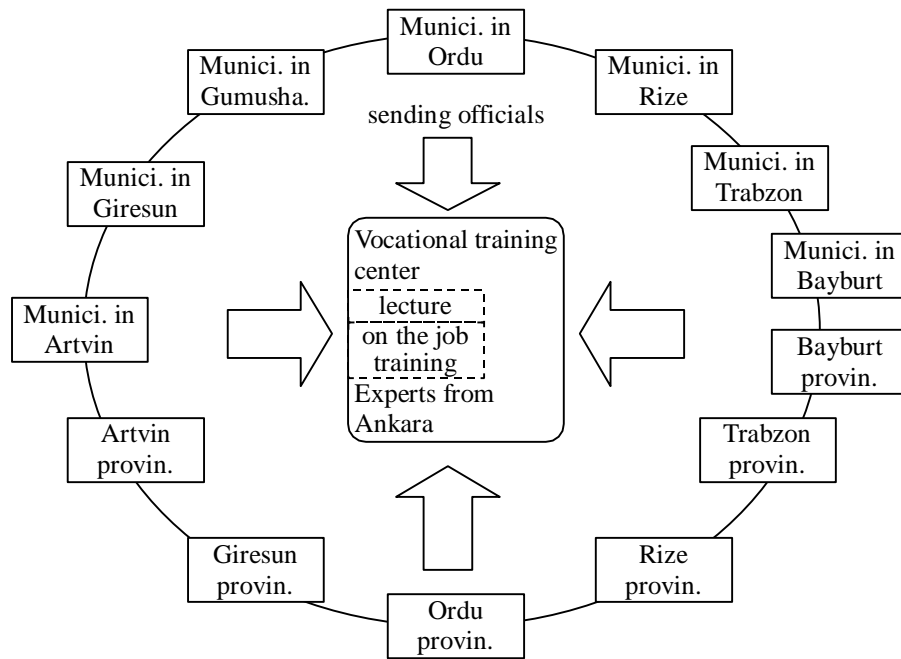


Figure 14 Vocational Training Center

Six main proposals have been offered. They cover collectively daily work improvement such as communication enhancement with residents, operation development such as tax information sharing system development, and law enforcement such as requirement of auditing local governments. A local authority could begin the daily work improvement from today. However, it would take time to prepare the operation development. The law enforcement will need to involve the central government and many politicians. Therefore, an implementation schedule of these proposals is indicated in Table 15.

Table 15 Implementation Schedule of Proposed Reform

	year of 2001- 2005	2006-2010	2010-2020
Daily work improvement	Communication enhancement with businessmen and residents	Communication enhancement with businessmen and residents	Communication enhancement with businessmen and residents
Operation development		Employment of city managers	Employment of city managers
	Information sharing system establishment Training of local taxmen Procurement of a common tax computer system	Training of local taxmen	Training of local taxmen
	Accrued accounting system application	Balance sheet preparation, independently separate accounting introduction	Establishment of DOKAP local government audit committee
	Application of local administration evaluation	Application of local administration evaluation	Application of local administration evaluation
	Vocational training center	Vocational training center	Vocational training center
Law enforcement		Introduction of independently separate accounting system	Auditing local governments
		Autonomy of local governments to make a decision of salary or bonus	Explanation of expected results of policies to the people

CHAPTER 6 INSTITUTIONAL ARRANGEMENTS FOR DOKAP IMPLEMENTATION

6.1 Restructuring/Strengthening of Implementing Arrangements

6.1.1 The need for regional level institutions

Legal and institutional issues need to be addressed for effective implementation of the DOKAP Master Plan. Key institutional development issues include limited grassroots participation in formulation of development projects, excessive centralization of public revenues and control over local governments, weak local capacity for management and project implementation, and finally, lack of regional level administrative structures to deal with emerging region wide social, environmental and development issues.

The Turkish administrative system is organized at the national and provincial levels. There is a long tradition of dealing with the problems of individual settlements. At the regional level, there is no administrative mechanism. Yet, many of the key problems faced in DOKAP are regional in nature. A new institutional arrangement is needed to deal with regional level issues identified by the Master Plan.

The DOKAP development administration will also need to integrate regional sectoral plans. These will include a regional tourism master plan, and regional environmental preservation plans. These will involve more than one province and will need the participation of many local governments.

A regional level entity is also needed in cases where issues extend beyond the borders of one province. One such problem having particular relevance to the DOKAP region is the planning and management of urban growth. This has occurred along the coast. Other issues requiring a regional perspective are watershed management, planning of large areas for tourism development, and sites for solid waste disposal.

Another subject for which regional level actions are required is the promotion of the region as an investment destination. Some actions need to be taken at the regional level to promote international trade between the region and the BSEC countries.

6.1.2 Legal and institutional improvements under consideration

A comprehensive legal framework for development administration was provided in a bill “Local Administration Reform”, which was presented to the Grand National Assembly in 1997. This law has now been redrafted for the third time. Each new draft has diluted the reformist character of the bill.

The justification, listed in the preamble of the original bill, provides a comprehensive review of the weaknesses of the administrative system in Turkey. It then proposes a new departure for reorganization.

The starting point is a new definition of local and central government functions. The central government is assigned the responsibility for national defense, justice, security, and foreign policy. All other functions are to be transferred to the local administrations. The balance of revenues between the local and central government was to reflect this new definition of responsibilities. The law provided for transition mechanisms from the present to the situation targeted.

Regardless of the administrative level, the new bill also aimed to improve the productivity, transparency and democratic participation in public services. The law emphasized the need to strengthen the financial and administrative capacities of municipalities and provincial administrations. It placed special emphasis on supporting the provincial administrations.

The bill would have transferred many of the development functions to municipalities and provincial administrations. These included the provision of education facilities, health and social welfare facilities and services, and services for youth, sports, culture and tourism. All development functions in agriculture, trade and industrial development were to be transferred to the provincial administration. This was to be achieved by transferring the related staff of the ministries to these administrations and providing the financial means to both the provincial administrations and municipalities.

At present, the provincial administrations' share of tax allocation from the Central Government is 1.7%. The bill aimed to increase this to 5%. It authorized the Council of Ministers to further increase the fiscal transfers so that this share may go up to 20%. The share of municipalities in tax allocation from the Central Government at present is 6%. The bill sought to increase this to 10%. It also empowered the Council of Ministers to raise this to 15%.

The transfer of financial resources to the municipalities, and the new bill's proposals to reduce the control of the Ministry of Interior in municipal budgeting and management would improve local control and promote local accountability. The provisions for a volunteer city assembly, envisioned under the new law, and the broad membership in this assembly, including NGOs, would greatly facilitate democratic participation. There were other provisions concerning municipal administration such as the right of residents to demand information so as to increase transparency and introduce accountability.

The law granted new regulatory powers to the provincial administration for environmental improvements and management of urban growth. This appears to provide adequate mechanisms for land use controls within the province. Powers exercised by the municipal governments within municipal areas are granted to the provincial administration for areas outside the municipal borders.

Despite the law's aim of encouraging democratic participation in development administration, the extent of local participation envisioned in the bill was indeed limited. The provincial local administration would continue to be administered by the governor who is, and will remain to be, a central government appointee reporting to the Ministry of Interior. The provincial assembly has elected members but they would have little formal control over the day to day management of the provincial government. The new law would thus largely transfer the powers of central government ministries to the local representative of the Ministry of Interior.

The version, under deliberation at present, was submitted to the parliament in December 1999 and it has lost all its reform features. The new definition of the local and central government functions have been dropped effectively keeping all development functions in the hands of central government ministries. The attempt to reduce the central government control over the local governments and to encourage local participation in decision making has also been abandoned.

The government had made a very courageous start to reform the system. Yet, it has taken a major step backward with each new version of the bill. It is difficult to understand why this bill should be enacted in its present form. Passing a bill with the word "reform" in its name would prevent or indefinitely postpone the enactment of a true reform bill.

6.2 Institutional Arrangements for DOKAP

There are many different possibilities for the form of regional administration to ensure effective Master Plan implementation. Five alternative institutional forms were presented in the Interim Report for discussions with the government agencies and other concerned groups. Two of these were considered impractical (establishment of a separate agency for DOKAP in the office of Prime Minister or establishment of a regional office of SPO) and were eliminated from further deliberations.

A consensus had developed that the most desirable institutional form for Master Plan implementation would be a Union of local governments. This is discussed in detail below. It was concluded that two of the other possible institutional forms may

be further considered as practical tools to be used by the Union which will be the main implementing agency. These are:

6.2.1 DOKAP Development Corporation

Like the Union, the local governments in the region will establish this corporation. It will be established, however, as a commercial company with paid in capital. Another difference will be on the emphasis. The corporation will have a business orientation compared with the emphasis on regional planning and coordination under the Union.

Many variants of the Development Corporation are possible. It can be empowered to initiate or take shares in commercial activities. The emphasis for such activities could be on developing the regional infrastructure such as ports, industrial estates, municipal water supplies and power generation/distribution.

Part of the capital of the corporation need to be paid at the time of its establishment. The rest would be raised in the capital markets through guarantees to be provided by the Government. The type of guarantees to be provided and the limits within which the corporation will be allowed to operate need to be specified. The corporation's flexibility would be greatly enhanced if it were exempted from all usual licensing and permit requirements when it undertakes development projects.

6.2.2 Project Management Unit

A private consulting company can also be hired to assist with the implementation of DOKAP Master Plan. It will exist for a limited duration. The Project Management Unit (PMU) will be responsible to the Union, but it may also have some links with SPO.

PMU will have three major duties. First, it will provide coordination between all local governments and central government agencies for Master Plan implementation. Second, it will provide technical assistance to local governments for preparation and implementation of development projects. Finally, PMU will promote the image of the region for investments, and it will promote trade and assist the businessmen from the region on all region-wide issues.

6.3 Recommended implementation arrangement: establishment of a Union of DOKAP local governments

6.3.1 Founding members of the Union

The local governments will establish this Union in the DOKAP region. Under the existing law, it will be established by approval of the Council of Ministers and will be under the administrative control of the Ministry of Interior.

The Study Team has prepared a draft by-law for the union. It is proposed that this Union should be established by the seven provincial governments in the DOKAP region and a selected number of municipalities. It is suggested that initially, the municipalities which will be members may be restricted to those of provincial and sub-provincial (Ilce) centers.

The possibility of NGO participation has been explored - particularly that of chambers of Trade, Industry, and Agriculture. Turkish law governing the Unions does not seem to allow for participation of non-public agencies in establishing Unions.

6.3.2 Organization of the Union

The Union will have three layers of administration. Its founding members will supply two representatives each to the General Assembly. This assembly will elect a Management Committee which will be the key decision making body. The Union will implement its decisions through a chief executive.

The law governing the Unions restricts the flexibility in employing this executive as well as his staff. All are subject to civil service rules and regulations-including the pay scale. This makes the use of a combination of the Union and the two other forms, discussed above, essential if the private sector flexibility is to be introduced into the implementation capability.

Turkey has many experiences with establishing and managing service Unions. Unions have been in existence for a long time in the densely settled parts of the Aegean and Mediterranean coasts. They have been instrumental in managing infrastructure when more than one local government was involved. There is a regional level Union presently operating in the Yesilirmak river basin, covering five provinces.

6.3.3 Funding sources

The main source of funding for the Union will be contributions of the founding members. This is generally expressed as a percentage of the income of founding members.

The Union would need to raise income on its own to increase its appeal to the local governments. One possibility is the grants from the Local Administration Fund controlled by the Ministry of Interior. There also seems to be some possibility of utilizing funds administered by SPO.

The Union's by-law is prepared with a view to enable it to receive funds from abroad. The management of the Union should explore the means to utilize some of these funds. Early projects to be implemented for environmental improvement in the region have a high chance of being funded by external sources.

6.3.4 Establishment of the Union

The Study Team will supply the proposed draft by-law to SPO for review. Once approved by SPO, this by law should be transmitted to the governors in the region. The governors will discuss the proposal with the municipal representatives in their province as well as take the appropriate steps on behalf of the provincial special administration.

One of the governors or SPO would need to take the initiative to relay the proposal to the Council of Ministers for approval. The proposed by-law includes specification of procedures that will be followed after it is approved.